

# Serenity Capital LLC

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Form ADV Part 2A

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March 30, 2020

This brochure provides information about the qualifications and business practices of Serenity Capital LLC ("Serenity LLC"). If you have any questions about the content of this brochure, please call 650-617-3342 or contact Chuan Liu, the Chief Compliance Officer, at [cliu@serenitycap.com](mailto:cliu@serenitycap.com). Serenity LLC is an investment adviser registered with the U.S. Securities & Exchange Commission (the "SEC"). Registration 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.

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

## Item 2. Material Changes

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Serenity LLC has not had material changes to its brochure since its last amendment on August 30, 2019. Please review this brochure carefully and in its entirety.

## Item 3. Table of Contents

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Item 2. Material Changes.....	1
Item 3. Table of Contents .....	2
Item 4. Advisory Business .....	3
Item 5. Fees and Compensation.....	3
Item 6. Performance-Based Fees and Side-By-Side Management.....	6
Item 7. Types of Clients .....	6
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9. Disciplinary Information .....	10
Item 10. Other Financial Industry Activities and Affiliations .....	11
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	11
Item 12. Brokerage Practices .....	12
Item 13. Review of Accounts .....	13
Item 14. Client Referrals and Other Compensation.....	13
Item 15. Custody.....	13
Item 16. Investment Discretion .....	14
Item 17. Voting Client Securities.....	14
Item 18. Financial Information .....	15

## Item 4. Advisory Business

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Serenity Capital LLC (“Serenity LLC” or the “Firm”) was founded in August 2016. Serenity LLC is 100% owned by Serenity Investment Management, Inc., a passthrough entity owned exclusively by the Firm’s founder, Wang Chen.

Serenity LLC provides discretionary investment advisory services to Serenity Investment Master Fund Limited (the “Master Fund”), Serenity Investment Feeder Fund Limited, and Serenity Investment Feeder Fund II Limited (each, a “Feeder Fund”, and together with the Master Fund, the “Funds”). The Funds are all domiciled in the Cayman Islands.

The investment activities of Serenity LLC are led by Mr. Chen, Mengying Sun, and Tony Dong in executing the Funds’ investment strategies. Serenity LLC acts as the investment manager (the “Manager”) to the Funds and provides investment and assets management services to the Funds. As the Manager, Serenity LLC is responsible for directing investment decisions on behalf of the Funds. Serenity LLC has delegated certain of its functions to Shanghai She Ran Ji Yuan Investment Consulting Co., Ltd. (“Shanghai Ltd.”), a limited liability company based in Shanghai, China, to provide sub-advisory services to the Manager (the “Sub-Adviser”). As the Sub-Adviser, Shanghai Ltd. provides certain services to Serenity LLC in regard to the investments for the Funds, including but not limited to back-office, research, administrative, and reporting services.

Shanghai Ltd. is deemed to be a “Relying Adviser” for purposes of the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”). For more information about Shanghai Ltd., see discussion under “*Item 10. Other Financial Industry Activities and Affiliations*”.

This brochure will generally refer to the activities of the Master Fund when discussing investment management activities. The Feeder Funds will not hold any investments outside of the shares of the Master Fund. Serenity LLC will manage the Funds in accordance with the terms of their respective offering memoranda (the “PPMs”) and governing documents (collectively, the “Fund Documents”).

For information about the investment strategies of the Funds, see discussion under “*Item 8. Methods of Analysis, Investment Strategies and Risks of Loss*”. Further, details regarding the investment objective for the Funds can be found in their respective Fund Documents.

Shares in the Funds are not registered under the U.S. Securities Act of 1933 (as amended from time to time, the “Securities Act”); nor are the Funds registered under the Investment Company Act of 1940 (as amended from time to time, the “Investment Company Act”). Accordingly, shares in the Feeder Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements, either in private transactions within the United States or in offshore transactions.

As of December 31, 2019, Serenity LLC managed approximately US\$2,924,970,597 in client assets on a discretionary basis.

## Item 5. Fees and Compensation

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The Master Fund pays a management fee plus a profit allocation fee in accordance with the Fund Documents. The information provided in this brochure regarding fees and expenses is not

intended to be complete or final and is qualified in its entirety by the Fund Documents. Investors should read and review the Fund Documents of the respective Funds to fully understand the types of fees and expenses that are paid for by the Funds.

#### Management Fee and Profit Allocation

The Master Fund pays Serenity LLC a monthly management fee in arrears calculated at an annual rate of 1.5% based on the net asset value of the Master Fund as of the last day of each calendar month. The Master Fund also allocates to the holder of the management shares of the Master Fund a profit allocation equal to an annual rate of 20% of the realized and unrealized appreciation in the net asset value of the Master Fund subject to a high water mark. Profit allocation will be calculated by reference to the net asset value of the Master Fund before deduction for any accrued profit allocations, but after deduction of any other fees (including the management fee), costs, expenses and other liabilities.

In its sole discretion, the Manager may elect to reduce, waive or calculate differently the management fee or profit allocation with respect to any investor. In particular, certain investors, including early investors, pay a discounted management fee and profit allocation.

#### Redemption Charge

A redemption charge of up to 5% of the redemption proceeds for a redemption in Class A shares is payable by a redeeming Class A shareholder, and imposed on any Class A shares redeemed within the period of 12 months immediately following the expiration of certain lock-up period applicable to Class A shares. The redemption charge is payable to the applicable Feeder Fund. In its sole discretion, such Feeder Fund's board of directors has the discretion to reduce or waive the redemption charge.

#### Administration Fees

The Master Fund pays the Funds' administrator a monthly fee, subject to a monthly minimum fee. The Master Fund may also be charged for certain other out-of-pocket expenses, applicable data, communication and technology-related charges, as well as additional remuneration incurred for services outside the scope of services agreed in the administrative agreement as may be agreed among the Funds and the administrator.

#### Audit Fees

The Funds will pay the auditor an annual service fee at the rates that are agreed from time to time among the Funds and the auditor on normal commercial terms.

#### Subscription Fee

Each Feeder Fund's board of directors may impose at any time a subscription fee of up to 3% of the subscription monies, payable to such Feeder Fund, for subscription application that are

sourced through third-party intermediaries as they see fit. In the event a subscription fee is imposed, it will be disclosed in the relevant subscription agreement.

### Directors Fees

The Funds may be charged certain directors fees. Directors of each Fund are entitled to remuneration as approved by the relevant board on normal commercial terms. The directors may also be paid all reasonable travelling, hotel and other related expenses properly incurred in attending directors' meetings, any committee of the board, any general meeting or any other meeting held in connection with the business of the relevant Feeder Fund and the Master Fund.

### Establishment Expenses

The Master Fund has paid expenses for the establishment of the Feeder Funds and the Master Fund, including, without limitation: expenses relating to the establishment of the Feeder Funds and the Master Fund in the Cayman Islands, the registration of the Feeder Funds and the Master Fund as regulated mutual funds in the Cayman Islands, the negotiation and preparation of the contracts to which the relevant Feeder Fund and/or the Master Fund are a party or parties, the costs of preparing, translating and printing the PPMs, and the fees and expenses of its professional advisers occurred in connection therewith.

### Operating Expenses

In addition to the fees noted above, investors will indirectly bear the fees and expenses charged to the Master Fund arising from the operation of the Master Fund and the Feeder Funds in general, and will also be responsible for any fees and expenses incurred specifically by an applicable Feeder Fund. Such fees and expenses including but not limited to: (i) the costs and expenses of all transactions carried out by each Feeder Fund or on its behalf; (ii) the charges and expenses of legal advisers and auditors; (iii) brokers' commissions (if any), borrowing charges on securities sold short and any issue or transfer taxes or stamp duties chargeable in connection with any securities transactions; (iv) all taxes and corporate fees payable to governments or agencies; (v) directors' fees and expenses; (vi) interest on borrowings, including borrowings from the prime broker/custodian; (vii) communication expenses with respect to investor services including periodic investor meetings and all expenses of meetings of shareholders and of preparing, printing and distributing financial and other reports, proxy forms, prospectuses and similar documents; (viii) the cost of insurance (if any) for the benefit of the directors; (ix) specific research and investment consultancy expenses; (x) litigation and indemnification expenses and extraordinary expenses not incurred in the ordinary course of business; (xi) fees and expenses relating to software systems, tools, programs, or other technology utilized in managing the Funds (including third party software licensing, implementation, data management and recovery services and custom development costs); (xii) the cost of obtaining and maintaining any future listing of the any Fund's shares on any stock exchange; (xiii) costs associated with risk aggregation reporting; (xiv) all other organizational and operating expenses of the Funds.

For the avoidance of doubt, fees and expenses paid by the Master Fund will be allocated to the Feeder Funds on a pro rata basis.

The Master Fund may pay its fees, costs and expenses directly, or Serenity LLC or an affiliate may advance such fees, costs and expenses, and be subsequently reimbursed by the Master Fund. Serenity LLC or an affiliate may bear any of those fees, costs or expenses out of its own assets or revenues, but its decision to do so as to some fees, costs or expenses or for some periods will not obligate it to do so as to any other fees, costs or expenses or to continue doing so for any other periods.

Investors in the Funds are requested to refer to the respective PPMs for a complete and detailed discussion on the fees and expenses paid for by the Funds.

## Item 6. Performance-Based Fees and Side-By-Side Management

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As mentioned above, in addition to the management fee for portfolio management, the holders of the management shares of the Master Fund are also paid a profit allocation, subject to a high water mark.

The fact that related persons of Serenity LLC are compensated based on trading profits may create an incentive for Serenity LLC to make certain investments, on behalf of the Master Fund, that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the profit allocation received by related persons of Serenity LLC are based primarily on realized and unrealized gains and losses of the Master Fund. As a result, the profit allocation earned could be based on unrealized gains that the Master Fund may never realize.

The Investment Advisers Act restricts the payment of performance-based fees to investment advisers registered thereunder. However, Rule 205-3 promulgated under the Investment Advisers Act ("Rule 205-3") permits the payment of performance-based compensation to registered investment advisers provided that the clients (including investors in pooled investment vehicles such as the Funds) meet certain financial qualifications.

The offerings of shares in the Funds are structured to comply with Rule 205-3 and accordingly the Funds will only accept subscriptions from investors who meet the qualifications set forth in Rule 205-3. Investors in the Funds should refer to the respective PPMs for complete information on the corresponding fees charged by Serenity LLC, its affiliates, and/or related persons.

## Item 7. Types of Clients

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Serenity LLC only provides investment advice to the Funds on a discretionary basis. Generally, an investor is required to open an account with a minimum subscription of US\$1,000,000 and must meet the definition of "Qualified Purchaser" under Section 2(a)(51) of the Investment Company Act. The minimum subscription requirement may be waived by the applicable Fund's board of directors, provided that the minimum amount accepted is not less than required under the laws of the Cayman Islands. From time to time, Serenity LLC and/or the applicable Fund may enter into agreements, commonly referred to as "side letters," with investors that offer such investors more favorable investment terms than those offered generally to others, including but not limited to, reduced fee arrangements.

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

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### Methods of Analysis and Investment Strategy

Serenity LLC attempts to achieve the Funds' investment objective through a fundamental, bottom up long/short equity strategy. Serenity LLC takes a long-term investment approach aimed at companies with exposure to "Greater China" (including Hong Kong, Taiwan, and Macau).

Serenity LLC constructs a concentrated portfolio (in terms of number of positions) through a rigorous bottom-up, opportunity driven process. It will aim to generate alpha through both long and short positions and may hold 100% cash at times when no compelling investment opportunity can be found.

Subject to the applicable Fund Documents, Serenity LLC has the flexibility to invest in a wide range of instruments including, but not limited to, equities, convertible bonds, credit instruments, listed securities, options, warrants, and other derivative instruments which may be exchange traded or over the counter. Serenity LLC may also retain amounts of cash or cash equivalents if this is considered to be appropriate to the Funds' investment objective.

From time to time, the Funds may, to the extent permitted by the rules of the U.S. Financial Industry Regulatory Authority (as may be amended from time to time, the "Rules"), purchase equity securities that are part of an initial public offering (sometimes referred to as "IPOs" or "new issues"). Under the Rules, brokers may not sell such securities to a private investment fund, if the fund has investors who are "Restricted Persons", which category includes persons employed by or affiliated with a broker and portfolio managers of hedge funds and other registered and unregistered investment advisory firms, unless the fund has a mechanism in place that excludes such Restricted Persons from receiving allocations of profits from new issues. The profits and losses with respect to new issues will generally be allocated to investors in the Funds that are "Unrestricted Persons" as defined in the Rules. However, Serenity LLC may allocate a *de minimis* portion (no more than 10%) of the returns associated with new issues to Restricted Persons, as permitted by the Rules.

Although Serenity LLC has maximum flexibility to invest in any asset class, it expects to primarily utilize equities, convertible bonds, credit instruments, and derivatives to achieve the Funds' investment objective.

Serenity LLC's investment process is a collaborative effort by its investment committee which is comprised of Mr. Chen, Ms. Sun and Mr. Dong (who is an independent committee member) deliberating the merits of individual investment decisions. A majority consensus by the investment committee members is required for all investment decisions.

### Risks

Investing in any securities involves risk of loss that investors should be prepared to bear. A description of the material risks that relate to the Funds' investment strategies are described in this section, but the following is not intended to be all encompassing. The PPMs provide a



summary of additional risks that investors face when investing in the Funds. Investors in the Funds should carefully review the PPMs to fully understand the additional risks.

Market Risk – Any investment made in a specific group of securities is exposed to the universal risks of the securities market. However, there can be no guarantee that losses equivalent to or greater than the overall market will not be incurred as a result of investing in such securities.

Equity markets generally, or any particular equity market or segment of a market in which the Master Fund has invested, could move against the Master Fund's portfolio and the Master Fund could suffer losses. The performance of the Master Fund's portfolio depends to a great extent on the accuracy of the assessments of the Manager/Sub-Adviser on the future course of market price movements. There can be no assurance that the Manager/Sub-Adviser will be able to predict accurately these price movements.

Securities Selection - The identification of securities representing high quality businesses and management teams is a difficult task, and there are no assurances that such opportunities will be successfully recognized over the long term. While such investments offer the opportunities for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses.

Limited Operating History; Reliance on Key Personnel - Past performance is not indicative of future results and no assurance can be given that investment objectives will be achieved or that the Master Fund will receive a return of any of its investments. Serenity LLC expects to rely heavily on the experience of Mr. Chen and should he become incapacitated or in some way ceases to participate in Serenity LLC, performance could be adversely affected.

General Economic and Market Conditions – General economic or market conditions may adversely affect the investments made by the Master Fund. In addition, a downturn or contraction in the economy or in the capital markets, or in certain industries or geographic regions thereof, may restrict the availability of suitable investment opportunities for the Master Fund and/or the opportunity to liquidate any such investments, each of which could prevent the Master Fund from meeting investment objectives.

Public Health Emergency – The outbreak of an infectious disease, or any similar public health emergency, may adversely impact global commercial activity and contribute to significant volatility in certain equity and debt markets. The global impact of a public health emergency may be rapidly evolving, and countries may institute quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses may also implement similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of a public health emergency on a global scale, may create significant disruption in economic activity. The impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, are highly uncertain and cannot be predicted. The effects of a public health emergency may materially and adversely impact the performance of the Master Fund.

Leverage – The Master Fund will be exposed to risks associated with the use of leverage, such as the risk that leverage could have a negative effect on returns and the risks of default and liquidation. In addition to use of leverage, certain entities in which the Master Fund directly or indirectly invests may borrow money or use other financial techniques that would have the economic effect of using leverage.

Geopolitical Risk of Investing in China – The Master Fund mainly invests in securities of companies have substantial exposure in China and other emerging markets. Investments in such companies will involve certain risks not typically associated with investments in developed markets.

In China, not only stock markets but private equity markets are still developing at present. Performance records, the number and the volume of transactions, related laws and legal precedents, and other general information in the private equity markets may not be deemed to be sufficient, compared with those markets in the developed countries.

Serenity LLC will attempt to manage the Funds' investment program in a manner designed to diversify and minimize these risks relative to the potential for gain, but such risks cannot be eliminated entirely. These risks may increase expenses of the Funds, adversely affect the value of the Master Fund's investments and adversely impact the Master Fund's investment program and strategy.

Political Risk – The Master Fund will be exposed to the direct and indirect consequences of potential political, economic, social and diplomatic changes in China. Certain businesses in China face social and political instability resulting from among other things, (i) authoritarian governments or military involvement in political and economic decision making and changes in government through extra-constitutional means; (ii) popular unrest and internal insurgencies associated with demands for improved political, economic and social conditions; (iii) hostile relations with neighboring countries; and (iv) ethnic, racial and religious conflict.

With respect to certain countries where the Master Fund is expected to invest, there is the possibility of nationalization, expropriation or confiscatory taxation, political changes, governmental regulation, social instability or diplomatic developments (including war) that could adversely affect the economies of such countries, and consequently the Master Fund's investments in such countries.

Restriction on Investment Activity of Foreign Investors – Some countries in which the Master Fund expects to invest have laws and regulations that, to varying degrees, preclude or restrict direct foreign investment in securities of resident companies, limit the types of securities that foreign investors may invest in, limit foreign investors to special investment structures and/or subject foreign investments to prior governmental approval. In China, foreign investors are precluded from investing in certain economic sectors (such as communications or natural resources). Foreign ownership limitations also may be imposed by the charters of individual companies.

Distribution to Foreign Investors – Foreign remittance of investment income, capital and the proceeds from sales of securities by foreign investors may require governmental registration and

approval in some countries, such as China. The Master Fund could be adversely affected by delays in or a refusal to grant required governmental registration or approval for any such proposed repatriation.

Liquidity – Under certain conditions, liquidity of a particular market or security may be restricted, thus affecting the performance of the Master Fund. Lack of liquidity or market depth can affect the valuation of the Master Fund's assets as it looks to realize securities at quoted prices. The Master Fund's board of directors may, in their absolute discretion, classify certain of the Master Fund's investments as illiquid on the basis that the board of directors have determined that such investments (i) do not have a readily ascertainable market value or (ii) may be valued but are not freely transferable (a "Designated Investment"). As a result of illiquidity and other situations, investments or assets may be designated by the board of directors as Designated Investments. Participating shares representing Designated Investments are not redeemable at the option of investors. Reduced liquidity may also make it difficult to purchase or sell specific securities at a favorable or desirable price or in a sufficient quantity to meet the investment objectives of the Master Fund. In addition, in the case of substantial redemptions, the Master Fund may be forced to sell its more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of illiquid securities and assets for the continuing Investors.

Aggregate trading volumes on securities markets in China are substantially lower than trading volumes in developed countries. Securities of most companies in China are less liquid and more volatile than securities of comparable companies in developed countries.

Limited Diversification – Subject to Serenity LLC's risk framework, in the normal course of making investments on behalf of the Master Fund, Serenity LLC may select investments for the Master Fund that potentially could be concentrated, for example, in a limited number or types of financial instruments or in any one asset class, issuer, industry, sector, strategy, market or geographic region. Market conditions may create opportunities within certain investment strategies, which cause Serenity LLC to increase the concentration of certain investment strategies. Such concentration of risk may expose the Master Fund to losses disproportionate to those incurred by the market in general if the areas in which the Master Fund's investments are concentrated are disproportionately adversely affected by price movements. Also, the use of a single manager applying generally similar trading programs could mean lack of diversification and, consequentially, higher risk.

See the respective PPMs for a complete and detailed discussion of additional risks.

## Item 9. Disciplinary Information

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Serenity LLC, its employees, or related persons have not been involved in any disciplinary events in the past 10 years that would be material to a client or investor's evaluation of the Firm or its personnel.

## Item 10. Other Financial Industry Activities and Affiliations

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As mentioned above, Serenity LLC is 100% owned by Serenity Investment Management, Inc., a passthrough entity owned exclusively by its founder, Wang Chen.

Jiatao Yang is the sole owner of Shanghai Ltd. Mrs. Yang acts as a passive owner and is not involved in the day-to-day business of the entities.

Serenity LLC has full discretionary power and authority to identify, research, consider, review and evaluate potential investments for the Funds. Serenity LLC maintains a sub-advisory agreement with Shanghai Ltd. whereby Shanghai Ltd. provides back-office, research, administrative, and reporting services to the Funds.

There are no other employees other than the employees of Shanghai Ltd. and of Serenity LLC.

Shanghai Ltd. is a "Relying Adviser" for purposes of the Investment Advisers Act. Accordingly, Shanghai Ltd. agrees to submit to the jurisdiction of the SEC and be subject to the compliance program of Serenity LLC.

Additionally, the Funds themselves may be considered as related entities of Serenity LLC.

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

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Certain of Serenity LLC's principal, employees, and related persons invest in the Funds and therefore have an indirect financial interest in the underlying components of the Funds. Serenity LLC has adopted a *Code of Ethics* (the "Code") expressing its commitment to ethical conduct. The Code describes the Firms' fiduciary duties and responsibilities to its clients, and sets forth the Firm's practice of supervising personal securities transactions of supervised persons with access to client information and the Firm's investment information.

Supervised persons of Serenity LLC and its affiliates, including all employees, must seek pre-approval before transacting in individual equities, IPOs, and private placements out of their personal accounts.

In compliance with its Code, Serenity LLC requires all employees to provide initial and annual securities holdings reports and quarterly transaction reports to its Chief Compliance Officer for monitoring and review.

Serenity LLC requires that all supervised persons must act in accordance with all applicable U.S. federal and state regulations governing registered investment advisers. The Code further includes Serenity LLC's policy prohibiting the use of material non-public information. Any supervised persons not in observance of the above will be subject to discipline.

Serenity LLC will provide a complete copy of its Code to any investor or prospective investor in the Funds upon request to the Chief Compliance Officer, whose contact information can be found on the cover page of this brochure.

## Item 12. Brokerage Practices

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As the investment manager to the Funds, Serenity LLC is granted the sole discretionary authority in the relevant Fund Documents and/or investment management agreements to determine which securities and the amounts of securities that are bought or sold, as well as the broker dealers to be used and the commission rates to be paid.

### Broker Selection and Best Execution

Morgan Stanley & Co. LLC, [Merrill Lynch International] and Goldman Sachs & Co. LLC serve as the prime brokers (the “Prime Brokers”) to the Master Fund. The Prime Brokers have certain administrative functionalities including the issuance of broker account statements and record keeping on all custody transactions. Serenity LLC utilizes a number of broker-dealers, in addition to the Prime Brokers, to execute trades for the Master Fund. Broker-dealers, including the Prime Brokers, are selected based upon the following criteria, including but not limited to: the amount of commission, quality of execution, expertise in particular markets, the reputation, experience and financial stability of the broker-dealer involved, quality of service, familiarity both with investment practices and the techniques employed by Serenity LLC, research and analytic services, and clearing and settlement capabilities. At all times, brokers-dealers are subjected to principles of best execution.

In addition to the foregoing principles of broker-dealer selection, subject to the requirement to obtain best execution of brokerage transactions, Serenity LLC may allocate a portion of its brokerage business to broker-dealers on the basis of certain additional considerations, including but not limited to the investment research provided by such firms, securities allocation, the availability of margin or other leverage, familiarity with the investment techniques employed by Serenity LLC, block positioning, other special execution capabilities or other services provided to Serenity LLC.

Serenity LLC may cause the Master Fund to pay a broker-dealer that provides brokerage and research services to Serenity LLC an amount of commission in excess of the commissions that another broker-dealer would have charged for executing the same transaction. Although it is not possible to assign an exact dollar value to these services, such amount may, if and to the extent used, reduce the expenses of Serenity LLC. The fees payable to Serenity LLC by investors are not reduced because Serenity LLC receives such services.

### Soft Dollar Arrangements

Serenity LLC has formal arrangements with its Prime Brokers (and/or their respective affiliates) to use credits received from the reduction of its commission expense to pay for research, research-related products, and other services obtained from broker-dealers. Any payment with such commission credits for research related products or services utilized for the benefit of

Serenity LLC and/or the Funds will be made consistent with the guidance issued by the SEC under Section 28(e) of the U.S. Exchange Act of 1934, as amended.

On a periodic basis, at least annually, Serenity LLC will assess its commission policies, rates, and allocations by considering the amount and nature of research and research services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of the Master Fund on the basis of that consideration.

### Trade Errors

Serenity LLC has established trade processes and procedures designed to reduce the likelihood of trade errors and, in its sole discretion, will determine what constitutes a trade error.

Serenity LLC's general policy seeks to identify and correct any trade errors promptly and in a way that mitigates any losses, if any. Losses as a result of trade errors will be borne by the Master Fund unless an error is the result of gross negligence, willful misconduct or actual fraud by Serenity LLC or Shanghai Ltd.. Serenity LLC does not provide reimbursement for any loss as a result of lost opportunity.

### Item 13. Review of Accounts

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Positions held by the Master Fund are continuously monitored and reviewed by personnel of Serenity LLC and Shanghai Ltd.. Accounts are reviewed in the context of the Funds' stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as a Fund's individual circumstances, or the market, political or economic environment.

Investors are provided a monthly capital statement by the Funds' administrator, Citco Fund Administration (Cayman Islands) Limited, or an affiliate thereof. In addition, investors are provided with audited financial statements within 120 days of the end of the applicable Fund's fiscal year. Serenity LLC may also prepare and deliver to investors additional information that Serenity LLC deems pertinent or any other information upon investor requests.

### Item 14. Client Referrals and Other Compensation

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Serenity LLC or an affiliate may, from time to time, compensate third-party individuals or entities for investor referrals. To the extent deemed applicable, such arrangements will be entered into in accordance with the terms and conditions of Rule 206(4)-3 promulgated under the Investment Advisers Act. Prospective investors are advised in advance of the nature of and compensation payable in connection with such referral arrangements.

### Item 15. Custody

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All Funds' assets are held in custody by unaffiliated broker-dealers or banks, however a registered investment adviser who, directly or through an affiliate, acts as the general partner, managing

member or any other comparable position to a limited partnership or other comparable pooled investment vehicle is considered to have custody over such client assets. Rule 206(4)-2 promulgated under the Investment Advisers Act ("Rule 206(4)-2") imposes a number of requirements on an SEC-registered investment adviser that is deemed to have custody of its clients' funds and securities.

To comply with Rule 206(4)-2 and to provide meaningful protection to investors, the Funds are subject to an annual financial statement audit by an independent public accountant registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with the United States Generally Accepted Accounting Principles. Copies of the audited financial statements will be distributed to each investor within 120 days of the applicable Fund's fiscal year end.

## Item 16. Investment Discretion

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Serenity LLC maintains the sole discretionary authority to manage investments on behalf of the Funds, subject to the overall supervision of the applicable board of directors.

As the investment manager to the Funds, Serenity LLC is granted the discretionary authority in the relevant Fund Documents and/or investment management agreements to determine which securities and the amounts of securities that are bought or sold, as well as the broker dealer to be used and the commission rates to be paid.

## Item 17. Voting Client Securities

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Serenity LLC has a proxy policy which provides for its proxy voting policy and practices and recognizes Serenity LLC's duty and responsibility for the voting of proxies in the best interests of the Funds. Mr. Chen, with consultation with investment personnel to understand the matters being voted, makes all proxy voting decisions.

Should Serenity LLC identify a conflict of interest in voting a proxy, the proxy would be escalated to the attention of the Chief Compliance Officer, who would assist Mr. Chen in selecting a course of action that balances the interest of all relevant parties. The Chief Compliance Officer maintains memoranda describing the resolution of such conflicts.

Investors in the Funds can obtain a copy of Serenity LLC's *Proxy Voting* policy and procedures or information with respect to a specific proxy vote by submitting a request to the Chief Compliance Officer, whose contact information can be found on the cover page of this brochure.

Serenity LLC does not direct clients' participation in class action lawsuits or settlements. Documentation received by Serenity LLC regarding such class actions will be returned to sender or forwarded to the appropriate client for consideration.

## Item 18. Financial Information

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Serenity LLC has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage the Funds.