

**FIRM BROCHURE**

**CLOVERDALE CAPITAL MANAGEMENT, LLC**

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**This brochure provides information about the qualifications and business practices of Cloverdale Capital Management, LLC. If you have any questions about the information contained in this brochure, please contact us at (214) 254-4065. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**This brochure does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. Such an offer may only be made to eligible persons by means of delivery of offering, governing and/or account documents that contain the material terms relating to such investments, products or services.**

**Additional information about Cloverdale Capital Management, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

MARCH 30, 2020

## Item 2: Material Changes

The date of the last annual updating amendment to our firm brochure was March 29, 2019. A summary of certain of the material changes that have been made to our firm brochure since the date of our last annual updating amendment is set forth below:

- We updated our regulatory assets under management as of December 31, 2019. **See Item 4.**
- We added information about risks related to epidemics, pandemics, and public health issues, which may affect market volatility. **See Item 8.**

The information set forth in this brochure is qualified in its entirety by the applicable offering, governing and account documents. In the event of a conflict between the information set forth in this brochure and the information in the applicable governing, offering and/or account documents, such documents shall control.

We encourage all clients and investors to review this brochure in its entirety.

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## Item 4: Advisory Business

### FIRM DESCRIPTION

Cloverdale Capital Management, LLC, a Delaware limited liability company and private investment advisory firm (“Cloverdale” or “we,” “us,” or “our”), was organized in February 2014. We provide investment management services with respect to affiliated private pooled investment vehicles and the separately managed account of an institutional client, and generally have full discretionary authority with respect to investment decisions. Our investment advisory services are provided in accordance with the investment objectives and guidelines set forth in the applicable offering, governing and/or account documents, and the information in this brochure is qualified in its entirety by the information set forth in such documents.

### PRINCIPAL OWNERS

The majority owner and controlling member of Cloverdale is C. Jonathan Gattman.

### TYPES OF ADVISORY SERVICES

#### Funds

We provide investment advisory services with respect to the following affiliated private pooled investment vehicles: Cloverdale Capital, L.P., a Delaware limited partnership (the “Domestic Fund”), Cloverdale Capital Offshore Fund, Ltd., a Cayman Islands exempted company (the “Offshore Fund” and, together with the Domestic Fund, the “Feeder Funds”), and Cloverdale Master Fund, L.P., a Cayman Islands exempted limited partnership (the “Master Fund” and, together with the Feeder Funds, each, a “Fund” and, collectively, the “Funds”). One of our affiliates serves as the general partner of the Domestic Fund and the Master Fund. Each of the Feeder Funds invests all or substantially all of its assets in, and conducts its investment activities through, the Master Fund. Accordingly, the Master Fund serves as a centralized investment vehicle for the Feeder Funds and an investment in a Feeder Fund is an indirect investment in the Master Fund. We are responsible for investing and re-investing the capital of the Master Fund in securities, financial instruments and/or other assets in accordance with the investment objectives, policies and guidelines set forth in the offering and governing documents of the Funds. Information about each of the Funds is set forth in the offering documents of the Feeder Funds. **See Item 8 below.**

#### Advisory Account

We also provide discretionary investment advisory services with respect to the separately managed account of an institutional client (the “Advisory Account”). Our advisory services with respect to the Advisory Account are provided in accordance with the terms, conditions, guidelines and limitations set forth in the investment management agreement between us and the Advisory Account client. **See Item 8 below.**

### INVESTMENT RESTRICTIONS

#### Funds

We generally provide investment advice to the Funds in accordance with the investment objectives, policies and guidelines set forth in the offering and governing documents, and not in accordance with the individual needs or objectives of any particular investor in the Funds. Investors generally are not permitted to impose restrictions or limitations on the management of the Funds.

Notwithstanding the foregoing, we and certain of our affiliates have entered into a strategic relationship agreement with a group of third party strategic investors (the “Strategic Investors”), pursuant to which such Strategic Investors have certain preferential economic and non-economic rights and terms with respect to the Funds and us (including, without limitation, certain consent, notification, transparency, information and other preferential rights and terms). The Strategic Investors are not sponsors or promoters of the Funds, do not owe any fiduciary duties or other special duties or obligations to the Funds or any of the other investors and may have interests that conflict with the Funds and the other investors. **See Item 10.**

We and the Funds may also enter into side letter agreements and other arrangements with certain investors that alter, modify or change the terms of the interests held by those investors. Among other things, these agreements or arrangements may entitle certain investors to specific reports or notice of specified events, including reports listing

positions and related risk statistics at a level of detail or frequency not provided to other investors.

Advisory Account

We provide and tailor our investment advice with respect to the Advisory Account in accordance with the investment guidelines and objectives and other terms and conditions set forth in the investment management agreement between us and the client. The Advisory Account client generally may impose restrictions, guidelines and limitations on the management of the Advisory Account.

**ASSETS UNDER MANAGEMENT**

As of December 31, 2019, we had approximately \$289,956,583 in regulatory assets under management, all of which were managed on a discretionary basis.

## Item 5: Fees and Compensation

### DESCRIPTION OF COMPENSATION AND FEE SCHEDULE

In consideration of our advisory services, we and our affiliates generally are entitled to receive management fees and performance-based compensation from or with respect to our clients. While the applicable fees and compensation are described in detail in the applicable offering, governing and/or account documents, a summary of our basic fee schedule is set forth below.

#### Funds

*Asset-Based Charges.* The Master Fund generally bears, as of the beginning of each calendar quarter in advance, an asset-based charge (the “Asset-Based Charge”) equal to a percentage of the net asset value of each separate account of an investor as of the beginning of such calendar quarter. A portion of the Asset-Based Charge (the “Management Fee”) is payable to us in consideration of our services with respect to the Funds, and the remaining portion of the Asset-Based Charge (the “Guaranteed Payment”) is payable to the Strategic Investors. With respect to each separate account of a Founders’ Class investor, the Asset-Based Charge percentage generally ranges from 0.25% (1.0% per annum) to 0.375% (1.5% per annum) of the net asset value of such separate account as of the beginning of each calendar quarter, depending upon the net asset value of the Master Fund (including the net asset value of any pooled investment vehicle sponsored by us or an affiliate that invests on a side-by-side or parallel basis with the Master Fund (other than the feeder funds into the Master Fund) (the “Aggregate NAV”)) as of the beginning of such quarter. With respect to each separate account of a Class D investor, the Asset-Based Charge percentage generally ranges from 0.25% (1.0% per annum) to 0.4375% (1.75% per annum) of the net asset value of such separate account as of the beginning of each calendar quarter, depending upon the Aggregate NAV as of the beginning of such quarter. With respect to each separate account of a Class E investor, the Asset-Based Charge percentage generally ranges from 0.25% (1.0% per annum) to 0.375% (1.5% per annum) of the net asset value of such separate account as of the beginning of each calendar quarter, depending upon the Aggregate NAV as of the beginning of such quarter.

*Performance Allocation.* Subject to certain terms, limitations and conditions, at the end of each fiscal year (and such other times set forth in the partnership agreement of the Master Fund) one of our affiliates and the Strategic Investors generally are entitled to receive a performance-based allocation equal to a percentage of the net profits allocated to each separate account of an investor for the applicable period (subject to certain adjustments and a “high water mark”). The performance allocation percentage generally is (i) 15% with respect to each separate account of a Founders Class investor, (ii) 20% with respect to each separate account of a Class D investor and (iii) 17.5% with respect to each separate account of a Class E investor. The performance allocation is calculated and determined separately with respect to each separate account of an investor.

A “cumulative net loss” account (also known as a “high water mark”) is maintained by the Master Fund with respect to each separate account of an investor (a “Cumulative Net Loss Account”). At the end of each fiscal period, each Cumulative Net Loss Account is (a) debited with the sum of the cumulative amount of net losses, if any, allocated to the relevant separate account since the immediately preceding date as of which a calculation of the performance allocation was made (or if no calculation has yet been made with respect to such separate account, since such separate account was established) and the cumulative amount of any asset-based charges charged with respect to such separate account and (b) credited (but not below zero) with the cumulative net profits, if any, allocated to such separate account or since the immediately preceding date as of which a calculation of a performance allocation was made (or the date such separate account was established, if applicable). No performance allocation will be made with respect to a separate account of an investor until the debit balance in the corresponding Cumulative Net Loss Account has been reduced to zero.

Each investor generally is required to certify that it is, among other things, an “accredited investor” (as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended) and a “qualified purchaser” (as such term is defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended).

Our advisory fees with respect to each investor generally are not negotiable. However, subject to certain conditions and limitations, the management fee and/or performance allocation with respect to any investor may be waived or reduced by us or our affiliate.

#### Advisory Account

*Management Fee.* We generally receive a management fee, payable quarterly in arrears, equal to a percentage (typically 1% per annum) of the net asset value of the Advisory Account as of the end of each such quarter (which is subject to reduction in the event that the net asset value of the Advisory Account, together with the net asset value of all other accounts managed by us with a substantially similar investment strategy, exceeds a certain amount). Management fees with respect to the Advisory Account client generally were negotiated based upon various factors, including, but not limited to, the size of the Advisory Account and the nature of the advisory services provided.

*Performance Fee.* Subject to a high-water mark and the satisfaction of a “hurdle” and a performance condition with respect to each performance period, we generally are entitled to receive from the advisory client a performance-based fee equal to 10% of the net profits allocated to the Advisory Account for such performance period.

#### **DEDUCTION OF ADVISORY FEES**

##### Funds

With respect to each applicable investor, Asset-Based Charges are payable quarterly, in advance, as of the first day of each calendar quarter and amortized monthly over the calendar quarter for which such charges are paid. The Management Fee is deducted directly from the separate account of each investor. The Asset-Based Charges are prorated with respect to any capital contribution effective other than as of the first day of a calendar quarter. In the event of a withdrawal by an investor other than as of the last day of a calendar quarter, a *pro rata* portion of the Asset-Based Charges, based upon the actual number of days remaining in such calendar quarter, generally is repaid by us to the Master Fund for credit to the separate account of such investor.

Performance allocations generally are calculated and allocated as of the end of each fiscal year and at such other times as set forth in the partnership agreement of the Master Fund (such as the withdrawal of an investor). Performance allocations are re-allocated from each separate account of an investor to the separate accounts of our affiliate and the Strategic Investors.

##### Advisory Account

Management fees generally are calculated quarterly, in arrears, as of the end of each calendar quarter. Management fees for partial periods are prorated, as appropriate, based upon the number of days that have elapsed during such period.

Performance fees generally are calculated and paid every two years (or earlier upon termination of the investment management agreement or a withdrawal of assets from the Advisory Account). We may be entitled to an advance of a portion of the performance fee if the net asset value of the Advisory Account exceeds the high-water mark and the hurdle as of the end of the first calendar year of a performance period (subject to customary clawback provision).

Promptly following the end of each calendar quarter (with respect to management fees) or the applicable performance period (with respect to performance fees), we will send an invoice to the Advisory Account client setting forth the applicable management fees or performance fees due and payable with respect to the Advisory Account for the applicable period. The Advisory Account client generally is responsible for paying (or otherwise causing or directing its custodian to pay) the applicable management fees and/or performance fees in cash within 30 business days after receipt of our invoice. In general, management fees and performance fees will be payable from the Advisory Account.

We do not have any authority to deduct our fees (or direct the custodian to deduct our fees) directly from the Advisory Account.

#### **OTHER FEES AND EXPENSES**

##### Funds

In addition to Asset-Based Charges and performance allocations, the Funds generally are required to bear (and reimburse us and our affiliates for) all costs and expenses relating to their activities, including but not limited to (a) with respect to each Feeder Fund, its proportionate share of expenses related to the Master Fund, (b) all expenses incurred in connection with the offering, (c) all operating expenses such as tax preparation fees (including, without limitation, any such fees related to the preparation of tax returns and Schedule K-1s), governmental fees and taxes (or any other governmental charges levied against a Fund), administrator, custodial and prime brokerage fees and

expenses, communications with investors and ongoing legal, accounting, auditing, administration, appraisal, bookkeeping, consulting and other professional fees and expenses, including for litigation and preparation of financial statements and reports, (d) all costs, expenses and charges incurred in connection with the investment and trading activities of the Funds (e.g., brokerage commissions, mark-ups, margin interest, expenses related to short sales, custodial fees, clearing and settlement charges and other transaction costs to brokers), (e) professional and other advisory and consulting expenses and travel expenses (which may include first, business or coach commercial travel or private charter travel, if appropriate, lodging, meals and entertainment expense) incurred in connection with investment due diligence, monitoring or the assertion of rights or pursuit of remedies (including, without limitation, pursuant to bankruptcy or other legal proceedings or participation in informal committees of creditors or other security holders of an issuer), (f) all fees and other expenses incurred in connection with the investigation, prosecution or defense of any claims by or against the Funds, (g) interest on, and fees and expenses arising out of, all borrowings, (h) expenses of any meetings of the limited partners or shareholders, (i) the costs of any litigation and indemnification relating to the affairs of the Funds, (j) expenses related to third party research, publications, data and data services, including real time pricing and market information (such as FactSet, Bloomberg and Reuters services) and historical pricing and other data, (k) costs of compliance with applicable laws and regulations of governmental and self-regulatory bodies, including costs incurred by us and our affiliates in complying with laws and regulations that apply to any such entities as a result of our services to the Funds, (l) expenses associated with forming and maintaining the legal existence of the Funds, including directors' fees, administrators' fees, occupancy costs and other operating costs of entities that maintain their own offices in certain jurisdictions, (m) all organizational costs and expenses, (n) all other reasonable expenses related to the management and operation of the Funds and/or the purchase, sale or disposition of interests, including, in the case of any expenses directly related to the Funds' and one or more of its related funds' investments, any portion of any such joint expenses that the general partner determines are properly and ratably allocable to the Funds. The Funds generally are responsible for and pay all brokerage and custodial expenses and fees. **See Item 12 below.**

#### Advisory Account

In addition to management fees and/or performance-based fees, the Advisory Account generally will bear (and reimburse us or our affiliates, if applicable, for) all costs and expenses relating to or associated with the Advisory Account's investment activities, including, but not limited to, all costs and expenses relating to portfolio investments or prospective investments for the Advisory Account, withholding taxes, interest expenses, brokerage commissions and other transaction costs, proxy voting expenses, custody fees and administration fees.

#### Allocation of Expenses

If any expenses are incurred jointly for a Fund or the Advisory Account and one or more other client accounts sponsored or managed by us, such expenses generally will be (to the extent permitted under the applicable governing documents) allocated among all applicable clients in proportion to the size of the investment made by each such client in the activity, entity or investment to which the expense relates, or in such other manner considered fair and equitable by us.

#### **COMPENSATION FOR THE SALE OF SECURITIES OR OTHER INVESTMENT PRODUCTS**

Neither we nor any of our supervised persons accept compensation for the sale of securities or other investment products.



## **Item 6: Performance-Based Fees and Side-By-Side Management**

### **PERFORMANCE-BASED FEES**

As noted under Item 5 above, we (or an affiliate) generally are entitled to receive performance-based compensation with respect to our clients. Performance based-compensation could motivate us to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect. Also, because performance-based compensation is calculated on the basis that may include unrealized appreciation in the client's portfolio based upon values assigned by us, we face a conflict of interest in valuing the client's portfolio. Our individual employees and affiliates who are compensated to some extent based upon trading profits for which they are responsible face the same potential conflict.

We address this conflict through full and fair disclosure in the applicable governing, offering and/or account documents and this brochure.

### **SIDE-BY-SIDE MANAGEMENT**

Both the Funds and Advisory Account are subject to performance-based fees, as described in Item 5 above, however the terms of such performance-based compensation differ. Subject to the investment guidelines and limitations set forth in the investment management agreement between us and the Advisory Account, such differences could incentivise us to favor one client over another in its investment allocations. These potential conflicts are mitigated by the fact that the Advisory Account generally invests and trades pari passu with the Funds.

## Item 7: Types of Clients

### **TYPES OF CLIENTS**

We currently provide investment advisory services to affiliated private pooled investment vehicles (the Funds) and the separately managed account of an institutional investor. We may in the future provide investment advice to other clients or types of clients.

### **ACCOUNT REQUIREMENTS**

#### Funds

The minimum initial capital contribution or subscription amount required for an investor in a Feeder Fund generally is \$1,000,000, although capital contributions or subscriptions of lesser amounts may be accepted in our discretion (subject to applicable law).

To invest in the Funds, each investor generally is required to certify that it is, among other things, an “accredited investor” (as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended) and a “qualified purchaser” (as such term is defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended). Each prospective investor generally is required to complete and return various subscription documents to the applicable Fund, which are designed to provide the applicable Fund, the administrator, us and our affiliates and agents with important information about the investor. Subscriptions may be accepted or rejected, in whole or in part, in the sole discretion of the general partner or directors of a Fund.

#### Advisory Account

The Advisory Account client is required to sign an investment management agreement that, among other things, sets forth the nature and scope of our investment management authority and the investment objectives, guidelines and restrictions applicable to the management of the Advisory Account. In addition, the Advisory Account client generally must meet certain net worth, net asset and/or other eligibility requirements imposed by various securities laws.

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

### METHODS OF ANALYSIS AND INVESTMENT STRATEGIES

#### Funds

The primary investment objective of the Funds is to generate superior absolute returns while attempting to minimize the risk of permanent loss through a long/short strategy of investments in publicly-traded equity securities within a wide range of market capitalizations. The Funds attempt to achieve absolute rates of return in various market conditions. To achieve this objective, we implement a disciplined investment process that employs a fundamental approach to identifying investment opportunities, further supported by deep analysis and security selection. This approach is wide ranging, attempting to identify potential market opportunities irrespective of market sector or geography. The Fund may periodically invest in initial public offerings of equity securities, options, short positions and other financial instruments.

The Funds generally establish (i) long positions in securities of companies with the particular opportunity for significant price appreciation by utilizing factors such as attractive valuations, share price momentum, strong balance sheets, successful management teams, expanding revenues and margins, underappreciated assets, and other proprietary factors that we expect will lead to share price appreciation and (ii) short positions in securities of companies that exhibit both specific catalysts and factors including the unrealistic expectations of market participants; fraud, balance sheet and cash flow concerns; changes in competitive, regulatory, demand and supply positions; and management teams exhibiting misconduct or dereliction of duty to shareholders.

We construct a portfolio that is driven predominately by fundamental research utilizing the previously listed factors but also take into account top-down considerations such as central government actions, interest rates, political instability or regime changes, business cycles, commodity prices, and diversification. We conduct intensive research on each investment using proprietary, forensic methods that include: customer and competitor surveys, web scraping, cold calling, site visits, forensic accounting, management background checks, and other factors.

#### Advisory Account

Except as otherwise set forth in the investment management agreement (and subject to the terms, conditions, restrictions and limitations set forth therein), the Advisory Account generally pursues the same general long-short investment strategies as the Funds and invests *pari passu* with the Funds.

*The investment strategies summarized above are not intended to be comprehensive and are qualified in their entirety by the information set forth in the offering, governing and/or account documents.*

### CERTAIN RISK FACTORS

*There can be no assurance that we will achieve our investment objective or that our investment strategies will be successful. Our investment program involves a substantial degree of risk, including risk of complete loss. Nothing in this brochure is intended to imply, and no one is or will be authorized to represent, that our or the Funds' investment program is low risk or risk free. Our investment advisory services are appropriate only for sophisticated persons who fully understand and are capable of bearing the risks of investment, including the risk of complete loss of their investment. The various risks outlined below are not the only risks that may be associated with our investment strategies and processes. Prospective investors and clients are urged to consult with their own independent financial, legal and tax advisors before making an investment decision. With respect to the Funds, the following risks are qualified in their entirety by the risks set forth in the applicable offering documents.*

**General Economic and Market Conditions.** The success of our investment advisory services will be affected by general economic and market conditions, such as changes in interest rates, availability of credit and debt-related issues, inflation rates, economic uncertainty, market volatility, changes in laws (including laws relating to taxation of our client's investments), trade barriers, unemployment rates, release of economic data, currency exchange controls and national and international political circumstances (including wars, terrorist acts, natural disasters, security operations, epidemics and pandemics, the European debt crisis or the U.S. budget or debt-ceiling negotiations). These factors may affect the level and volatility of securities prices and the liquidity of our clients' investments. Volatility and/or illiquidity could impair our clients' profitability or result in losses. Our clients could incur material losses even if we react quickly to difficult market or economic conditions, and there can be no

assurance that our clients will not suffer material losses and other adverse effects from broad and rapid changes in economic and market conditions in the future. Investors should realize that markets for the financial instruments in which we seek to invest can correlate strongly with each other at times or in ways that are difficult for us to predict. Even a well-analyzed approach may not protect our clients from significant losses under certain market conditions.

*Investment and Trading Risks Generally.* All investments risk the loss of capital. Our investment program will or may involve, without limitation, risks associated with limited diversification, short-selling, equity risks, distressed issuers, interest rates, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in our' activities. Certain of our investment techniques may, in certain circumstances, substantially increase the impact of adverse market movements to which our clients' investments may be subject. In addition, our clients' investments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where we invest. Our methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

*Investment in Small- and Medium-Capitalization Companies.* Utilizing fundamental research on companies and commodities, we attempt to invest worldwide and may invest across all market capitalizations, including on small- and mid-cap issuers. Smaller capitalization stocks involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of small-capitalization and even medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks may be highly illiquid. Some small companies have limited distribution channels and financial and managerial resources. Such companies may also be dependent on personnel (including key personnel) with limited experience.

*Investments in Undervalued Equity and Equity-Related Securities.* We may invest in what we believe to be undervalued equity and equity-related securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from these investments may not adequately compensate for the business and financial risks assumed. We may make certain speculative investments in securities which we believe to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, our clients may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of our clients' assets may be committed to the securities purchased, thus possibly preventing us from investing in other opportunities. In addition, we may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period. If we take long positions in stocks that decline and short positions in stocks that increase in value, then our clients' losses may exceed those of other portfolios that hold long positions only.

*Fundamental Analysis.* Fundamental analysis is premised on the assumption that markets are not perfectly efficient, that informational advantages and mispricings do occur and that econometric analysis can identify trading opportunities. Fundamental analysis may incur substantial losses if such economic factors are not correctly analyzed, not all relevant factors are identified and/or market forces cause mispricings to continue despite the traders having correctly identified such mispricings. Fundamental analysis may also be more subject to human error and emotional factors than technical analysis.

*Limited Diversification and Risk Management Failures.* As described herein, at any given time, our clients' portfolios may not be diversified to any material extent and, as a result, our clients could experience significant losses if general economic conditions, and, in particular, those relevant to the issuers whose securities are owned by our clients, decline. In addition, our clients' portfolios could become significantly concentrated in a limited number of issuers, types of financial instruments, industries, strategies, countries or geographic regions, and any such concentration of risk may increase losses suffered by our clients. This limited diversity could expose our clients to losses disproportionate to market movements in general. Other investment funds pursue similar strategies, which creates the risk that many funds may be forced to liquidate positions at the same time, reducing liquidity, increasing

volatility and exacerbating losses. Although we attempt to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in our risk management efforts could result in material losses for our clients.

*Equity Risks.* The market price of securities owned by our clients may go up or down, sometimes rapidly or unpredictably. There is a risk that the equity securities in our clients' portfolios will decline in value due to factors affecting equity securities markets generally or the sectors in which we invest. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which we believe are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame we anticipate. As a result, our clients may lose all or substantially all of their investment in any particular instance.

*Short Selling.* Our clients' investment portfolios generally will include short positions. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, we engage in short sales only where we believe the value of the security will decline between the date of the sale and the date we are required to return the borrowed security. The making of short sales exposes our clients to the risk of liability for the market value of the security that is sold, which is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and we may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

*Call Options.* In certain circumstances, our clients' investment portfolios may include call options. There are significant risks associated with the sale and purchase of call options. A call option is a financial contract that gives the buyer of the contract the right, but not the obligation, to buy a security or other financial instrument from the seller (or "writer") at a specified price within a specified time period. The buyer pays a non-refundable premium to the seller for the right to exercise the call option. The seller (writer) of a call option which is covered (e.g., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

*Put Options.* In certain circumstances, our clients' investment portfolios may include put options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (e.g., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

*Corporate Debt.* We may invest client assets in bonds, notes and debentures issued by corporations. These instruments may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. We may invest client assets in corporate debt instruments that have experienced or are contemplated to experience ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. Credit ratings evaluate the safety of the principal and interest payments, not the market value risk of lower-rated instruments. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis and, as a result, outstanding ratings may not reflect the issuer's current credit standing. Conversely, rating agencies may re-rate an instrument which could cause substantial loss as the ratings are downgraded. Our clients' investments may experience significant credit rating volatility, which may result in significant market value volatility and the potential for substantial loss. In addition, our clients may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to our clients in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, our clients may experience substantial losses.

*Loans of Portfolio Securities.* We may lend portfolio securities of our advisory clients. By doing so, we attempt to increase our clients' income through the receipt of interest on the loan. While a securities loan is outstanding, our clients continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially. To the extent that the value of the securities lent increases, our clients could experience a loss if such securities are not recovered.

*Investments in Distressed Issuers.* We might invest our clients' assets in equity securities of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, or facing special competitive or product obsolescence problems. These securities are likely to be particularly risky investments although they also may offer the potential for high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule and otherwise continue to operate could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is high, and there is no assurance that we will analyze such investments correctly.

*Stressed Debt.* We may invest client assets in debt obligations of stressed issuers. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of distressed and stressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

*Highly Volatile Markets.* The prices of financial instruments in which our clients may invest can be volatile. Price movements of the financial instruments in which our clients' assets may be invested are 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. Our clients are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses. In addition, governments from time to time intervene in certain markets, directly, by regulation and otherwise, particularly in currencies, futures and options. Such intervention is often intended to directly influence prices and may, together with other factors, cause some or all of these markets to move rapidly in the same direction. The effect of such intervention is often heightened by a group of governments acting in concert.

*Stock Index Options.* In certain circumstances, we may cause our clients to purchase and sell, call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing their investment objective or for the purpose of hedging its portfolio and managing its net exposure. A stock index or index option fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes depends upon the extent to which price movements in our clients' portfolios correlates with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether our clients realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use of options on stock indices is subject to our ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

*Swap Agreements.* We may enter into swap agreements and options on swap agreements ("swaptions"). Swap agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. We, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease our clients' exposure to, for example, long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, credit spreads, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. We are not limited to any particular form of swap agreement if consistent with our clients' investment objective and policies.

Swap agreements tend to shift our clients' investment exposure from one type of investment to another. For example, if we agree to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease our clients' exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of our clients' portfolios. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from us. If a swap agreement calls for payments, we must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by our clients.

Whether our use of swap agreements or swaptions is successful depends on our ability to select appropriate transactions for our clients. Swap transactions may be highly illiquid and may increase or decrease the volatility of our clients' portfolios. Moreover, our clients bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Our clients also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of our clients to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect our ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

*Repurchase and Reverse Repurchase Agreements.* We may enter into repurchase and reverse repurchase agreements. When we enter into a repurchase agreement, we "sell" securities or commodities interests to a broker or financial institution, and agree to repurchase such securities or commodities interests on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, we "buy" securities or commodities interests issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities or commodities interests at the price paid by us, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements involves certain risks. For example, if the seller of securities under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, we will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, our ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that we may not be able to

substantiate their interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, our clients may suffer a loss to the extent that they are forced to liquidate their position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

*Other Derivative Instruments.* We may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of our clients and legally permissible. Special risks may apply to instruments that are invested in by us in the future that cannot be determined at this time or until such instruments are developed or invested in by us. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

*Convertible Securities.* We may invest client assets in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium will decrease as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held in our clients’ portfolios is called for redemption, we will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on our ability to achieve our clients’ investment objective.

*Fixed Income Securities.* We may invest client assets in bonds or other fixed income securities of issuers including, without limitation, bonds, notes and debentures issued by corporations; debt securities and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which we may invest may change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer’s inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

*Relative Value and Directional Investments.* Our investment strategy depends on our ability to accurately predict future price movements or the convergence of market prices toward the theoretical values expected by us. Any such attempt to predict future price movements is inherently risky and inaccurate. Often, price movements are determined by unanticipated factors, and our analysis of known factors may prove incorrect, in each case potentially leading to substantial losses to our clients.

*Litigation.* Our investment activities may subject us and our clients to the risks of becoming involved in litigation



with third parties. The expense of defending against claims by third parties and the payment of any amounts pursuant to settlements or judgments may, depending upon the terms of the governing documents, be borne by our clients, reduce distributions and could require investors to return distributed capital and earnings to our clients. We and our affiliates may be indemnified by our clients in connection with any such litigation, subject to certain conditions.

*Trading Decisions.* Our trading decisions generally are based on fundamental and other analysis. Any factor that would lessen the prospect of major trends occurring in the future (such as increased governmental control of, or participation in, the financial markets) may reduce the prospect that a particular trading method or strategy will be profitable in the future. In the past, there have been periods without discernible trends and, presumably, such periods will continue to occur in the future. Moreover, any factor that would make it more difficult to execute trades at desired prices in accordance with the signals of the trading method or strategy (such as a significant lessening of liquidity in a particular market) would also be detrimental to profitability. Further, many advisors' trading methods utilize similar analyses in making trading decisions. Therefore, bunching of buy and sell orders can occur, which makes it more difficult for a position to be taken or liquidated. No assurance can be given that our strategies will be successful under all or any market conditions.

*Non-U.S. Investments.* We may invest client assets in financial instruments of non-U.S. corporations and governments. Investing in the financial instruments of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. Government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains or other income, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict our investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, we may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce our clients' rights in such markets. For example, financial instruments traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the Commodity Futures Trading Commission (the "CFTC") or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to our clients' under such laws and regulations are unavailable for transactions on foreign exchanges and with foreign counterparties.

*Competition.* The markets in which we expect to participate are extremely competitive. There can be no assurance that we will be able to identify or successfully pursue attractive investment opportunities in this environment. Clients should expect that their investments will involve substantially more company-specific and market risk and associated volatility in the future than in the past. We compete with many firms, some of which may have substantially greater financial resources, more favorable financing arrangements, larger research staffs and more securities traders than are available to us.

*Less Liquid Instruments.* We generally invest client assets in publicly-traded equity securities that are relatively liquid. However, we may invest client assets in the securities of companies with micro- and small- capitalizations, which may be thinly traded and otherwise illiquid. In addition, we may from time to time hold large positions with respect to a specific type of instrument, which may further reduce liquidity. During such times, we may be unable to timely dispose of certain assets, which would adversely affect our ability to rebalance our clients' portfolios or to meet withdrawal requests. In addition, such circumstances may force us to dispose of our clients' assets at reduced prices, thereby adversely affecting our clients' performance. If there are other market participants seeking to dispose of similar assets at the same time, we may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if our clients incur substantial trading losses, the need for liquidity could rise sharply while their access to liquidity could be impaired. In conjunction with a market downturn, our clients' counterparties could incur losses of their own, thereby weakening their financial condition and increasing our clients' credit risk to them.

*Default and Credit Risks.* Our clients assume the credit risk to their brokers, custodians and other counterparties in connection with brokerage arrangements, derivatives and other contractual relationships. In evaluating credit risk, we are often dependent upon information provided by the obligor, which may be materially inaccurate or fraudulent. Any actual default, or any circumstance that increases the possibility of such a default, could have a material adverse effect on our clients.

*Interest Rate Risks.* We may also invest client assets in debt obligations of government issuers (e.g., U.S. treasury bills) as a part of an overall cash management strategy. These and various other assets, as well as our clients' borrowings, may subject our clients' to risks associated with movements in interest rates. For example, we would be required to manage both curve risk, which is the risk that the slope of the yield curve will vary from the slope assumed in our strategy, and credit spread risk, which is the risk that the spreads between yields of differently rated issuers will change in a manner that adversely affects our clients' portfolios.

*Hedging Transactions.* We may utilize financial instruments, both for investment purposes and for risk management purposes, in order to: (i) protect against possible changes in the market value of our clients' investment portfolios resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect our clients' unrealized gains in the value of our clients' investment portfolios; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in our clients' portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate or currency exchange rate on any of our clients' liabilities or assets; (vii) protect against any increase in the price of any securities we anticipate purchasing at a later date; or (viii) for any other reason that we deem appropriate.

The success of our hedging strategies depends, in part, upon our ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of our hedging strategy is also subject to our ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While we may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for our clients than if we had not engaged in such hedging transactions. For a variety of reasons, we may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent us from achieving the intended hedge or expose our clients' to risk of loss. We are not required to hedge any particular risk in connection with a particular transaction or our clients' portfolios generally. Moreover, it should be noted that our clients' portfolios will always be exposed to certain risks that may not be hedged. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of our clients' portfolio holdings.

*Leverage and Liquidity Risks.* We generally have the power to borrow funds and may do so when we deem appropriate, including to enhance our clients' returns and for cash management purposes (e.g., short-term borrowings to make investments in anticipation of additional subscriptions and to fund withdrawals or redemptions). We may borrow funds from brokers, banks and other lenders to finance their investing and trading operations, which borrowings may be secured by assets of our clients. The use of such leverage can, in certain circumstances, maximize the losses to which our clients' investment portfolios may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that a particular asset or our clients' portfolios as a whole are leveraged. The cumulative effect of the use of leverage by us in a market that moves adversely to our investments could result in a substantial loss to our clients, which would be greater than if our clients' portfolios were not leveraged. Leverage may be achieved through, among other methods, direct borrowing and purchases of securities on margin and the use of options and other derivatives.

The use of margin and short-term borrowings creates several risks for our clients. If the value of our clients' securities falls below the margin level required by a prime broker, additional margin deposits would be required. If we are unable to satisfy any margin call by a prime broker, then the prime broker could liquidate our clients' position in some or all of the financial instruments that are in our clients' accounts at the prime broker and cause our clients to incur significant losses. Furthermore, secured counterparties and lenders may have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of collateral posted by us. This could increase exposure to the risk of a counterparty default since, under such circumstances, we may be unable to recover the posted collateral promptly or may be unable to recover all of the posted collateral. The occurrence of defaults may trigger cross-defaults under

our clients' agreements with other brokers, lenders, clearing firms or other counterparties, creating or increasing a material adverse effect on the performance of our clients.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and equity swaps generally involves little or no margin deposit and, therefore, will provide substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to our clients'. In addition, we have unlimited discretion to use derivative instruments, which generally provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment.

*Counterparty Risks.* We have established (and may in the future establish) relationships to obtain prime brokerage services and other services, all of which permit us to trade in any variety of markets or asset classes over time; however, there can be no assurance that we will be able to maintain such relationships or establish such relationships in the future. An inability to establish or maintain such relationships would limit our trading activities and could create losses, preclude us from engaging in certain transactions, financing and prime brokerage services and prevent us from trading at optimal rates and terms. Moreover, a disruption in the financing and prime brokerage services provided by any such relationships before we establish additional relationships could have a significant impact on our business due to our reliance on such counterparties.

Some of the markets in which we may effect its transactions are "over-the-counter" or "inter-dealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes our clients' to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing our clients' to suffer a loss. In addition, in the case of a default, our clients could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement or where our clients have concentrated their transactions with a single counterparty or small group of counterparties. *See "Brokerage and Custody."*

Furthermore, there is a risk that any of our counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of our counterparties were to become insolvent or the subject of insolvency proceedings, there exists the risk that the recovery of our clients' securities and other assets from our clients' prime brokers or broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

We may use counterparties located in jurisdictions outside the United States. Such counterparties are subject to the laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to our clients' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on our clients and their assets.

We are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, our internal process for evaluating the creditworthiness of our counterparties may prove insufficient. Our ability to transact business with any one or more counterparties, the lack of complete and "foolproof" evaluation of the financial capabilities of our counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by our clients.

*Cybersecurity Risks.* We, our clients and our respective affiliates and service providers depend on information technology systems and, notwithstanding the diligence that we or our affiliates may perform on such service providers, we may not be in a position to verify the risks or reliability of such information technology systems. We, our clients and our respective affiliates and service providers are subject to risks associated with a breach in cybersecurity. "Cybersecurity" is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage and disruption to hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. We, our affiliates and our service providers' information and technology systems are vulnerable to

damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although we and our affiliates have implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, we and/or our clients may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our, our clients' or any of our respective affiliates' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm our or our affiliates' reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect its business and financial performance. Such damage or interruptions to information technology systems may cause losses to our clients or individual investors by interfering with the operations of us and our affiliates (or service providers). Our clients may also incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage. Any such breach could expose one or more of our clients, us and our respective affiliates to civil, legal or regulatory liability as well as regulatory inquiry and/or action, and our clients may be required to indemnify us and our affiliates against any losses incurred in connection therewith. Cybersecurity issues and risks are currently a major focus area of the SEC and other regulatory authorities.

*Epidemics, Pandemics, and Public Health Issues.* Our business activities as well as the activities of our clients and their operations and investments could be materially adversely affected by the outbreaks of disease, epidemics and public health issues in Asia, Europe, North America, the Middle East and/or globally, such as COVID-19 (and other novel coronaviruses), Ebola, H1N1 flu, H7N9 flu, H5N1 flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics, pandemics, outbreaks of disease or public health issues. In particular, coronavirus, or COVID-19, has spread and is currently spreading rapidly around the world since its initial emergence in December 2019 and has negatively affected (and may continue to negative affect or materially impact) the global economy, global equity markets and supply chains (including as a result of quarantines and other government-directed or mandated measures or actions to stop the spread of outbreaks). Although the long-term effects of coronavirus, or COVID-19 (and the actions and measures taken by governments around the world to halt the spread of such virus), cannot currently be predicted, previous occurrences of other epidemics, pandemics and outbreaks of disease, such as H5N1, H1N1 and the Spanish flu, had material adverse effects on the economies, equity markets and operations of those countries and jurisdictions in which they were most prevalent. A recurrence of an outbreak of any kind of epidemic, communicable disease, virus or major public health issue could cause a slowdown in the levels of economic activity generally (or push the world or local economies into recession), which would be reasonably likely to adversely affect the business, financial condition and operations of our clients and us. Should these or other major public health issues, including pandemics, arise or spread farther (or continue to worsen), our clients and we could be adversely affected by more stringent travel restrictions (such as mandatory quarantines and social distancing), additional limitations on our (or our clients') operations and business activities and governmental actions limiting the movement of people and goods between regions and other activities or operations.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS ASSOCIATED WITH OUR INVESTMENT PROGRAM OR OUR INVESTMENT STRATEGIES. PROSPECTIVE CLIENTS AND INVESTORS ARE STRONGLY ENCOURAGED TO REVIEW THE APPLICABLE OFFERING AND ACCOUNT MATERIALS IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS. WITH RESPECT TO THE FUNDS, THE FOREGOING RISK FACTORS ARE QUALIFIED IN THEIR ENTIRETY BY THE RISK FACTORS SET FORTH IN THE OFFERING DOCUMENTS.**

### **Item 9: Disciplinary Information**

Neither we nor any of our employees have been involved in any legal or disciplinary events related to past or present investment clients or investors.

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

### **COMMODITY POOL OPERATOR, COMMODITY TRADING ADVISER, FUTURES COMMISSION MERCHANT REGISTRATION**

With respect to the Funds, we and our affiliates are exempt from registration with CFTC as a commodity pool operator pursuant to an exemption provided by CFTC Rule 4.13(a)(3).

### **STRATEGIC RELATIONSHIP AGREEMENT**

We and certain of our affiliates have entered into a strategic relationship agreement (the “Strategic Agreement”) with the Strategic Investors. Pursuant to the Strategic Agreement, among other things, (i) the Strategic Investors made a significant investment in the Master Fund, (ii) the Strategic Investors have certain ongoing consent and notification rights with respect to the business and operations of the Funds and us, (iii) the Strategic Investors generally are entitled to receive the Guaranteed Payment and a portion of the performance allocations with respect to the Master Fund, (iv) the Strategic Investors have certain preferential withdrawal and liquidity rights with respect to the Funds, and (v) the Strategic Investors have access to certain information and documents with respect to the Funds and us that generally are not available to other investors (including, without limitation, monthly position-level transparency with respect to the Funds). We generally are required to obtain the prior written consent of the Strategic Investors before (among other things): (a) making any material changes, developments or alterations to the Funds’ investment strategy (as contemplated in the offering memoranda), (b) making any material amendments to the offering memoranda, the governing documents or any other operative documents relating to the Funds, (c) making any related-party loans or engaging in any related-party or self-interested transactions with respect to the Funds, (d) taking any material tax position or making any material tax election that would reasonably be expected to have a material adverse effect on the Strategic Investors or their investments in the Funds, (e) modifying the structure or organization of the Funds, including creating any additional feeder funds or utilizing alternative fund structures, or (f) engaging any new auditor. Pursuant to the foregoing, we generally will not be able to make any changes to the Funds’ investment strategy without the prior consent of the Strategic Investors. The Strategic Investors also have “most favored nations” rights with respect to the Funds.

The Strategic Investors hold a significant percentage of the interests in the Master Fund (and may hold a significant percentage of the interests in one or more of the other Funds) and have certain significant consent, notification, transparency and other preferential rights. As a result of the foregoing and other provisions set forth in the Strategic Agreement, the Strategic Investors may have the practical ability to exert influence over the Funds and us. Nevertheless, the Strategic Investors are not responsible for and do not have any authority over the management and operation of the Funds and us (except with respect to the consent rights set forth in the Strategic Agreement). The Strategic Investors do not participate in our management or have any authority over any aspect of the trading, investment or other activities of the Funds or any of our clients.

The Strategic Investors are not sponsors or promoters of the Funds, do not owe any fiduciary duties or other special duties or obligations to the Funds or any of the other investors and may have interests that conflict with the Funds and the other investors. The Strategic Investors will not be liable to other investors for exercising or not exercising any rights that they may have with respect to the Funds.

For more information regarding the Strategic Agreement, please see the applicable offering documents.

### **AFFILIATED GENERAL PARTNER**

Cloverdale Capital GP, L.P., a Delaware limited partnership (the “**General Partner**”), serves as the general partner of the Onshore Fund and the Master Fund. We control the General Partner.

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

### **CODE OF ETHICS**

We have adopted and implemented a code of ethics, which sets forth standards of business conduct for our supervised persons. Our code of ethics is designed to educate supervised persons about our philosophy regarding ethics and professionalism, emphasize our fiduciary duties to clients, encourage supervised persons to comply with applicable laws, prevent the misuse of material non-public information, the circulation of rumors and other forms of market abuse and address material conflicts of interest that arise from personal trading by access persons. Subject to the terms of the code of ethics, we generally impose restrictions on employees relating to the purchase or sale of securities for their own accounts and the accounts of certain affiliated persons. Employees generally are (i) permitted to trade in “exempt securities,” which includes (among others) certificates of deposit, money market instruments, treasury securities, and other accounts managed by third-party advisers, without receiving pre-clearance from our Chief Compliance Officer, (ii) restricted from trading in “pre-clearance securities,” which includes (among others) exchange-traded funds, closed-end mutual funds, international bonds and corporate bonds, unless pre-clearance is received from our Chief Compliance Officer and Chief Executive Officer, (iii) prohibited from trading in “prohibited securities,” which includes any securities other than exempt securities or pre-clearance securities, and (iv) required to report transactions in “reportable securities,” which includes (among others) all pre-clearance securities, certain agency debt securities and municipal bonds. We also maintain certain policies and procedures designed to prevent supervised persons from misusing material non-public information and to address certain actual and potential conflicts of interest that may arise when supervised persons engage in outside business activities or accept, provide, offer or give gifts or entertainment events. We will furnish a copy of our code of ethics to clients and/or investors upon request.

### **TRANSACTIONS INVOLVING CONFLICTS OF INTEREST**

We may cause our clients to enter into transactions and arrangements involving actual or potential conflicts of interest. We will review any transactions involving material conflicts of interest and take such actions as we deem necessary or appropriate in an attempt to ensure that the terms of such transactions are fair and reasonable under the circumstances (including, without limitation, obtaining client consent with respect to such transactions).

We may establish and appoint an advisory committee with respect to one or more of the Funds consisting of one or more individuals selected by us (none of whom would be affiliated or associated with us). If established, the advisory committee will have the authority, at our request and on behalf of the applicable Fund and its investors, to consider and, on behalf of the applicable Fund and its investors, approve or disapprove (to the extent required by applicable law or deemed appropriate by us) principal transactions, certain actual or potential conflicts of interest, matters requiring client consent under Section 206(3) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”) (or any other applicable laws) and any other matters that we elect to present thereto. Any consent given by the advisory committee on behalf of a Fund in good faith after consultation with us will be binding on the Fund and the investors.

## **Item 12: Brokerage Practices**

### **BROKER SELECTION AND BEST EXECUTION**

We generally have the authority to select the brokers and other counterparties to be used for client transactions and negotiate commission rates and other compensation paid by our clients to such brokers and counterparties. We select broker-dealers and other counterparties on the basis of best execution and in consideration of (among other things) the broker's ability to effect the transactions; its facilities, reliability and financial responsibility; the provision or payment by the broker of the costs of research and research-related services which are of benefit to us and our clients; and such other factors as we deem appropriate and consistent with applicable law. We may cause our clients to pay higher commissions to brokers believed to offer superior service under the circumstances, including brokers that provide investment research and analysis to their clients. Accordingly, when we determine in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the overall services provided to our clients, including internally-developed research and other services provided by such broker, we may cause our clients to pay commissions to such broker in an amount greater than the amount another broker might charge.

We have adopted policies and procedures that we believe are reasonably designed to ensure that our clients achieve best net execution and that brokers utilized have been selected based on our clients' best interests.

### **SOFT DOLLAR PRACTICES**

We may use soft dollars generated by client accounts to pay for certain research and/or related services provided by brokers described above. The term "soft dollars" refers to the receipt by an investment manager of products and services (including research) provided by brokers without any cash payment by the investment manager, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment manager. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

Using soft dollars to obtain investment research and/or related services creates a conflict of interest between us and our clients. Soft dollars may be used to acquire products and services that are not exclusively for the benefit of clients which paid the commissions and that may primarily or exclusively benefit us. If we are able to acquire these products and services without expending our own resources (including management fees paid by clients), our use of soft dollars would tend to increase our profitability. Furthermore, we may have an incentive to select or recommend brokers based on our interest in receiving research or other products or services, rather than on our clients' interest in receiving most favorable execution. We may cause clients to pay commissions (or markups or markdowns) higher than those charged by other brokers in return for soft dollar benefits.

As of the date hereof, we have not entered into any formal soft dollar or commission sharing arrangements. However, during the last fiscal year we obtained investment research with client brokerage commissions.

Section 28(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act") provides a safe harbor to advisers who use soft dollars generated by client accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to us in the performance of investment decision-making responsibilities. We intend that any soft dollars that we receive in connection with client-related matters would be within the limitations set forth in Section 28(e) of the Exchange Act.

### **BROKERAGE FOR CLIENT REFERRALS**

In selecting or recommending brokers, we do to some extent consider, among other more material factors, whether a broker provides introductions to prospective clients or investors. As a result, we may have an incentive to select brokers based on referrals, rather than best execution.

### **DIRECTED BROKERAGE**

We do not routinely recommend, request or require that clients direct us to execute transactions through a specified broker-dealer. We generally do not expect to permit clients to direct brokerage for order execution purposes.

### **ALLOCATION OF INVESTMENT OPPORTUNITIES**

We generally allocate investment opportunities among our clients in a fair and equitable manner based upon, among



other things, the investment objectives, guidelines and restrictions, risk profiles, financial conditions and tax status of each client. If each participating client receives less than its full allocation, then each participating client generally receives its pro rata portion of the executed order. Under certain circumstances, we have discretion to utilize alternative allocation procedures, provided that all participating clients are treated fairly and equitably. Subject to the investment guidelines and limitations set forth in the investment management agreement between us and the Advisory Account, the Advisory Account generally invests pari passu with the Funds.

#### **ORDER AGGREGATION**

We generally place aggregated orders or block trades for multiple clients when advantageous to clients, when not favoring certain clients over other clients and when consistent with the duty of best execution. Our primary consideration is fair and equitable treatment of all of our clients, and not simply lowering commissions. Whenever possible, the discretionary purchase or sale (execution) price of a security bought or sold during the same day effected by the same broker-dealer will be equitably averaged and aggregated with similar discretionary purchases and sales for other clients, including for related persons.

## Item 13: Review of Accounts

### REVIEWS OF ACCOUNTS

We generally conduct reviews of our clients' portfolios on a daily basis. Mr. Gattman is primarily responsible for reviewing our clients' portfolios and their investment activities. With respect to accounting matters, we have engaged Deloitte & Touche LLP to conduct annual audits of the financial statements of the Funds.

We invest client assets in securities and other financial instruments. In monitoring the performance of the investments, we perform various levels of review. Among other items, we consider short and long term rates of return, investment performance and various risk metrics.

### FACTORS TRIGGERING ADDITIONAL REVIEWS

While we generally conduct reviews of portfolio on a daily basis, we may conduct additional or more frequent reviews in the event of any withdrawal, redemption or capital contribution.

### REPORTS TO CLIENTS AND INVESTORS

#### Funds

We generally provide (or cause the administrator or auditor to provide) to investors as soon as reasonably practicable after the end of each fiscal year annual reports containing financial statements audited by the Funds' independent auditor and any other information that any investor reasonably requests relating thereto. We also generally provide investors with monthly performance updates, quarterly investor letters, and may provide other periodic notices and reports relating to the performance and activities of the Funds. All such statements and reports are written.

We provide and may in the future provide certain information and documentation to certain investors (including the Strategic Investors) that are not distributed or otherwise made available to other investors. Such investors may make investment decisions (including withdrawal requests) with respect to their investment based upon such information.

#### Advisory Account

We provide (or cause the administrator to provide) the Advisory Account client with periodic notices and reports relating to the performance and activities of the Advisory Account during an applicable period. All such statements and reports will be written. **Clients are urged to compare any reports that they receive from us or our agents with the statements provided by their custodians.**

#### **Item 14: Client Referrals and Other Compensation**

##### **THIRD PARTY COMPENSATION**

Except as otherwise disclosed herein, we currently do not receive any economic benefit from any person who is not a client for providing investment advice or other advisory services to our clients.

##### **REFERRALS**

We currently do not compensate any third party for client or investor referrals.

## Item 15: Custody

### Funds

We have, or may be deemed to have, custody of each Fund's cash and securities for purposes of Rule 206(4)-2 under the Advisers Act. To the extent required by Rule 206(4)-2 under the Advisers Act, each Fund's cash and securities are held with one or more qualified custodians. The current qualified custodians that hold cash and securities for the Funds are disclosed in Section 7.B(1) of Schedule D of Form ADV Part 1A. We may change the custodians at any time and from time to time without the consent of, or notice to, investors. We have engaged Deloitte & Touche LLP to conduct annual audits of the Funds, and audited financial statements (prepared in accordance with U.S. generally accepted accounting principles) will be provided to investors on an annual basis. We generally attempt to provide such statements to investors within 120 days after the end of each fiscal year, but there can be no assurance that we will be successful in this regard. Qualified custodians do not provide statements directly to investors in the Funds.

### Advisory Account

We do not have actual or constructive custody of the Advisory Account client's cash or securities.

## **Item 16: Investment Discretion**

### **DISCRETIONARY AUTHORITY**

We generally have discretionary power and authority over the types of financial instruments to be bought or sold, as well as the amount to be bought or sold on behalf of each of the Funds and the Advisory Account in accordance with the applicable governing and/or account documents. In addition, we generally have authority to determine the broker-dealer or other counterparty to be used for client transactions and the negotiation of commission rates and other consideration to be paid by the Funds and the Advisory Account.

### **LIMITED POWER OF ATTORNEY**

Each investor in the Funds grants us or our affiliate a limited power of attorney to enable us or our affiliate to execute the applicable partnership agreement and various other related matters on its behalf. We also have authority to conduct authorized trading on behalf of the Funds.

### Item 17: Voting Client Securities

We generally have authority to vote proxies with respect to securities owned by our clients. Rule 206(4)-6 under the Advisers Act requires registered investment advisers that exercise or have voting authority over client securities to implement proxy voting policies and procedures. In accordance with the rule, we have adopted proxy voting policies and procedures in our compliance manual. In general, our policy is to vote proxy proposals, amendments, consents or resolutions in a manner that serves the best economic interests of each applicable client, as determined in our discretion, taking into account various factors, and without regard to our interests or the interests of any other client. We may abstain from voting a proxy or a specific proxy item if we conclude that the potential benefit from voting is outweighed by the cost or if we reasonably determine that it is in the best interest of a client not to vote the proxy. Our general policy is to vote regularly recurring matters as recommended by the issuer's board of directors, but certain circumstances may cause us to vote against such proposals (which we will decide on a case-by-case basis). Investors generally may not direct or otherwise influence our vote with respect to any particular proxy solicitation.

The Chief Compliance Officer generally will promptly review proxy materials to evaluate issues presented, supervise the proxy voting process, including the identification of any material conflicts of interest involving us and the proxy voting process and make all determinations with respect to the proxy voting policy. The Chief Compliance Officer will analyze and determine whether any conflict of interest is material. A conflict of interest will be considered material to the extent that such conflict has the potential to influence our decision-making in voting a proxy. If a material conflict of interest is identified, we may use one or more methods to resolve or otherwise mitigate such conflict, including: (i) disclosing the conflict to the applicable client and obtaining its consent before voting (with respect to the Fund, we may disclose the conflict to the advisory committee established with respect to the Fund and obtain the consent of the advisory committee before voting), (ii) suggesting to client that it engage another party to vote the proxy on its behalf, (iii) engaging a third party to recommend a vote with respect to the proxy based on the application of our proxy voting guidelines, or (iv) such other method as is deemed appropriate under the circumstances, given the nature of the conflict. We will maintain a written record of the method used to resolve or otherwise mitigate any material conflict of interest.

Clients may obtain copies of our proxy voting policy, together with information regarding how we have voted past proxies, by contacting us.

### **Item 18: Financial Information**

We do not have any financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients, nor have we been the subject of any bankruptcy proceeding.

## **General Information**

### **PRIVACY POLICY**

We have adopted policies and procedures reasonably designed to protect various records and information of clients and investors. Except as set forth in the applicable offering materials and as otherwise authorized by each client and/or investor, private information about clients and investors is disclosed only as permitted by applicable law to our affiliates and service providers, including our accountants, attorneys, brokers, custodians, transfer agents and any other parties whose services are necessary or convenient to the operation of the Funds or the Advisory Account.