



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

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### **Important Disclosures:**

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

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

If you have any questions about the contents of this Brochure, please contact Ajay Mehra, Partner & General Counsel, at (203) 975-4859 or Robert Herlihy, Chief Compliance Officer, at (203) 975-4888. Additional information about HSCM is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

ITEM 2: MATERIAL CHANGES

This Brochure dated March 30, 2020 amends our Brochure that was filed with U.S. SEC on March 29, 2019.

HSCM launched three new funds in 2019, details of which are described in Form ADV Part 1A.

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#### ITEM 4: ADVISORY BUSINESS

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

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

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

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

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

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

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

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

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

As of December 31, 2019, HSCM had approximately \$ 2,458,060,000 in regulatory assets under management

managed on a discretionary basis and \$69,432,000 in regulatory assets under management managed on a non-discretionary basis.

## ITEM 5: FEES AND COMPENSATION

HSCM generally receives, either directly or indirectly, advisory fees and performance-based allocations or fees in connection with the investment management services it provides to its Clients. The fees HSCM charges each Client generally is established in the written investment management agreement as agreed between HSCM and the Client. Typically, HSCM charges each HSCM Fund an asset-based advisory fee monthly ranging from 0.5% to 2.00% of the net asset value of such HSCM Fund as of the first day of the calendar month. HSCM reserves the right to waive, reduce or rebate all or a portion of the advisory fee with respect to management affiliates or any other investors or receive payment of the advisory fees in arrears.

HSCM also receives, either directly or indirectly, an annual performance fee or allocation from the HSCM Funds calculated with respect to each investor in those funds. Certain HSCM Funds also pay a performance fee or allocation at each performance period, which may begin on the commencement of the HSCM Fund's operations or such other period and end on the date of termination of the management agreement with HSCM and the date of the final distribution of assets attributable to such investor's shares of the HSCM Fund (or as otherwise agreed). The performance fee or allocation borne by an investor in an HSCM Fund is calculated as a percentage ranging from 5% to 27.5% of the net profits of such HSCM Fund attributable to each investor's shares of the HSCM Fund may be structured to be in excess of a hurdle amount, which is generally calculated in relation to net asset value as of the first day of the relevant performance period. A performance fee or allocation may also be due in connection with any non-year end withdrawal or redemption from an HSCM Fund with respect to the amount so withdrawn or redeemed. HSCM reserves the right to waive, reduce or rebate all or a portion of the performance fee with respect to management affiliates or any other investors.

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

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

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

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

valuation agents and other experts); third-party consultants engaged to assist in special projects, to help source deals in specific sectors or regions and/or to assist with certain prospective or existing HSCM Funds. Generally, monthly or retainer fees payable to these consultants are charged to HSCM. However, when these consultants work on specific deals, the fees are borne by the HSCM Fund or the applicable portfolio company. These third-party consultants are not employees of HSCM or partners or owners of any of its affiliates, nor are they included as HSCM personnel on the HSCM's website. The fees paid to these consultants by the HSCM Fund or the portfolio companies generally are not offset against the Management Fee payable by the HSCM Fund to HSCM; litigation and threatened litigation, if any, and expenses pertaining to legal inquiries (including regulatory "sweeps"); any and all taxes and governmental fees payable by or with respect to the HSCM Fund, its investments, or to federal, state or other governmental agencies, domestic or foreign, including corporate, real estate, stamp or other transfer taxes; wind-up and liquidation expenses, expenses relating to the maintenance of registered offices; blue sky and corporate filing fees and expenses; corporate licensing expenses; indemnification expenses; fees and expenses relating to shareholder meetings and conferences; premiums and fees for insurance to benefit, directly or indirectly, the HSCM Fund, indemnified persons and for directors' and officers' liability insurance or other similar insurance policies; audit and tax preparation expenses; accounting expenses; costs of printing and mailing reports and notices; corporate licensing fees and other professional fees; bank service fees; withholding and transfer fees; entity-level taxes; other expenses related to the purchase, sale or transmittal of HSCM Fund assets; and extraordinary expenses and other similar expenses related to the HSCM Fund.

An HSCM Fund will also indirectly bear its proportionate share of the fees and expenses of the transformer vehicles in which it invests (including but not limited to Bumblebee Re (as defined and described below in Item 10)). In addition to the types of expenses noted above, these expenses may include underwriting expenses (including broker commissions, trustee fees, modeling fees, tail-risk hedging fees, and fronting fees) payable to fronting insurers; hedging costs (including premiums for reinsurance and retrocessions and other protection contracts); all fees, costs, expenses and liabilities incurred in connection with collateral security structuring and servicing; all fees, costs, expenses and liabilities incurred in connection with affiliated or unaffiliated insurance manager (including but not limited to HSCM) services on behalf of such vehicles, and loss reserve specialist opinions; annual audit fees; and all government registration and regulatory filings and compliance fees and expenses.

HSCM may from time to time pursue transactions on behalf of two or more funds or Clients that result in up front due diligence costs, including professional fees and other expenses related to the sourcing, investigation, evaluation, negotiation and structuring of these transactions. Examples of these types of transactions include highly structured or negotiated reinsurance transactions, as well as investments in private companies. Such expenses may be incurred for potential investments whether or not such investments are consummated. When such deals are not consummated expenses incurred are now considered "broken deal" expenses.

HSCM will allocate any such broken expenses, as well as any related break-up fees (paid or received) and other compensation earned in connection with transactions that are not consummated, among the Fund and other funds and Clients advised by HSCM in accordance with its written expense allocation policy as in effect at the time. Pursuant to such policy, expenses in connection with a given transaction will generally be accrued periodically and allocated among the Fund and other funds and Clients that the HSCM determines, in its good faith discretion, to be eligible to participate in the transaction. The allocation of expenses among such Clients and funds will generally be made based on their relative expected participation in the transaction, which may be, in some cases limited to specific dollar amounts. However, in circumstances where the expected participation of the various funds and Clients has not been finally determined (particularly during the early investigative stages of a transaction or where certain investors have the ability to opt out of a particular transaction after expenses have already been incurred), the initial allocation of expenses by HSCM may be revised, and/or any unallocated expenses may thereafter be allocated, to account for the final expected participation among investors in such transaction once finally determined. For the avoidance of doubt, HSCM may but is not required to reallocate expenses among Clients once they have been accrued for a given period. Therefore, the Fund may bear broken deal expenses for transactions in which it ultimately does not

participate or may bear a greater percentage of such expenses than its ultimate participation would otherwise dictate.

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

In instances where expenses are incurred by HSCM and a Client, or where expenses are incurred by one or more Clients, HSCM will seek to allocate such expenses in a manner it determines to be fair and equitable over time. As further described in Item 11 below, co-investment account Clients typically will not bear the expenses associated with a proposed transaction that is not consummated, and such broken deal expenses will instead be borne by the applicable HSCM Fund (to the extent that HSCM does not or cannot reallocate the broken deal expenses between an HSCM Fund and the co-investors or other Clients including a Client who retain deal approval or opt out rights as described in Item 4 for their fund of one accounts including but not limited to Strategic Investors of the Firm).



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

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

#### ITEM 7: TYPES OF CLIENTS

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

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

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

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

### *Significant Investment Strategies and Methods of Analysis - General*

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

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

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

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

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

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

### *Material Risks of Significant Investment Strategies and Primary Investments*

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

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

Conflicts of Interest. HSCM is subject to various conflicts of interest in its relationship with a particular HSCM Fund and HSCM's affiliates. HSCM intends to manage a number of different funds with similar or different investment objectives, strategies and guidelines, which may compete with other HSCM Funds and present conflicts in the allocation of investment opportunities. HSCM will seek to allocate transactions

among participating funds on a basis that is fair and equitable over time to all HSCM Funds, taking into account relevant factors, such as account size, timing or applicable investment objectives, guidelines or restrictions.

Conflicting Positions. HSCM sponsors, manages multiple funds, separate accounts and co-investment accounts, some of which have objectives that are similar to, or which overlap with, those of other Clients. Additionally, members of HSCM and its affiliates may own interests in HSCM Funds. In certain circumstances, particularly when the HSCM sponsors a new Fund, such new Fund may be wholly, or majority owned by the HSCM and/or its affiliates. HSCM may give advice and recommend securities to Clients which differs or conflicts with advice given to, or securities recommended or bought for, other Clients, even though the investment objectives of the respective Clients are the same or similar. There may be certain situations in which a Client has a specific geographical, sector or strategy focus, or situations where an agreement exists with another Client, such that investment opportunities that may be appropriate for one Client are first referred to and/or allocated to another Client, with any remaining portions allocated to other Clients, as appropriate. Client accounts that receive investment opportunities in priority to other Clients may have been initially seeded by the HSCM or its affiliates, and, at the time of a referral or priority allocation, may, to the extent there has been only limited investment by third party investors, remain wholly or principally owned by the HSCM or its affiliates. If a Client does not receive an investment opportunity, it will not benefit from, and will have no right to profits arising out of, investments made by Clients that did receive the investment opportunity.

As described generally in Item 12 below, the HSCM seeks to allocate investment opportunities fairly and equitably over time across Clients to the extent such opportunities are appropriate for such Clients. In addition, the HSCM has adopted specific allocation policies and procedures for certain types of investment opportunities, including follow-on investments and certain investment opportunities that have been sourced by, or offered to, the HSCM's investment teams responsible for the Private Funds offered by the HSCM, each of which seeks to allocate such investment opportunities on a fair and equitable basis among the Clients over time.

In addition, HSCM or its affiliates, because of differing investment objectives, different investment teams or other factors, may cause a Client to take investment positions that are different from or adverse to those taken by another Client, including positions contrary to those held by such other Client or senior or junior to those held by such other Client. To the extent that a Client holds interests that are different from (or more senior or junior to) those held by another Client, HSCM and its affiliates may be presented with decisions involving circumstances where the interests of one Client are in conflict with those of another Client, including with respect to the operation of a company, the expected returns for the investment and the timeframe for and method of exiting the investment. Furthermore, it is possible that (in a bankruptcy proceeding or otherwise) a Client's interest may be subordinated or otherwise adversely affected relative to another Client or otherwise by virtue of such Client's involvement and actions relating to its investment. For example, a Client that is a debt holder of a company may be better served by the company's liquidation, in which case it may be paid in full, whereas a Client that is an equity holder of a company may prefer a reorganization that could create value for the Client and other equity holders. HSCM may have varying compensation arrangements among Clients that could incentivize the HSCM to manage such Clients differently. There will be no obligation to purchase, sell or exchange any security or financial instrument for a Client if the HSCM or its affiliates believe in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for the particular Client. In allocating investment opportunities among Clients, HSCM or its affiliates may take into account factors including, among other things, the relative amounts of capital available for new investments and the investment programs and portfolio positions of the Client and such other Clients and investment vehicles. However, situations may arise in which the activities of HSCM or its affiliates may be disadvantageous to a Client, such as the inability of the market to fully absorb orders for the purchase or sale of particular investments placed by HSCM for a Client and other Clients or at prices and in quantities which may be obtainable if the same were being placed only for the Client.

Sometimes, following an investment by a Client, HSCM has the opportunity to make an additional or follow-on investment in the same portfolio company or a related company. Occasionally, rather than allocate these additional or follow-on investment opportunities to the Client(s) that made the original investment, HSCM may allocate the opportunity in a different manner, including but not limited to amongst other Clients (including Clients that may be wholly or principally owned by HSCM or its affiliates) and one or more strategic investors (which may include third parties and/or Fund investors). Typically, HSCM makes these allocations in circumstances where the additional investment opportunity or follow-on investment could not, because of available capital, expected holding period of the investment, risk limits, size, tax considerations, concentration or other reasons, be allocated in the same manner as the original investment to which it relates. Additional investment opportunities and follow-on investments may be more or less profitable than the original investment to which they relate.

From time-to-time, a Client makes commitments to provide capital for investments at a certain date in the future. At the time any such investment requires funding, HSCM may allocate the investment opportunity among such Client, other Clients eligible to participate in the investment (including other Clients that may be wholly or principally owned by HSCM or its affiliates), one or more strategic investors, management of a portfolio company and/or coinvestors (which may include third parties and/or Fund investors, in such proportions as determined by HSCM in its discretion, taking into account such factors as HSCM determines appropriate based on the relevant facts and circumstances, as further described in Item 10 below). In addition, the Client and its affiliates may establish investment vehicles to facilitate the investment of Clients in certain opportunities. To the extent that any other Clients make an initial investment in or increase their investment in such an investment vehicle, such investment will dilute the existing interest holders (and the underlying investments therein) unless HSCM determines to increase the other interest holders' commitment to the platform on a proportionate basis. Accordingly, Clients may be disadvantaged if HSCM allocates profitable opportunities away from them or if HSCM allocates unprofitable opportunities to them.

Client investments may include investments in vehicles that are directly or indirectly affiliated with HSCM, such as the HSCM Funds. The Client bears management fees and performance fees that are paid to, or performance allocations that are made to, the managers, general partners or members of such affiliates. HSCM will endeavor to make investment decisions for the benefit of the Client in good faith and to treat each of the Funds and all of its Clients in a fair and equitable manner over time. There can be no assurance, however, that certain investment decisions made for a Client or for any other Fund will not adversely affect other Funds or Clients, even if such investment decisions are made in good faith.

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

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

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

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

Currency Risk. Generally, an HSCM Fund determines its net asset value in U.S. dollars and as a result it is subject to the risk of fluctuation in the exchange rate between the local currency and dollars when investing in foreign markets and is also subject to the risk of exchange controls.

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

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

Leverage. Depending on the investment objectives, strategies and guidelines of the particular fund account, HSCM, as applicable, may borrow money from banks, broker-dealers or other counterparties on a secured or unsecured basis, or otherwise enter into transactions that involve leverage in order to increase the amount of capital available for investments, pay operating expenses, satisfy redemption requests or for other purposes. An HSCM Fund may also, in effect, borrow funds through entering into repurchase agreements and may leverage its investment return with derivative instruments. The use of leverage will increase the volatility of an HSCM Fund's investments and can, in certain circumstances, magnify the losses to which an HSCM Fund's investment portfolio may be subject.

Funding of Early Investments. Depending on the investment objectives, strategies and guidelines of the particular fund account, an HSCM Fund may make one or more investments that require early funding of the investment. In order to fund such investments, an HSCM Fund may (i) borrow money on a short term basis, including from the HSCM Fund investor or another fund managed by HSCM, (ii) accept an early capital contribution from one more investors in the HSCM Fund, or (iii) enter into an arrangement with another investor in such opportunity, including another fund advised by HSCM, to acquire the investment on behalf of the HSCM Fund and to transfer the investment to the HSCM Fund at cost plus interest as soon as the HSCM Fund is able to call sufficient capital from investors to pay for such investment. Where an HSCM Fund engages in any such transaction with the HSCM Fund investor or another fund advised by HSCM, the HSCM Fund will pay interest on any amounts advanced by such party to the HSCM Fund, which interest shall accrue daily through the date of repayment.

United Kingdom Withdrawal from the European Union. The United Kingdom (the "U.K.") left the European Union ("Brexit") on January 31, 2020, subject to a transitional period ending December 31, 2020. During the transitional period, although the U.K. is no longer a member of the EU, it will be subject to EU law and regulations as if it were still a member state. The U.K. and the EU are to negotiate the terms of their future trading relationship during the transitional period. Accordingly, the terms of such trading relationship remain uncertain. The outcome of such negotiations may give rise to significant uncertainties and instability in the



financial markets as the U.K. negotiates the terms of its future relationship with the EU. An HSCM Fund will face risks associated with the potential uncertainty and consequences that may follow Brexit, including with respect to volatility in exchange rates and interest rates. Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and could contribute to instability in global political institutions, regulatory agencies and financial markets. Brexit could also lead to legal uncertainty and politically divergent national laws and regulations as a new relationship between the U.K. and EU is defined and the U.K. determines which EU laws to replace or replicate. Any of these effects of Brexit could adversely affect any of the companies to which the Fund has exposure and any other assets in which the Fund invests. The political, economic and legal consequences of Brexit are not yet known. In the short term, financial markets may experience heightened volatility, particularly those in the U.K. and Europe, but possibly worldwide. The U.K. may be less stable than it has been in recent years, and investments in the U.K. may be difficult to value, or subject to greater or more frequent rises and falls in value. In the longer term, there is likely to be a period of significant political, regulatory and commercial uncertainty as the U.K. seeks to negotiate its long-term exit from the EU.

Side Letters, Asymmetrical Information and Fair Treatment of Investors - The HSCM Fund and the Manager may from time to time enter into agreements with certain investors that provide for terms of investment that are different and more favorable to such investors than the terms described in this Memorandum (collectively, "Side Letters"). Such terms may include, without limitation, (i) the waiver, reduction, different calculation or rebate of the Management Fee and/or the Performance Fee, (ii) preferential transfer or liquidity rights, including additional redemption dates and waived or different redemption notice or lock-up periods, (iii) capacity rights and (iv) undertakings designed to protect an investor from violating any applicable statute or regulation. Side Letters may also be entered into with certain investors to provide them with supplemental information and reports that could affect their decisions to request redemptions of their Shares. The granting of a Side Letter to one or more investors generally will not entitle other investors to the same terms. Except as may be required by law, absent an express contractual undertaking, the HSCM Fund and/or the Manager are not required to disclose the existence or specific terms of any Side Letters. Notwithstanding the foregoing, and to ensure fair treatment of all investors, no side letter may result in a variation of the share rights attaching to any Series or sub-series of Shares absent the approval of the holders of that Series or sub-series in accordance with the Bye-laws.

Cyber Security Breaches and Identity Theft. Cyber security incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. HSCM and its affiliates and their portfolio companies' and service providers' information and technology systems may be vulnerable to damage or interruption from cyber security breaches, computer viruses or other malicious code, network failures, computer and telecommunication failures, infiltration by unauthorized persons and other security breaches, or usage errors by their respective professionals or service providers. If unauthorized parties gain access to such information and technology systems, they may be able to steal, publish, delete or modify private and sensitive information, including non-public personal information related to Limited Partners (and their beneficial owners) and material non-public information. Although HSCM has implemented, and portfolio companies and service providers may implement, various measures to manage risks relating to these types of events, such systems could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. HSCM does not control the cyber security plans and systems put in place by third-party service providers, and such third-party service providers may have limited indemnification obligations to HSCM, its affiliates, the HSCM Fund, the Limited Partners and/or a portfolio company, each of whom could be negatively impacted as a result. Breaches, such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage, may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing them from being addressed appropriately. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in HSCM's, its affiliates', the HSCM Fund's and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to Limited Partners (and their beneficial owners),

material non-public information and the intellectual property and trade secrets and other sensitive information in the possession of HSCM and/or portfolio companies. HSCM, the Fund and/or a portfolio company could be required to make a significant investment to remedy the effects of any such failures, harm to their reputations, legal claims that they and their respective affiliates may be subjected to, regulatory action or enforcement arising out of applicable privacy and other laws, adverse publicity and other events that may affect their business and financial performance.

Other Business Interruptions. HSCM's investment advisory activities and operations, or the activities and operations of a portfolio company and service providers, could be interrupted or adversely affected by extraordinary events or emergency situations, including, without limitation, outbreaks of infectious diseases, epidemics or pandemics, war, terrorism, failure of technology, disasters, government macroeconomic policies, or social instability. In order to mitigate the effects of these types of events, HSCM may activate our business continuity and disaster recovery plans. These plans may, for example, require our employees to work and access our information technology, communications or other systems remotely. The failure of these systems and/or disaster recovery plans for any reason could cause significant business interruptions in HSCM's, its affiliates', the HSCM Fund's and/or a portfolio company's operations.

Enhanced Scrutiny and Potential Regulation of the Private Investment Fund Industry and the Financial Services Industry. The HSCM Fund's ability to achieve its investment objectives, as well as the ability of the HSCM Fund to conduct its operations, is based on laws and regulations which are subject to change through legislative, judicial or administrative action. Future legislative, judicial or administrative action could adversely affect the HSCM Fund's ability to achieve its investment objectives, as well as the ability of the HSCM Fund to conduct its operations.

There continues to be significant discussions regarding enhancing governmental scrutiny and/or increasing the regulation of the private equity industry. On July 21, 2010, the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. A key feature of the Dodd-Frank Act is the extension of prudential regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve") to financial institutions that are not currently subject to such regulation but that potentially pose risk to the financial system. The Dodd-Frank Act defines a "nonbank financial company" as a company that is substantially engaged in activities that are financial in nature. The Financial Stability Oversight Council (the "FSOC"), an interagency body created to monitor and address systemic risk, has the authority to designate such a company to regulation by the Federal Reserve (including capital, leverage and liquidity requirements) if the FSOC determines that such company is systemically important. The Dodd-Frank Act does not contain any minimum size requirements for such a designation, and it is possible that it could be applied to private funds, particularly large, highly leveraged funds. On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities may pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions and resolution or in other areas. Similarly, in Europe, the Financial Stability Board has recommended strengthening oversight and regulation of the so-called "shadow banking" system, broadly described as credit intermediation involving entities and activities outside the regular banking system. While at this stage it is difficult to predict the scope of any new regulations, if during the HSCM Fund's Investment Period regulations were to extend the regulatory and supervisory requirements, such as capital and liquidity standards currently applicable to banks, or the HSCM Fund were considered to be engaged in "shadow banking," in Europe, the United States or in any other jurisdiction in which the HSCM Fund engages in investment activities, the regulatory and operating costs associated therewith could adversely impact the implementation of the HSCM Fund's investment strategy and the HSCM Fund's returns and may become prohibitive.

The Dodd-Frank Act also imposes a number of restrictions on the relationship and activities of banking organizations with private equity funds and hedge funds and other provisions that will affect the private equity industry, either directly or indirectly. Included in the Dodd-Frank Act is the so-called "Volcker Rule," which takes the form of new Section 13 of the U.S. Bank Holding Company Act of 1956. Among other



things, the Volcker Rule prohibits any "banking entity" (generally defined as any insured depository institution, any company that controls such an institution, a non-U.S. bank that is treated as a bank holding company for purposes of U.S. banking law, and any affiliate or subsidiary of the foregoing entities), as principal, from sponsoring or acquiring or retaining an ownership interest in a private equity fund or hedge fund that is not subject to the provisions of the Investment Company Act (as defined below) in reliance upon either Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act to avoid being treated as "investment companies" thereunder. The Volcker Rule also authorizes the imposition of additional capital requirements and certain other quantitative limits on activities engaged by certain nonbank financial companies that have been designated as systemically important by the FSOC and subject to supervision by the Federal Reserve (as discussed above), although such entities are not expressly prohibited from engaging in proprietary trading or sponsoring or investing in such funds. The Volcker Rule became effective as a matter of statute on July 21, 2012, but banking entities had a so-called "conformance period," which ran until July 21, 2015, to wind down, sell, transfer or otherwise conform their investments and activities to the Volcker Rule, absent an extension by the Federal Reserve or an exemption for certain "permitted activities." On December 10, 2013, the Federal Reserve and other federal regulatory agencies issued final rules implementing the principal components of the Volcker Rule. Prospective investors in the HSCM Fund that are banking entities should consult their bank regulatory counsel prior to making an investment. The Dodd-Frank Act, as well as future related legislation, may have an adverse effect on the private equity industry generally and/or on HSCM or the HSCM Fund, specifically. Therefore, there can be no assurance that any continued regulatory scrutiny or initiatives will not have an adverse impact on HSCM or otherwise impede the HSCM Fund's activities.

Although the Manager is currently registered under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"), the enactment of these reforms and/or other similar legislation could nonetheless have an adverse effect on the private investment funds industry generally and on HSCM and/or the HSCM Fund specifically, and may impede the HSCM Fund's ability to effectively achieve its investment objectives.

As a registered investment adviser under the Advisers Act, the Manager and its affiliates are required to comply with a variety of periodic reporting and compliance-related obligations under applicable federal and state securities laws (including, without limitation, the obligation of the Manager and its affiliates to make regulatory filings with respect to the HSCM Fund and its activities under the Advisers Act (including, without limitation, Form PF and Form ADV)). In addition, the Manager is required to comply with a variety of regulatory reporting and compliance-related obligations under applicable federal, state and foreign securities laws (including, without limitation, reports or notices in connection with the Directive and/or CFTC (as defined below) related matters as well as other international jurisdiction specific obligations). In light of the heightened regulatory environment in which the HSCM Fund and the Manager operate and the ever-increasing regulations applicable to private investment funds and their investment advisors, it has become increasingly expensive and time-consuming for the HSCM Fund, the Manager and their affiliates to comply with such regulatory reporting and compliance-related obligations. The HSCM Fund will be required to bear the HSCM Fund's share of expenses relating to compliance-related matters and regulatory filings, which are likely to be material, including on a cumulative basis over the life of the HSCM Fund. For example, Form PF requires that the Manager report the regulatory assets under management of the HSCM Fund, and because the HSCM Fund will be required to bear the HSCM Fund's share of expenses relating to compliance-related matters and regulatory filings, the HSCM Fund will bear the costs and expenses of initial and ongoing Form PF compliance, including costs and expenses of collecting and calculating data and the preparation of such reports and filings. Certain of these expenses are likely to be material, including on a cumulative basis over the life of the HSCM Fund. Any further increases in the regulations applicable to private investment funds generally or the HSCM Fund and/or the Manager in particular may result in increased expenses associated with the HSCM Fund's activities and additional resources of the Manager being devoted to such regulatory reporting and compliance-related obligations borne by the HSCM Fund, which may reduce overall returns for the Limited Partners and/or have an adverse effect on the ability of the HSCM Fund to effectively achieve its investment objective.

Furthermore, various federal, state and local agencies have been examining the role of placement agents,

finders and other similar service providers in the context of investment by public pension plans and other similar entities, including investigations and requests for information, and in connection therewith, new and/or proposed rules and regulations in this arena may increase the possibility that the General Partner and its affiliates may be exposed to claims and/or actions that could require a Limited Partner to withdraw from the HSCM Fund. As a related matter, HSCM may be required to provide certain information regarding some of the investors in the HSCM Fund to regulatory agencies and bodies in order to comply with applicable laws and regulations including the U.S. Foreign Corrupt Practices Act and FOIA (as defined below). There can be no assurance that the foregoing will not have an adverse impact on the HSCM Fund or otherwise impede the HSCM Fund's activities.

Investors Subject to Regulation. Certain prospective investors may be subject to federal and state laws, rules and regulations that may regulate their participation in the HSCM Fund, or their engaging, directly or indirectly, in investment strategies of the type which the HSCM Funds or the HSCM Funds may use from time to time (e.g., leverage and limited diversification). Each type of organization may be subject to different laws, rules and regulations, and prospective investors should consult with their advisors as to the advisability and tax consequences of an investment in the HSCM Fund. Investment in the HSCM Fund by entities subject to ERISA (as defined herein), and other tax-exempt entities requires special consideration. Trustees or administrators of such entities are urged to carefully review the matters discussed herein.

Risks Associated with Private Equity Investing. Funds may be investing in private equity investments. These investments involve special risks, certain of which are described below:

- Buyout Investments. The HSCM Funds may invest in leveraged buyouts which by their nature require companies to undertake a high ratio of leverage to available income. Leveraged portfolio companies are inherently more sensitive to declines in revenues and increases in expenses.
- Force Majeure Risks. The underlying portfolio entities may be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism and labor strikes). Some force majeure events may adversely affect the ability of a party (including an underlying portfolio entity or a counterparty to the HSCM Fund, or an underlying portfolio entity) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to the HSCM Fund, or underlying portfolio entity of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries in which one or more HSCM Funds may invest specifically. Additionally, a major governmental intervention into an industry, including the nationalization of an industry or the assertion of control over one or more underlying portfolio entities or its assets, could result in a loss to the HSCM Fund, including if its investment in such portfolio entity is canceled, unwound or acquired (which could be without what the HSCM Fund considers to be adequate compensation), and thus a loss for the HSCM Fund. Any of the foregoing may therefore adversely affect the performance of the HSCM Fund and its investments.
- Long-term Investments. The HSCM Funds invests in investments that will not be liquidated for a number of years after the initial investment. Factors such as overall economic conditions, the competitive environment and the availability of potential acquirers may shorten or lengthen such HSCM Fund's holding period. The return of capital and the realization of gains, if any, will occur only upon the partial or complete disposition of an HSCM Fund investment. Therefore, it is unlikely that such HSCM Funds will realize substantial capital gains during their early years.
- Risk of Realization of Investments. The HSCM Funds will hold illiquid investments. In some cases, the HSCM Fund may be prohibited from selling such securities for a period of time or otherwise be restricted from disposing of investments. Furthermore, the types of investments made may require a substantial length of time to liquidate. As a result, there is a significant risk that such HSCM Funds may be unable to realize their investment objectives by sale or other disposition of their investments

at attractive prices or will otherwise be unable to complete any exit strategy.

- Investment in Restructurings. Certain of the HSCM Funds may invest in restructurings that involve non-performing, underperforming or other troubled assets that are experiencing, or are expected to experience, severe financial difficulties, which may never be overcome and, as a result, may lead to a loss of some or all of such HSCM Fund's investments. The success of such investments may hinge on an HSCM Fund's ability to reposition such assets as to increase returns to the HSCM Fund. There can be no assurance the HSCM Funds may be successful in such endeavors. Such investments could, in certain circumstances, subject such HSCM Funds to certain additional potential liabilities, which may exceed the value of such HSCM Funds' original investments therein. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated, or disallowed, or may be found liable for damage suffered by parties as a result of such actions. In addition, under certain circumstances, payments to such HSCM Funds and distributions by such HSCM Funds to their limited partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Bankruptcy laws may hinder or delay the ability of such HSCM Funds to realize returns on investments, may lead to litigation which could be costly and impair the value of an investment or may result in restructurings which are not favorable to the value of such HSCM Funds' investments. In addition, portfolio companies located in non-U.S. jurisdictions may be involved in restructurings, insolvency proceedings and/or reorganizations that are not subject to laws and regulations that are similar to the United States bankruptcy laws and the rights of creditors afforded in U.S. jurisdictions. To the extent such non-U.S. laws and regulations do not provide the HSCM Fund with equivalent rights and privileges necessary to promote and protect its interest in any such proceeding, the HSCM Fund's investments in any such portfolio company may be adversely affected.
- Risks in Effecting Operating Improvements. In some cases, the success of the HSCM Funds' investment strategy will depend, in part, on the ability of such HSCM Funds to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that the HSCM Funds will be able to successfully identify and implement such restructuring programs and improvements.
- Volatility of Credit Markets May Affect Ability to Finance and Consummate Investments. The volatility of the global credit markets has made it more difficult for financial sponsors to obtain favorable financing for investments. A widening of credit spreads, coupled with the extreme volatility of the global debt markets and a rise in interest rates, can dramatically reduce investor demand for high yield debt and senior bank debt, which in turn can lead some investment banks and other lenders to be unwilling to finance new private equity investments or to only offer committed financing for these investments on unattractive terms. The ability of the HSCM Funds to generate attractive investment returns will be adversely affected to the extent the HSCM Funds are unable to obtain favorable financing terms for their investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of U.S. and global economies. Such marketplace events also may restrict the ability of the HSCM Funds to sell or liquidate investments at favorable times or for favorable prices or otherwise may have an adverse impact on the business and operations of the HSCM Funds.
- Investments Outside of the United States. The HSCM Funds may make investments outside of the United States. Investments outside of the United States may involve certain risks not typically associated with investing in private equity businesses and assets within the United States, including risks relating to (i) currency exchange matters for investments, including fluctuations in exchange rates, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iii) differences between each of the United States private equity markets, on the one hand, and those of other jurisdictions, on the other hand, including potential price volatility in, and relative illiquidity of, some United States securities markets; (iv) certain

economic, political and social risks, including potential exchange control regulations, potential restrictions on foreign investment and repatriation of amounts invested, the risks associated with political, economic or social instability, including the risk of sovereign defaults, regulatory change and the possibility of expropriation or confiscatory taxation or the imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, and adverse economic and political developments; (v) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and differences in government supervision and regulation; (vi) less developed corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties and the protection of investors; (vii) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (viii) political hostility to investments by foreign or private equity investors; (ix) less publicly available information, (x) governmental decisions to discontinue support of economic reform programs generally and impose centrally planned economies; (xi) less extensive regulation of the securities markets; (xii) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities; (xiii) longer settlement periods for securities transactions; and (xiv) less reliable judicial systems to enforce contracts and applicable law. There can be no assurance that adverse developments with respect to such risks will not adversely affect the assets of the HSCM Funds that are held in certain countries.

- Control Person Liability. Certain of the HSCM Funds may take controlling interests in some of their investments. The exercise of control over a company may impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations (including securities laws) or other types of liability in which the limited liability, generally characteristic of business ownership, may be ignored. If these liabilities were to arise, such HSCM Funds might suffer a significant loss.
- Minority Investments. Certain of the HSCM Funds may make minority equity investments in assets where such HSCM Funds do not effectively control such assets. Under such circumstances, there is the possibility that other investors in the entity in which the HSCM Fund's investments are made may have economic or business interests or goals that are inconsistent with those of the HSCM Fund, and the HSCM Fund may not be in a position to limit or otherwise protect the value of the HSCM Fund's investment in the asset.
- Risk of Bridge Financing. If an HSCM Fund uses bridge financing in a transaction with the intent of refinancing such financing, there is a risk that the HSCM Fund will be unable to complete the refinancing. This could lead to the HSCM Fund having a long-term investment in a junior debt security.
- Broken Deal Expenses. Investments in private equity often require extensive due diligence activities prior to acquisition, including legal costs. If an investment is not consummated, some or all of such third-party expenses may be borne by the HSCM Fund and/or the applicable HSCM Fund. (See Item 5 for additional information regarding Broken Deal Expenses)
- Contingent Liabilities on Disposition of Investments. In connection with the disposition of an investment, an HSCM Fund may be required to make certain representations about the investments typical of those made in connection with the sale of an investment. The HSCM Funds may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate or with respect to certain potential liabilities. These arrangements may result in the incurrence of contingent liabilities for which the HSCM Fund's manager may establish reserves or escrow accounts. In that regard, investors in the HSCM Fund, including the HSCM Fund, may be required to return amounts distributed to them to HSCM Fund obligations, including indemnity obligations, in accordance with the governing documents of the HSCM Fund and applicable law.
- Restrictions on Transfer or Withdrawal. Investors in many of the HSCM Funds will not be permitted to transfer their interests in such HSCM Funds without the consent of the HSCM Fund manager. Furthermore, such transferability will be subject to certain restrictions contained in the operating agreements and subscription agreements for such HSCM Funds and may be affected by restrictions on resale imposed under federal and state securities laws.
- Failure by Other Investors to Meet Capital Calls of Funds. Certain HSCM Funds will have capital



contribution obligations over an extended period of time. Failure by one or more other investors in any such HSCM Fund to meet a capital call could have adverse consequences for such HSCM Fund. The HSCM Fund may be permitted to require the investors in the HSCM Fund to contribute additional capital to satisfy the shortfall. The HSCM Fund may be unable to raise sufficient capital to consummate the proposed investment or the HSCM Fund may be unable to contribute capital to existing portfolio companies necessary to ensure their ongoing financial stability. If multiple investors fail to meet capital calls from a particular HSCM Fund, the HSCM Fund could default on its obligations, which could result in the termination of the HSCM Fund, causing a lower return, or potentially a loss, on the Vehicle's investments.

- Termination of the Fund's Interest in a Fund. A HSCM Fund may, among other things, terminate the HSCM Fund's interest in that HSCM Fund if the HSCM Fund fails to satisfy any capital call by that HSCM Fund or if the general partner of that HSCM Fund determines that the continued participation of the HSCM Fund in such HSCM Fund would have a material adverse effect on such HSCM Fund or its assets.
- Venture Capital Investments. Certain HSCM Funds make venture capital investments. Such investments involve a high degree of business and financial risk that can result in substantial losses. The most significant risks are the risks associated with investments in (i) companies in an early stage of development or with little or no operating history, (ii) companies operating at a loss or with substantial fluctuations in operating results from period to period and (iii) companies with the need for substantial additional capital to support or to achieve a competitive position.

Tax-Inefficient Structuring of Certain Underlying Investments. In managing the investments of the HSCM Fund, the General Partner cannot enter into separate transactions with respect to the HSCM Fund and the Offshore Feeder HSCM Fund, respectively. Any particular investment in a HSCM Fund may be less tax efficient for certain Limited Partners than it would have been if those Limited Partners had invested directly in the relevant HSCM Fund through a vehicle organized for investors of the same type as those Limited Partners. For example, if the HSCM Fund purchases an interest in a HSCM Fund from a non-U.S. person, certain underlying investments that generate effectively connected income may have been structured through "blocker" corporations, which are subject to U.S. corporate income and, possibly, branch profits tax, and may therefore be inefficient, from a tax perspective, for U.S. Limited Partners in the HSCM Fund. If the HSCM Fund purchased an investment in the same HSCM Fund from a U.S. person, U.S. taxable Limited Partners would benefit from the absence of "blocker" corporations, but the investment would generally not be tax efficient for the Offshore Feeder HSCM Fund. Moreover, the HSCM Fund will not be able to influence the activities of the HSCM Funds or the structuring of investments made by the HSCM Funds.

FATCA Withholding. Under Sections 1471 through 1474 of the Code and applicable Treasury regulations ("FATCA"), the Offshore Feeder HSCM Fund will be a "foreign financial institution," and it is expected that any Underlying Vehicle that is organized outside the United States (a "Non-U.S. Underlying Vehicle" and, together with the Offshore Feeder HSCM Fund, each a "Foreign Fund Entity") will also be a "foreign financial institution." As a result, a 30% U.S. withholding tax generally will be imposed on "withholdable payments" and, after a date that will be no earlier than December 31, 2018, "foreign pass thru payments" treated as made to the Foreign Fund Entity unless the Foreign Fund Entity can certify to the relevant withholding agent that it qualifies for an exemption from, or reduction of, this tax. For this purpose, (i) "withholdable payments" are generally defined as payments of U.S.-source "fixed or determinable annual or periodical" ("FDAP") income (including portfolio interest and other FDAP income that would not otherwise be subject to U.S. withholding tax) and, after December 31, 2018, payments of gross proceeds from the disposition of property that can produce U.S.-source dividends or interest, and (ii) the definition of "foreign pass thru payments" is still reserved under current Treasury regulations; however, the term generally refers to payments made by certain FATCA-compliant foreign entities that are not themselves "withholdable payments," but are attributable to "withholdable payments." The Offshore Feeder HSCM Fund intends to comply with the requirements necessary to qualify for an exemption from the FATCA tax, but it is possible that it will not be able to satisfy the applicable requirements at all times. There is also no assurance that every Non-U.S. Underlying Vehicle entity will satisfy the applicable requirements.

Under FATCA, the HSCM Fund will generally be required to withhold a 30% tax from payments of U.S.-source FDAP income and, after December 31, 2018, from other "withholdable payments" that it is treated as making to any Non-U.S. investor that is an entity unless such Non-U.S. Investor provides certain certifications and other information to the HSCM Fund. In addition, after a date that will be no earlier than December 31, 2018, the Offshore Feeder HSCM Fund will be required to withhold a 30% tax from any "foreign pass thru payment," in that it makes to a Non-U.S. Investor that is an entity unless such Non-U.S. Investor has provided such certifications and other information.

Legal, Tax and Regulatory Risks. Legal, tax and regulatory changes could occur during the term of the Partnership that may adversely affect the Partnership. For example, from time to time the market for private equity transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. The regulatory environment for private investment funds is evolving, and changes in the regulation of private investment funds may adversely affect the value of investments held by the Partnership and the ability of the Partnership to effectively employ its investment strategies. Increased scrutiny and legislative changes applicable to private investment funds and their sponsors may also impose significant administrative burdens on the Investment Advisor and may divert time and attention from portfolio management activities. In addition, and in particular in light of the changing global regulatory climate, the Partnership may be required to register under certain foreign laws and regulations and need to engage distributors or other agents in certain jurisdictions in order to market Interests to potential investors. The effect of any future regulatory change on the Partnership could be substantial and adverse. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action.

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

Insider Activity and Non-Public Information. From time to time, the partners, principals, employees and officers of HSCM and its affiliates may act as members of boards of directors, advisory boards or creditor committees of issuers. Serving on the board of directors, advisory board or on a creditor committee could cause HSCM to be deemed an "insider" of such issuer or might otherwise result in HSCM receiving material non-public information. HSCM or an affiliate may also obtain material non-public information in the course of managing an HSCM Fund's or other Client's accounts. In such circumstances, an HSCM Fund may be restricted from making certain investments or trading positions in the HSCM Fund's portfolio, which may have an adverse effect on the HSCM Fund's portfolio. As an HSCM Fund will indemnify HSCM for such activities, indemnification payments could adversely affect the return on an HSCM Fund's investment in such issuer and to the HSCM Fund's portfolio as a whole. In addition, HSCM may agree to sign a confidentiality agreement with respect to a particular issuer and may, as a result of signing such agreement, receive material non-public information, which would restrict an HSCM Fund's ability to trade in such issuer's securities. Alternatively, HSCM may decline to receive material non-public information in order to avoid trading restrictions for the Client accounts even though access to such information might have been advantageous to the HSCM Fund. Members of Investment Committee or the board of directors of HSCM

who have access to material non-public or confidential information about HSCM's positions may have other relationships within the insurance or reinsurance industry, such as having investment interests in, holding directorships or serving as executives of, or otherwise being involved with other market participants.

Reliance on the Manager, Key Employees and its Board of Advisors - The success of an HSCM Fund depends upon the ability of the Manager to develop and implement investment strategies that achieve the HSCM Fund's investment objective. No assurance can be given that the Manager will be able to do so. Investors will have no right or power to participate in the day-to-day management or control of the HSCM Fund and will not have an opportunity to evaluate the specific investments made by the HSCM Fund.

The ability of the Manager to develop and implement investment strategies that achieve the HSCM Fund's investment objective depends in substantial part upon the skill and experience of the key personnel of the Manager, and in particular the skill and experience of the principal portfolio manager and other key members of the Investment Committee. Key members of the Investment Committee include individuals who are designated as members of the Board of Advisors. The Board of Advisors of the Manager will be composed of senior industry experts who will be identified and appointed by the Manager whose purpose is to bring their years of expertise and experiences in evaluating portfolio opportunities for the HSCM Investment Strategies for which they serve on the Investment Committee for. If such persons were unable to participate in the management of the Manager, the HSCM Fund or serve as a Board of Advisor, the HSCM Fund's profitability could suffer. If the Manager were to lose the services of such persons or any of its other key personnel, the performance of the HSCM Fund could be materially and adversely affected and could lead to a premature termination of the HSCM Fund.

The availability of the Manager's Bermuda-based management team is essential to the Manager's ability to perform its services on behalf of the HSCM Fund. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident's certificates or working resident's certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident's certificate or working resident's certificate is available who meets the minimum standards for the position. Certain of the Manager's employees based in Bermuda may be non-Bermudian. As a consequence, applications may need to be made to the Bermudian authorities for work permits. The Manager has no reason to believe that any required permits will not be granted, but no assurances can be given in this regard. If work permits are not obtained or renewed for the Manager's non-Bermudian employees, the Manager could lose their services, which could materially affect the performance of the HSCM Fund.

Deployment of Capital. In light of the Partnership's investment strategy and the need to be able to deploy capital quickly to capitalize on potential investment opportunities, the Partnership may from time to time maintain cash at the fund level pending deployment into investments, which may at times be significant. Such cash may be held in an account of the Partnership for the benefit of the Limited Partners or may be invested in money market accounts or other similar temporary investments. While the expected duration of such holding period is expected to be relatively short, in the event the Partnership were unable to find suitable investments such cash may be maintained at the fund level for longer periods. It is not anticipated that the temporary investment of such cash into money market accounts or other similar temporary investments pending deployment into investments will generate significant interest, and investors should understand that such low interest payments on the temporarily invested cash may adversely affect overall fund returns.

Pay-to-Play Laws, Regulations and Policies. In light of controversies and highly publicized incidents involving money managers, a number of states and municipal pension plans have adopted so-called "pay-to-play" laws, regulations or policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including investments by public retirement funds. The SEC adopted rules that, among other things, prohibit an investment adviser from providing advisory services for compensation with respect to a government plan

investor for two years after the adviser or certain of its executives or employees make a contribution to certain elected officials or candidates. If the Manager, the General Partner or their respective employees or affiliates fail to comply with such pay-to-play laws, regulations or policies, such non-compliance could have an adverse effect on the HSCM Fund by, for example, providing the basis for the withdrawal of the affected government plan investor.

No Assurance of Investment Return. HSCM GP LLC (the “General Partner”), Hudson Structured Capital Management Ltd. (the “Investment Advisor”) and / or any of their affiliates cannot provide assurance that they will be able to choose, make and realize the Investment. There can be no assurance that the Partnership will be able to generate returns for its Partners or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. There can be no assurance that any Partner will receive any distribution from the Partnership. The Investment involves the risk of loss of capital. Accordingly, an investment in the Partnership should only be considered by persons who can afford a loss of their entire investment. Past performance of investment entities associated with HSCM and / or entities associated with the Partnership’s investment professionals is not necessarily indicative of future results or performance and provides no assurance of future results or performance.

Platform Investments. The Partnership may also co-invest with third parties (or affiliated managers or other persons) with respect to specified investments or categories of investments through partnerships, joint ventures, investment platforms, or other similar arrangements (“Platform Arrangements”), thereby acquiring jointly-controlled or noncontrolling interests in certain investments in conjunction with participation by one or more third parties in such investment. Such Platform Arrangements may be in or alongside existing or newly formed operators, consultants and/or managers that pursue such opportunities and may include capital and/or assets contributed by third party investors or such platform managers. Platform Arrangements may provide one or more of the following services: origination or sourcing of potential investment opportunities, due diligence and negotiation of potential investment opportunities and/or servicing, development and management (including turnaround) and disposition of investments. Although the Partnership may not have full control over these investments and therefore may have a limited ability to protect its position therein, the General Partner expects that appropriate rights will be negotiated to protect the Partnership’s interests. Nevertheless, such Investments may involve risks not present in investments where another participant is not involved, including the possibility that such other participant, third-party partner or co-venturer may have financial difficulties, resulting in a negative impact on such Investment, may have economic or business interests or goals which are inconsistent with those of the Partnership, or may be in a position to take (or block) action in a manner contrary to the Partnership’s investment objectives or the increased possibility of default by, diminished liquidity or insolvency of, the third party, due to a sustained or general economic downturn. In addition, the Partnership may in certain circumstances be liable for the actions of its third-party partners, co-venturers or co-investors (including Other HSCM Funds). In certain circumstances involving a third-party management group, such third parties may receive compensation arrangements relating to such Platform Arrangements, including incentive compensation arrangements. Furthermore, such third-party partners or co-investors to Platform Arrangements may provide services (such as asset management oversight services) similar to, and overlapping with, services provided by the Investment Advisor to the Partnership, the Comparable Funds, Other HSCM Funds or their respective portfolio companies, and, notwithstanding the foregoing, fees attributable to such services will not offset Management Fees. In addition, HSCM’s investment strategies in certain investments may depend on its ability to enter into satisfactory relationships with joint venture or operating partners. There can be no assurance that HSCM’s current relationship with any such partner or operator will continue (whether on currently applicable terms or otherwise) with respect to the Partnership or that any relationship with other such persons will be able to be established in the future as desired with respect to any sector or geographic market and on terms favorable to the Partnership.

Risks associated with in kind distributions. Upon termination of the Partnership, certain investments of the Partnership may be distributed in kind if the General Partner determines that liquidation of any such investment might cause substantial diminution of the value of such investment. Widespread holding of



investments, particularly of private illiquid securities, may entail a significant administrative burden. In addition, the direct holding of certain investments may subject the holder to suit or taxes in states in which such investments are located. There can be no assurance that the Limited Partners will be able to dispose of any securities or instruments distributed in-kind or that the fair value of such securities or instruments determined by the Partnership for purposes of the determination of distributions and the calculation of the General Partner's carried interest ultimately will be realized. In addition, if the Partnership receives distributions in-kind from any Investment, it may incur additional costs and risks in connection with the disposition of such assets.

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

Potential Public Health Crisis. A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent outbreak of Coronavirus (or Covid-19) in China, the United States and other countries, could have an adverse impact on global, national and local economies, which in turn could negatively impact HSCM Funds. Disruptions to commercial activity relating to the imposition of quarantines or travel restrictions (or more generally, a failure of containment efforts) may adversely impact HSCM Fund's investments, including by delaying or causing supply chain disruptions or by causing staffing shortages. In addition, the imposition of travel restrictions may impact the ability of HSCM personnel to travel in connection with potential or existing investments of HSCM Funds or to HSCM's offices, which could negatively impact the ability of HSCM to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of Coronavirus has contributed to, and may continue to contribute to, volatility in financial markets, including changes in interest rates. A continued outbreak may reduce the availability of debt financing to HSCM Funds and potential purchasers of HSCM Fund's investments, which could have material and adverse impact on HSCM Fund's returns. The impact of a public health crisis such as the Coronavirus (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to HSCM Fund's performance.

## **Risks Pertaining to the HSCM Re/Insurance Funds and Accounts**

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

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

investment if an insured event occurs that affects the contracts underlying one or more insurance-based instruments.

Natural Catastrophe Related Risks, Risks Associated with Property Catastrophe Insurance-Based Instruments Generally. The property catastrophe reinsurance business has historically been a cyclical industry, with significant fluctuations in operating results due to competition, catastrophic events, levels of reinsurance capacity, general economic, financial and social condition, legislative initiatives and other factors. This cyclicity has produced periods characterized by intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. In addition, increases in the frequency and severity of losses suffered by reinsurers can significantly affect these cycles. It is difficult to predict the timing of such events with certainty or to estimate the amount of loss that any given event will generate. The HSCM Re/Insurance Funds can be expected to be exposed to the effects of such cyclicity.

#### Risks Associated with Catastrophe Bonds and Certain Collateralized Reinsurance Arrangements.

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

Life-Related Risks. The HSCM Re/Insurance Funds may invest in insurance-based instruments with exposure to life insurance policies or other life-related risks. The risks associated with such instruments include, but are not limited to (i) mortality risk, which is the risk that the level of death claims may differ from that which was assumed in the pricing of reinsurance contracts; (ii) morbidity risk, which is the risk that an insured person will become critically ill or disabled; (iii) lapse risk, which is the risk of a fluctuation

in the rate that policies are terminated prior to their maturity date; (iv) revision risk, which is the risk of adverse variation of an annuity's amount due to revisions of the claims process; and (v) life catastrophe risk, which includes the risk of catastrophic events resulting in widespread loss of life, including natural catastrophes such as earthquakes, hurricanes, floods, tsunamis and volcanic eruptions, pandemics, and acts of war, terrorism or other natural, man-made, or other catastrophic events. HSCM will endeavor to ascertain the quality of the business and appropriate pricing for the risks HSCM Re/Insurance Funds are exposed to. Among other things, these processes rely heavily on underwriting, analysis of mortality and morbidity trends, lapse rates, expenses and an understanding of medical impairments and their effect on mortality or morbidity.

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

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

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

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

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

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

amounts.

Workers' Compensation Risk. The HSCM Re/Insurance Funds may have exposure to workers' compensation insurance risk. Workers' compensation insurance is purchased by employers to provide protection for employees' lost wages and medical benefits in the event of work-related injury, disability, or death. The frequency and severity of claims, and the adequacy of reserves for workers' compensation claims and expenses can all be significantly influenced by such risk factors as future wage inflation in states that index benefits, the speed with which injured employees are able to return to work in some capacity, the cost and rate of inflation in medical treatments, the types of medical procedures and treatments, the cost of prescription medications, the frequency with which closed claims reopen for additional or related medical issues, the mortality of injured workers with lifetime benefits and medical treatments, the use of health insurance to cover some of the expenses, the assumption of some of the expenses by states' second injury funds, the use of cost containment practices like preferred provider networks, and the opportunities to recover against third parties through subrogation.

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

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

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

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

and market liquidity. Some investments made by the HSCM Re/Insurance Funds may include exposure to such terrorist action and may expose the funds to losses arising from such events. Terrorist action is inherently unpredictable, both in relation to frequency and to severity of losses. It is difficult to predict the timing of terrorist actions with statistical certainty or to estimate the amount of loss that any action may generate.

Securitizations. Under certain circumstances, HSCM may seek to securitize (or re-securitize) certain of the HSCM Re/Insurance Funds' investments. It is unclear to what extent a satisfactory market might exist for securitized or re-securitized insurance-linked assets if and when HSCM wishes to execute this strategy. Furthermore, the issuance of any such securities would involve significant risks to the funds, risks which in many cases would not be present but for the Fund's decision to issue such securities. In many cases, the HSCM Re/Insurance Funds may be required to indemnify certain parties and provide other types of recourse to the funds in order to issue the securities. Also, in connection with any issuance, the HSCM Re/Insurance Funds will be taking on securities law liabilities relating to the securities it issues. There can be no assurance that a market for any such securities will develop or, if it does, that it will meet the needs of the funds to monetize or leverage its position in the securitized assets.

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

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

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

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

## **Risks Pertaining to the HSCM Transport Funds and Accounts**

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



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

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

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

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

Mezzanine and High Yield Debt Securities. The HSCM Transport Funds' investments may be comprised of mezzanine (subordinated) or senior debt securities issued in the High Yield or ABS markets. These securities may be purchased at new issue or in the aftermarket and may be privately negotiated or part of a broad capital market syndication. Such investments may be secured or unsecured debt obligations often by an obligor rated below investment grade. The yields and prices of lower-rated securities may tend to fluctuate more than those for higher-rated securities. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of these securities. Mezzanine securities, by the nature of their issuers' leveraged capital structures, involve a high degree of financial risk. These securities may be unsecured and/or subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. In addition, these securities may not be protected by financial covenants or limitations upon additional indebtedness and may have limited liquidity. Mezzanine investments often reflect a greater possibility that adverse changes in the financial condition of the obligor or general economic conditions (including, for example, a substantial

period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Some issuers of a fund's investments may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. Overall adverse conditions in the high-yield bond, ABS and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity.

Market and Credit Risks of Debt Securities. In general, the HSCM Transport Funds' investments will expose it (directly or indirectly) to "credit risk," because debt securities are subject to credit risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument and how this risk changes over time. Financial strength and solvency of an issuer and the priority of the lien are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Certain of the investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In addition, certain instruments in certain circumstances may provide for payments-in-kind interest, which has a similar effect of deferring current cash payments.

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

#### ITEM 9: DISCIPLINARY INFORMATION

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



## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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

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

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

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

Certain HSCM Fund's strategy will seek to opportunistically invest across all forms of insurance risks and is willing to consider risk and return in whatever form it is transferred. A significant proportion of the Fund's investments may be in the form of reinsurance contracts. The reinsurance contracts originate with reinsurance brokers or other reinsurance intermediaries. For all of these contracts, a process is needed to transform the reinsurance contract into a security that can be acquired by the Fund. The Fund expects to use the following two processes to effect the necessary transformation:

- Segregated accounts or cells (which are segregated from each other and from the (re)insurer's general account) are created within a licensed (re)insurer, commonly referred to as a "transformer". These cells directly issue reinsurance contracts to buyers. Typically the Fund will then purchase non-voting preferred shares issued by the cell through a subscription and shareholder agreement. The Fund's investment is used to capitalize the cell and to provide collateral to support the transformer's obligations in respect of the relevant reinsurance contract. Typically through this mechanism, the relevant cells will be funded up to the maximum liability that the transformer may incur as a result of the reinsurance contracts that it has written. Currently, the Fund uses third-party managed Bermuda Class 3 (re)insurers for these purposes. However, in order to facilitate access to reinsurance risks for the Fund and its other clients, HSCM is in the process of organizing Bumblebee Re Ltd. ("**Bumblebee Re**"), a Bermuda limited company registered as a segregated accounts company under the Bermuda Segregated Accounts Companies Act 2000, as amended (the "**SAC Act**"). Bumblebee Re has applied for and expects to obtain a license from the Bermuda Monetary Authority under the Insurance Act as a special purpose insurer. Upon such licensing, it is expected that Bumblebee Re will act as the primary transformer vehicle for the Fund's reinsurance transactions. Bumblebee Re initially will be managed by a third party insurance manager. However, it is expected that HSCM will provide insurance management services at prevailing market rates and for profit to Bumblebee Re in the future.
- There are also situations where the reinsurance buyer or the Fund may prefer to have a contract issued by a rated reinsurer acting in the capacity of what is known as a fronting carrier. In such transactions, a reinsurance contract is issued to the buyer by the rated fronting reinsurance

company. The fronting reinsurance company then enters into a derivative contract with the reinsurer in which the Fund invests which matches the underlying reinsurance contract's terms. The reinsurer in which the Fund invests pays a fronting fee to the fronting reinsurance company for utilizing its balance sheet and will typically establish a trust where collateral is posted. As in the first process outlined above, it is normal that each reinsurer is fully collateralized to the maximum reinsurance liability that may be incurred.

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

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

### *Code of Ethics and Personal Trading*

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

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

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

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

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

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

### *Participation or Interest in Client Transactions*

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

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

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

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

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

#### *Allocation of Investment Opportunities*

In allocating investment opportunities among Clients, it is HSCM’s policy that Clients should be treated fairly over time and that, to the extent possible, Clients should receive equivalent treatment. Notwithstanding the foregoing statement, HSCM currently has an investor (Blackstone) whose investment allows them to have certain decision-making rights with respect to which investments they may make. These rights, which are different than certain other investors may have, are fully disclosed in HSCM’s private placement documents. Circumstances may exist where HSCM Funds investing in reinsurance contracts may incur losses due to insurance or other events for which, reinsurance or other cover may have been provided. As a result, investments in certain counterparties, recognizing the previous losses, may provide these Clients preferential treatment, in terms of rates, rights of investment to HSCM Clients that suffered losses in similar contracts for previous periods. Opportunities to invest in the renewal of such reinsurance contract may be given priority to HSCM Funds that invested in original contracts which incurred the losses.

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

The HSCM Bermuda InsurTech Fund is seeking to build a portfolio of earlier stage venture/growth investments compared to other HSCM Funds who invest in reinsurance opportunities with a lower risk profile seeking a mezzanine level risk and return. While these portfolios have different risk profiles, the Chief Investment Officer and principal portfolio manager of the HSCM Funds who invest in reinsurance

opportunities will be seeking to participate in such earlier stage venture/growth investments in a limited manner by holding lower portfolio weightings than that of the HSCM Bermuda InsurTech Fund to better suit its risk profile. To resolve the conflict in determining the allocation of such opportunities HSCM will have a majority of the opportunity go to the HSCM Bermuda InsurTech Fund whose risk profile is better suited for these investments with the remaining allocation going to other eligible HSCM Funds on a fair and equitable basis consistent with its existing allocation policies. Each opportunity is evaluated, and allocation its can be adjusted based on its judgement in good faith as to whether an opportunity is in fact appropriate for each Fund consistent with the principals described in the paragraph above.

#### *Co-Investments*

- HSCM will evaluate if privately placed investment opportunities are of a size and nature that they would be suitable for co-investments, including factors such as the dollar size of the opportunity, the aggregate size of the Clients' orders, the issuer's or counter-party's interest in having additional investors in addition to the Client funds, the advantages to the Client funds in the immediate transaction or long-term based on development of relationships and industry reputation that arises from making larger aggregate size investments in private investment opportunities, and the likely interest of investors in the Client funds and other parties in making co-investments.
- If HSCM determines that an investment opportunity is suitable for co-investment it will offer it to any parties to whom it has contractually agreed to provide co-investment opportunities based on the terms of such agreement, other investors and third parties whom HSCM believes would have financial resources and sophistication that would enable them to act on in a timely and effective manner and would be interested in such co-investment based on their expressed interest in co-investments in various sectors, and principals and sophisticated employees of HSCM.
- HSCM will only permit principals and sophisticated employees to invest in co-investment opportunities if it offers the co-investments to external parties and suitable Client fund investors as set forth above.
- All co-investors including principals and sophisticated employees of HSCM will participate in co-investments on a pari passu basis based on their respective order sizes.
- Client funds will receive preference on allocations of any investments in which co-investors participate, and if there after investment orders have been submitted the opportunity is cut-back by the issuer or counter-party, co-investors are expected to have their orders cut back pro rata prior to any cut-back of Client funds' order.

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

#### *Trade Errors*



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

## ITEM 12: BROKERAGE PRACTICES

### *Selecting or Recommending Broker-Dealers*

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

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

Investors should note that size and other constraints may limit the number of brokers willing to work with an HSCM Fund, and the HSCM Fund and HSCM may elect to choose brokers based solely on cost considerations and availability to the HSCM Fund. Although the obligation to obtain best execution is typically referred to in the context of public securities, HSCM’s obligation to seek best execution extends to private investments, and HSCM will seek to ensure that a Client pays no more than HSCM’s perceived fair value for a private investment, as well as reasonable and customary fees for services consumed to complete the transactions.

### *Research and Other Soft Dollar Benefits*

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

### *Brokerage for Client Referrals*

In selecting or recommending a broker-dealer, HSCM does not consider as a factor whether or not HSCM will receive Client or investor referrals from a broker-dealer or third party.

### *Directed Brokerage*

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

### *Aggregation of Client Orders*

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

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

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

- If each portfolio for more than one Client is generally similar in investment strategy and composition, the order may be allocated pari passu based on the aggregate of the net asset value and undrawn capital commitments of such Client fund (or expected assets under management) based on the appropriate sizing of the position as a percentage of each Client fund's size. If the aggregate order cannot be filled in its entirety for each Client, it will be allocated to each Client on a pro rata basis as set forth above.
- If each portfolio for more than one Client is not generally similar in investment strategy and composition, the order may be allocated pari passu based on order size or in a manner described in Item 11 for the HSCM Bermuda InsurTech Fund. HSCM would determine in good faith the optimal order size for each Client based on factors set forth above as well as other considerations. If the aggregate order cannot be filled in its entirety for each Client, it will be allocated to each Client pro rata to the order size for each Client.

### ITEM 13: REVIEW OF ACCOUNTS

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

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

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

Certain investors in the HSCM Funds may request additional information relating to the HSCM Funds and, to the extent such information is readily available or may be obtained without unreasonable effort or expense, HSCM generally will provide such investors with the information requested. Investors that request and receive such information will consequently possess information regarding the business and affairs of the HSCM Funds that may not be known to other investors. As a result, certain investors may be able to take actions based on such information which, in the absence of such information, other investors do not take.

#### ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

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

If third-party solicitors are engaged, a prospective investor solicited by a third party will be informed of (and may be asked to acknowledge in writing its understanding of) any such arrangement. All fees for such solicitation services will be ultimately paid/borne by HSCM and none of the investors in the HSCM Funds will be subject to any increased or additional fees or charges. Third-party solicitors in the U.S. may be registered as broker-dealers with the SEC. Third-party solicitors outside the U.S. will be registered with a non-U.S. regulatory body to the extent such registration is required in the applicable non-U.S. jurisdiction.



#### ITEM 15: CUSTODY

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

#### ITEM 16: INVESTMENT DISCRETION

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

#### ITEM 17: VOTING CLIENT SECURITIES

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

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

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

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

Notwithstanding the foregoing, because proxy proposals and individual company facts and circumstances may vary, HSCM may not always vote proxies in accordance with the Policy.

#### ITEM 18: FINANCIAL INFORMATION

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

ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

This Item is not applicable to HSCM.