

## Form ADV Part 2A: Brochure

# HITE Hedge Asset Management LLC

April 2020

300 Crown Colony Drive  
Suite 108  
Quincy, MA 02169

This brochure provides information about the qualifications and business practices of **HITE Hedge Asset Management LLC** ["HITE" or "Adviser"]. If you have any questions regarding the contents of this Brochure, please contact us at (617) 431-4360 and/or via electronic mail at [jconant@hitehedge.com](mailto:jconant@hitehedge.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. HITE is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training. Additional information about HITE is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Since the last annual amendment of HITE's brochure on March 31, 2019, the following material changes have been made:

- A private fund, HITE MLP Caymans, Ltd. was closed.
- A private fund, HITE MLP Advantage Caymans, Ltd. was closed.

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#### **Item 4 – Advisory Business**

HITE, a Delaware limited liability company which has been in business since 2003 and first began managing assets in 2004, offers the services described below to private funds (“Private Funds” or “Funds” and, individually, a “Fund”). The firm is owned by James Jampel. As of December 31, 2019, HITE managed regulatory assets under management of \$856,281,305. All client assets are managed on a discretionary basis. HITE provides investment advisory services to HITE Hedge LP, HITE Hedge QP LP, HITE Hedge Offshore Ltd, HITE MLP LP, HITE MLP Advantage LP, HITE Carbon Offset LP, HITE Energy LP, HITE Carbon Offset, Ltd., and HITE Energy, Ltd.

The Adviser formulates each Private Fund’s investment objective, directs and manages the investment and reinvestment of each Private Fund’s assets and provides reports to investors. HITE manages the assets of each Private Fund in accordance with the terms of the governing documents applicable to each Private Fund.

HITE does not tailor its advisory services or investment objectives or strategies to the requests or needs of individual Private Fund investors. The Private Funds may impose restrictions on HITE with respect to investing in certain securities or types of securities, but investors in these Funds are not permitted to restrict a Fund’s investments. For more detailed information regarding each Fund’s restrictions, refer to each Fund’s offering memorandum.

#### **Item 5 – Fees and Compensation**

This section contains a summary of the fees received by HITE for management of the Funds as well as a summary of expenses payable by the Funds. The Adviser or its affiliates, as applicable, may waive, modify or reduce the management fee or performance fee (Incentive Allocation) for investors that are principals, employees or affiliates of the Adviser, relatives of such persons and for certain large or strategic investors at its sole discretion. For more detailed information and a complete description regarding each Fund’s fees and expenses refer to each Fund’s offering memorandum. The principals and other qualified employees of HITE may from time to time invest their personal funds in Private Funds managed by HITE.

##### **Management Fees**

As compensation for its services rendered to a Fund, a Fund will pay the Adviser, with respect to each investor, each quarter, a management fee which is a percentage of the investor’s capital account balance at the end of each quarter. The general partner may, however, in its discretion, waive the payment of all or part of the management fee payable with respect to any investor for any quarter the General Partner determines is appropriate. The following summarizes the management fee for each Fund:

HITE Hedge LP —2.0% annually, payable quarterly.  
HITE Hedge QP LP —2.0% annually, payable quarterly  
HITE Hedge Offshore, Ltd. —2.0% annually, payable quarterly.  
HITE MLP LP – 2.0% annually, payable quarterly.  
HITE MLP Advantage LP –1.0% annually, payable quarterly.  
HITE Carbon Offset LP – 1.0% annually, payable quarterly.  
HITE Carbon Offset, Ltd. – 1.0% annually, payable quarterly.  
HITE Energy LP – 1.5% annually, payable quarterly.  
HITE Energy Ltd. – 1.5% annually, payable quarterly.

##### **Performance Fees**

As of the end of each fiscal year, a percent of the excess of (i) the net capital appreciation otherwise allocable for such year to each investor’s capital account over (ii) any balance remaining in such investor’s

loss recovery account as of the beginning of such fiscal year will be allocated to the general partner's capital account as an "Incentive Allocation", which is a performance fee. If all or part of an investor's interest is redeemed at any time other than the last business day of a fiscal year, the date of such redemption will be treated as the last business day of a fiscal year and any applicable Incentive Allocation will be made to the general partner's capital account (and from the investor's capital account) in the proportion that the redeemed interest bears to such investor's total Interest immediately before the redemption. To calculate the Incentive Allocation, a "loss recovery account" will be established for each investor, the opening balance of which will be zero. As of the end of each fiscal year, the balance in each investor's loss recovery account will be increased by any net capital depreciation, or reduced by any net capital appreciation allocated to such investor's capital account for such year. The balance in a loss recovery account will never be reduced below zero. The below summarizes the Incentive Allocation for each Fund:

HITE Hedge LP, HITE Hedge QP LP, HITE Hedge Offshore Ltd., HITE MLP LP, HITE Carbon Offset LP, HITE Energy LP, HITE Carbon Offset, Ltd., HITE Energy, Ltd.-- 20% of profits, payable annually.

HITE MLP Advantage LP --15% of profits, payable annually.

### **Expenses**

The Private Funds bear their own start-up, offering and organizational expenses, such as the cost of preparing the funds' limited partnership agreements ("LPAs"), and other legal, accounting, and administrative expenses related thereto. On an ongoing basis, the Funds bear their ongoing transaction (e.g., brokerage commissions and custody expenses), administrative, legal, tax preparation, and accounting expenses, and any expenses for services that the partners require the general partner and/or the Adviser to obtain. The Funds also pay the fees and expenses of any broker they engage. Each investor in a Fund bears their share of these costs in addition to the management fees and Incentive Allocation disclosed above.

### **Side Letters**

The Adviser may enter into agreements (sometimes referred to as "side letters") with certain prospective or existing investors whereby such investors may be subject to terms and conditions that are more advantageous than those set forth in a Fund's private placement memorandum ("PPM"). For example, such terms and conditions may provide for special rights to make future investments in a Fund, other investment vehicles or managed accounts; special withdrawal rights relating to frequency, notice, a reduction or rebate in fees or withdrawal penalties to be paid by the investor and/or other terms; rights to receive reports from the Adviser on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the Adviser and such investors. The modifications are solely at the discretion of the Adviser and may, among other things, be based on the size of the investor's investment in a Fund, with an affiliated investment entity or a managed account, an agreement by an investor to maintain such investment in a Fund for a significant period of time, or other similar commitment by an investor to a Fund. As of this date, the Private Funds or the Adviser have entered into an agreement or a side letter with two investors that amends the terms of an LPA or PPM or allows special terms to an investor in a Private Fund.

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

HITE has entered into performance fee arrangements with the Funds it manages. Performance-based fee arrangements may create an incentive for the Adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor Private Funds with higher performance fees than other Private Funds in the allocation of investment opportunities. HITE's trade allocations procedures are designed to ensure that all Private Funds are treated fairly and equally, subject to their investment objectives and restrictions, and to prevent these conflicts from influencing HITE's allocation of investment opportunities among the Private Funds.

## Item 7 – Types of Clients

HITE offers its services to private investment funds. The minimum initial investment in the Funds is \$250,000, subject to waiver in the sole discretion of the Fund or Adviser.

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

HITE focuses exclusively on relative-value trading of master limited partnership and related securities (“MLPs”). In our hedged portfolios, where we are both long and short MLPs, we focus on minimizing the risks related to being long MLPs, and attempt to generate returns uncorrelated with any asset class. We also have a long-only unlevered trading strategy in MLPs for investors seeking unhedged exposure to MLPs, using the same value-oriented analysis to identify trading and investing opportunities. In addition, we have a fund whose investing strategy is to profit from relative value trading across the entire energy value chain (HITE Energy LP and HITE Energy Ltd.), and a fund whose objective is to profit from exposure to the long-run trend of the global economy away from carbon as a fuel source (HITE Carbon Offset LP and HITE Carbon Offset Ltd.). MLPs are United States publicly-traded partnerships that receive special tax treatment from legislation passed by Congress in 1986 and 1987. Two implications of these laws are that, for tax reasons, most institutional investors avoid MLPs, and for regulatory reasons, mutual funds and ETFs cannot have more than 25 percent of their portfolio invested in MLPs without suffering deleterious tax consequences. Without typical institutional interest and ownership, HITE believes the primary market for MLPs is United States investors attracted more by MLP “yields” rather than by an understanding of MLP fundamentals; thereby creating frequent mis-pricings in the sector. HITE also believes these specific circumstances unique to MLPs, set in motion by the tax legislation and now including upwards of 100 companies with over \$380 billion in market flotation having elected MLP status, creates a good environment for relative-value trading.

## Risks

It is possible that some of the investment vehicles and direct investments selected by HITE will not meet all of the above criteria, and that some or all of the investments selected by HITE will not perform as anticipated. Depending on conditions and trends in the financial and securities markets and the economy in general, HITE may pursue any objectives, employ any investment techniques or purchase any type of security that it considers appropriate and in the best interests of the Funds that may not be described above. The summary above is based upon numerous assumptions and opinions of HITE concerning world financial markets and other matters, the accuracy of which cannot be assured. There can be no assurance that the Fund’s investment strategy will achieve profitable results, and results may vary substantially over time. Past performance of a Fund or that of HITE or its affiliates is not indicative of future results of a Fund. Investors risk the loss of their entire investment.

The risks below are summaries of the material risks of HITE’s primary investment strategies. For more detailed information regarding each Fund’s risks refer to the Fund’s PPM.

**Lack of Diversification; Investments Concentrated in MLPs.** The Funds’ portfolio will not be diversified among a wide range of types of securities, and will therefore be subject to sector risk related to MLPs. MLPs are concentrated in the oil, gas, propane and coal industries. As such, their financial performance is subject to demand for these commodities, and to a lesser degree, their price. Among other things, economic activity, weather, conservation and technological advances will play critical roles in the overall demand for these commodities. Many MLPs own pipelines that are regulated by the Federal Energy Regulatory Commission or the California Public Utilities Commission. These bodies have the ability to change tariff rates charged by the MLPs. MLPs operating in the oil, gas or propane industries could be subject to a terrorist attack, or forces of nature (e.g. earthquakes and hurricanes) beyond their control. Should there be a spill or leakage not covered by insurance, MLPs could be liable for damages and remediation. Many MLPs employ significant leverage, and by nature of their partnership agreements, cannot build up significant cash-balance reserves. Therefore, their ability to weather significant downturns is dependent

upon their ability to access the capital markets, an access that cannot be ensured. MLP distributions to unit holders such as the Funds are not guaranteed, and are subject to risk of reduction or curtailment.

**General Economic and Market Conditions.** The success of a Fund's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls and national and international political circumstances.

**Risk of Losing Entire Investment.** Investors in the Fund must be prepared to lose all or substantially all of their investment.

**Speculative, Highly-Leveraged Trading.** A Fund's trading will often be highly leveraged, and may be affected in markets in which price levels may be volatile and materially affected by unpredictable factors such as governmental intervention. The combination of leverage and volatility creates a high degree of risk.

**No Material Limitation on Strategies or Markets.** The Funds have been formed specifically so as to provide the Adviser with an investment vehicle through which it can opportunistically implement whatever strategies or discretionary approaches it believes may be best suited to prevailing market conditions. There can be no assurance that the Adviser will be successful in applying any strategy or discretionary approach with respect to trading in the Funds' portfolios.

**Competitive Market for Investments.** The business of identifying and executing certain transactions of the nature contemplated by the Funds is competitive (and may become more competitive in the future), and involves a high degree of uncertainty. There can be no assurance that the Funds will be able to locate and complete attractive investments that satisfy their investment selection criteria or that, if located and completed, any such investments will produce superior risk-adjusted rates of return or otherwise achieve the Funds' objectives.

**Limited Diversification and Risk Management Failures.** The Funds have limited formal guidelines for diversification; the only restriction is that a Fund may hold no more than 15% of its net assets in one security. As a result, the Funds' portfolio could be significantly concentrated in a limited number of issues, types of financial instruments, industries, sectors, strategies, countries or geographic regions, and any such concentration of risk may increase losses suffered by a Fund. At any given time, it is possible that a Fund's investments could be concentrated in only a few industries, companies, geographic regions, asset types, strategies or other areas of risk. This limited diversity could expose a Fund to losses disproportionate to market movements in general. Even when the Adviser attempts to control risks and diversify the portfolio, risks associated with different assets may be correlated in unexpected ways, with the result that the Funds may face concentrated exposure to certain risks. In addition, many hedge funds pursue similar strategies, which creates the risk that many funds could be forced to liquidate positions at the same time, reducing liquidity, increasing volatility and exacerbating losses. Although the Adviser attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in the Adviser's risk management efforts could cause the Funds to incur material losses.

**Short Sales.** A Fund's investment portfolio may include short positions. Short sales involve selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short sales allow the investor to profit from a decline in the price of a particular security. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a Fund of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**Hedging Transactions.** HITE, on behalf of the Funds, may utilize a variety of aggressive techniques including, but not limited to, purchase of securities on margin, use of options, short-term trading, derivatives, options, swaps, caps and floors, and forward contracts, both for investment purposes and for risk management purposes. While the Funds may enter into such transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging or leveraging transaction. Moreover, the Funds' portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties). The Adviser is not obligated to establish hedges for portfolio positions and may not do so.

**Use of Leverage.** HITE may leverage the Funds' investment positions by borrowing funds from securities broker-dealers, banks or others. From time to time, the Funds may borrow significant amounts to take advantage of perceived opportunities, such as short-term price disparities between markets or related securities. Such leverage increases both the possibilities for profit and the risk of loss. Borrowings will typically be secured by the Funds' securities and other assets. Under certain circumstances, such a lender may demand an increase in the collateral that secures a Fund's obligations, and if the Fund were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy the Fund's obligations. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of a Fund's borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on a Fund's profitability.

**Futures Contracts.** The value of futures depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, investments in futures are also subject to the risk of the failure of any of the exchanges on which the Funds' positions trade or of its clearing houses or counterparties.

**Derivatives.** The Funds have essentially unlimited discretion to use derivative instruments, including (among others) convertible bonds, convertible preferred stock, options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and many different types of swaps involving payments based on a wide range of risks. The Funds use derivatives extensively. In many cases derivatives provide the economic equivalent of leverage by magnifying the potential gain or loss from an investment in much the same way that incurring indebtedness would. Many derivatives provide exposure to potential gain or loss from a change in the market price of a financial instrument (or a basket or index) or other event or circumstance in a notional amount that greatly exceeds the amount of cash or assets required to establish or maintain the derivative contract. Accordingly, relatively small price movements in the underlying financial instruments or other events or circumstances may result in immediate and substantial losses to the Funds. In some cases, the Funds' exposure under a derivative contract is limited to the amount invested (for example, when a Fund buys a call option). In other cases, the derivative contract creates an open-ended obligation (for example, when the Fund writes a call option). Many derivatives, particularly those negotiated over-the-counter, are substantially illiquid or could become illiquid under certain market conditions. As a result, it may be difficult or impossible to determine the fair market value of a Fund's interest in such contracts. Many derivative contracts involve exposure to the credit risk of the counterparty, since the Funds acquire no direct interest in the underlying financial instrument, but instead depend on the counterparty's ability to perform under the contract.

**Options.** Purchasing put and call options are highly specialized activities and expose the Funds to significantly greater risk than ordinary investment risks. Investing in options can provide greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination of those factors. In the case of the purchase of an option, the risk of loss of an investor's entire investment (*i.e.*, the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (*i.e.*, sold)

uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value. Over-the-counter options that the Funds may use in its investment strategies generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The over-the-counter market for options is relatively illiquid, particularly for relatively small transactions.

**Highly Volatile Markets.** Price movements of forwards, futures, derivative contracts and other financial instruments in which the Funds' assets may be invested can be highly volatile and are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene in certain markets, directly and by regulation, particularly in currencies, futures and options. Such intervention is often intended to directly influence prices and may, together with other factors, cause some or all of these markets to move rapidly in the same direction. The effect of such intervention is often heightened by a group of governments acting in concert.

**Foreign Investments.** The Funds may invest in securities of non-U.S. companies located in countries other than the United States. Investing in the equity securities of non-United States companies involves certain considerations not usually associated with investing in securities of United States companies, including political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Funds' investment opportunities. In addition, accounting and financial reporting standards that prevail in foreign countries generally are not equivalent to United States standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in foreign countries than there is in the United States.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or potential client's evaluation of the Adviser or the integrity of its management. HITE has no applicable disciplinary information.

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

HITE does not currently have any financial industry affiliations or activities other than those involved in the management of the Private Funds, including acting as the general partner of certain of the Private Funds.

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

HITE has adopted a code of ethics (the "Code") pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 ("Advisers Act"). All prospective and current investors in the Private Funds managed by HITE can request a copy of our code of ethics by contacting James Conant, Chief Financial and Operations Officer and Chief Compliance Officer at (617) 928-5523 and/or via electronic mail at [jconant@hitehedge.com](mailto:jconant@hitehedge.com). HITE's code of ethics, which includes policies regarding personal trading by HITE's employees is designed to detect and prevent potential conflicts of interest between HITE and the Private Funds; and is based on these principles:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Compliance with all applicable securities laws, rules and regulations;



- The protection of material nonpublic information about the Company's securities recommendations and its clients' securities holdings and transactions;
- Full, fair, accurate and timely disclosure by employees of all personal securities transactions and holdings;
- Principals and employees of HITE are required to obtain prior approval by the CCO in any transaction in any security, including those that HITE advises the private funds (the clients) to buy, sell, or otherwise participate in owning.
- Pre-clearance by employees before they directly or indirectly acquire beneficial ownership in any security in an initial public offering or a private placement;
- The prompt internal reporting of violations of the Code; and
- Accountability for adherence to the Code.

## **Insider Trading Policy**

As part of its Code, HITE has adopted an "Insider Trading" policy in accordance with Section 204A of the Advisers Act, which prohibits the misuse of material nonpublic information by HITE and all of its employees. In addition, the Code contains restrictions on using inside information to engage in any personal transactions or to disclose any material nonpublic information. Any HITE officer or employee who fails to observe the above-described policies risks serious sanctions, including dismissal and personal liability.

## **Item 12 – Brokerage Practices**

### **Selection of Broker-Dealers**

The Advisor has full discretion to select brokers for the Funds' trades. In selecting brokers to effect portfolio transactions in public securities for the Funds' portfolios, the Advisor will consider such factors as the ability of the brokers to affect the transactions, the brokers' facilities, reliability and financial responsibility and the provision or payment of the costs of research products or services or other services. The Advisor need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, if the Advisor determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and research products or services or other services provided by such broker, clients may pay commissions to such broker in an amount greater than the amount another broker might charge.

The Advisor may also consider referrals of potential investors in the Funds as a factor in the selection of brokers. As a result, HITE may have an incentive to select brokers based on the Adviser's interest in receiving investor referrals rather than receiving the most favorable execution. However, HITE will only direct brokerage for investor referrals if it believes it can obtain best execution by trading with that broker.

Section 28(e) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") is a "safe harbor" that permits an investment manager to use commissions or "soft dollars" to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an investment manager and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies;

software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirmations or trade affirmations.

In some instances, the investment manager may receive a product or service that may be used only partially for functions within Section 28(e) (e.g. an order management system, trade analytical software or proxy services). In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Adviser from its own resources.

Although the Adviser will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker, commission rates are generally negotiable and thus, selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable. The receipt of such products or services and the determination of the appropriate allocation in the case of “mixed use” products or services creates a potential conflict of interest between HITE and the Private Funds. In addition, when HITE receives “soft dollars” and uses commissions to pay for research, HITE receives a benefit because the Adviser did not have to produce or pay for the research, product or service directly. A potential conflict exists since HITE uses a limited number of brokers to pay third-party “soft dollar” expenses. As such, HITE may have an incentive to select brokers based on the fact they pay for research or other products or services as opposed to providing more favorable execution quality than another broker.

The Funds’ public securities transactions can be expected to generate a substantial amount of brokerage commissions and other compensation, all of which the Funds will be obligated to pay. The Adviser will have complete discretion in deciding which brokers and dealers the Funds will use and in negotiating the rates of compensation the Funds will pay. In addition to using brokers as “agents” and paying commissions, the Funds may buy or sell securities directly from or to dealers acting as principals at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above. A broker may receive business even if it has not been identified as providing research services.

Research or other services received by HITE, may or may not benefit all Funds whose transactions, and the commissions resulting from those transactions, generated the “soft dollars” to pay for said research or other services. Nonetheless, the Adviser believes that such investment information provides the Funds, with benefits by supplementing the research otherwise available to the Funds. As indicated above, certain of the services provided or paid for with “soft dollars” may benefit the Adviser and its affiliates and not the Funds.

### **Trade Aggregation**

HITE will, when appropriate although not required to do so, aggregate the Funds’ orders to achieve more efficient execution and to provide for equitable treatment among all Funds. Funds participating in aggregated trades will be allocated securities based on the average price achieved for such trades.

## **Cross Trading**

From time to time, the Adviser may cause a Fund to sell a securities position and cause another Fund to purchase some or all of that position to the extent permitted by applicable law and subject to certain terms and conditions; provided that the assets of the relevant Fund are not treated as “plan assets” (as defined in Section 3(42) of ERISA and any regulations promulgated thereunder). Such transactions are commonly referred to as “cross trades.” The Adviser typically use cross trades for purposes of rebalancing the portfolios of the Funds’ accounts, or for other reasons that are consistent with the investment and operating guidelines of the Private Funds. Any such “cross trades” will be done in accordance with all relevant regulatory requirements and consistent with the Private Funds’ governing documents.

## **Item 13 – Review of Accounts**

### ***Review and Reviewers of Accounts***

On a daily basis, the portfolio managers review the investment positions in all Private Funds for any changes in investment thesis and monitor news, earnings, announcements and other indicators. The portfolio managers have sole responsibility for investment decisions with respect to the Funds’ portfolios.

### ***Nature and Frequency of Reports***

Daily or weekly rates of return are calculated by the Funds’ administrator or the investment manager and disseminated to each investor via email. Within ten business days after month-end, each investor is sent a statement, by the administrator with the net asset value of the investor’s account and rate of return for the month and year to date.

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

The Adviser compensates third-party marketing firms in compliance with Rule 206(4)-3 *under the Advisers Act*. Such compensation is paid pursuant to a written agreement and generally represents a percentage of the fees earned by the Adviser from the investor referred to HITE. *The individuals with the marketing firm are registered representatives of a broker-dealer.*

## **Item 15 – Custody**

All assets in the Private Funds are held at qualified custodians. HITE is deemed to have custody of the Funds’ assets because a related person of HITE is either the general partner of the onshore funds or a director of the offshore funds. Pursuant to Rule 206(4)-2 under the Advisers Act, each Fund is subject to an annual audit conducted by an independent public accountant registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Each Fund’s audited financial statements, prepared in accordance with generally accepted accounting principles, are distributed to investors within 120 days of each Fund’s fiscal year end.

## **Item 16 – Investment Discretion**

Each Fund grants HITE the discretionary authority to manage the Fund’s portfolio by executing an investment advisory agreement.

## **Item 17 – Voting Client Securities**

The Advisers Act requires investment advisers to, at all times, act solely in the best interest of its clients. Rule 206(4)-6 under the Advisers Act requires any adviser who votes proxies on behalf of clients to have written policies and procedures. HITE has adopted Proxy Voting Policies and Procedures (“Procedures”),

which it believes are reasonably designed to ensure that proxies are voted in the best interest of the Private Funds and consistent with its fiduciary duties.

The Chief Compliance Officer is responsible for implementing, updating and monitoring the Procedures, for ensuring appropriate disclosure is given to investors. Any conflicts of interest are resolved in the best interests of our clients. The Chief Compliance Officer is also responsible for maintaining, as part of the Adviser's books and records, copies of the Procedures, proxy records and backup documentation relating to voting decisions and conflict resolution in accordance with applicable record keeping requirements. The Chief Compliance Officer can delegate in writing any of his responsibilities under this policy to another person.

Investors may obtain information from us regarding how HITE voted client proxies and may also request a copy of the Procedures by contacting James Conant, Chief Financial and Operations Officer and Chief Compliance Officer at (617) 928-5523; and/or via electronic mail at [jconant@hitehedge.com](mailto:jconant@hitehedge.com). HITE believes that voting proxies in accordance with the following guidelines generally is in the best interests of its Private Funds: Generally, HITE votes in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock.

Generally, HITE will vote against proposals that make it more difficult to replace members of the issuer's board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting.

#### **Item 18 – Financial Information**

A registered investment adviser is required to provide clients with certain financial information or disclosures about its financial condition. HITE does not have any financial condition that would impair its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.