

# HILDENE

## CAPITAL MANAGEMENT

### **Firm Brochure**

**Form ADV, Part 2A**

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This brochure (this “Firm Brochure”) provides information about the qualifications and business practices of Hildene Capital Management, LLC (“HCM”) and certain of its affiliates that are relying advisers of HCM (all such affiliates, together with HCM, collectively, “Hildene”).

If you have any questions about the contents of this brochure, please contact David Hoffman, the General Counsel and Chief Compliance Officer of Hildene, by telephone at (203) 517-2509 or by email at [dhoffman@hildenecap.com](mailto:dhoffman@hildenecap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”), or by any state securities authority.

Hildene is a registered investment adviser. Registration as an investment adviser reflects only that a firm has registered with the SEC and does not imply a certain level of skill or training.

More information about Hildene is available on the SEC’s website at <http://www.adviserinfo.sec.gov>. You can search this site by a unique identifying number, known as a CRD number. Hildene’s CRD number is 160415.

## **ITEM 2: MATERIAL CHANGES**

### **Annual Update**

Hildene is filing a 2020 annual updating amendment to its Firm Brochure. This Item 2 summarizes the material changes that have been made to our Firm Brochure since Hildene's last annual update was filed on March 13, 2019 (the "2019 Annual Update").

### **Material Changes Since Last Annual Update**

Since the 2019 Annual Update, the following material changes have occurred in respect of Hildene's business and operations:

- RPP Advisors LLC, a limited liability company formed under the laws of the U.S. Virgin Islands ("RPP"), was previously a relying adviser of Hildene Capital Management, LLC, a Delaware limited liability company ("HCM"). Prior to December 2019, RPP performed certain sub-advisory services in support of HCM's investment management activities on behalf of HCM's clients. In December 2019, the financial services agreement between RPP and HCM was terminated, and RPP ceased to operate as a sub-adviser of HCM.
- In 2019, Hildene Structured Advisors, LLC ("HSA"), a relying adviser of HCM, sponsored two new securitization transactions: (i) Hildene TruPS Resecuritization 2019-P10B, LLC and (ii) Hildene TruPS Resecuritization 2019-P12B, LLC (collectively, the "Repack Issuers"). HSA currently provides collateral management services to the Repack Issuers. In 2019, HSA also established a special purpose vehicle, Hildene Financials Securitization 2020-1, Ltd. ("HIFI 2020-1"), in anticipation of a future securitization transaction. HIFI 2020-1 is currently operated as a pre-securitization warehouse vehicle.
- In March 2020, Hildene implemented its business continuity plan in response to the COVID-19 pandemic. As of the date of this Firm Brochure, most of Hildene's employees are currently working remotely to limit contact by individuals in a countrywide effort to thwart the spread of this disease.

### **Full Brochure Available**

Whenever you would like to receive a complete copy of this Firm Brochure, please contact David Hoffman, Hildene's Chief Compliance Officer, by telephone at (203) 517-2509 or by email at [dhoffman@hildenecap.com](mailto:dhoffman@hildenecap.com).

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## **ITEM 4: ADVISORY BUSINESS**

### **The Firm**

Hildene Capital Management, LLC, a Delaware limited liability company ("HCM"), was founded by Brett Jefferson in January 2008 to take advantage of opportunities in the stressed/distressed structured finance market. HCM is a wholly-owned subsidiary of Hildene Holding Company, LLC ("HoldCo"). In turn, HoldCo is majority beneficially owned by Mr. Jefferson and the remainder by other principals of HoldCo. No person other than Mr. Jefferson beneficially owns 25% or more of HoldCo's equity. Neither HoldCo nor HCM is publicly owned or traded.

Hildene Collateral Management Company, LLC ("HCMC"), a Delaware limited liability company, was founded in December 2016 to provide portfolio and collateral management services to certain issuers of collateralized debt obligations ("CDOs"). HCMC is a wholly-owned subsidiary of HCMC Holding Company, LLC ("HCMC HoldCo"). HCMC HoldCo is majority beneficially owned by Brett Jefferson and no person other than Mr. Jefferson beneficially owns 25% or more of HCMC HoldCo's equity. HCMC is not publicly owned or traded.

Hildene Structured Advisors, LLC ("HSA"), a Delaware limited liability company, was founded in October 2017 to provide portfolio and collateral management services to new issue CDOs sponsored by HSA. HSA is a wholly-owned subsidiary of HoldCo, and is not publicly owned or traded. In addition to HCM and HSA, HoldCo also has several other private subsidiaries which serve tax-efficient roles in managing the firm's business activities.

RPP Advisors LLC, a limited liability company formed under the laws of the U.S. Virgin Islands ("RPP"), was previously a relying adviser of HCM. Prior to December 2019, RPP performed certain sub-advisory services in support of HCM's investment management activities on behalf of HCM's clients. In December 2019, the financial services agreement between RPP and HCM was terminated, and RPP ceased to operate as a sub-adviser and relying adviser of HCM.

### **Types of Advisory Services**

HCM provides continuous investment management services on a fully discretionary basis to a diverse array of clients, including institutions and pooled investment vehicles. Services provided are consistent with each client's investment guidelines as noted in the applicable investment management agreement and/or offering documents.

HCM primarily provides advice with respect to structured finance opportunities such as collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), residential mortgage-backed securities (RMBS), and other types of debt securities or debt obligations backed by the payments from pools of fixed income instruments. HCM also advises clients on other types of fixed income and equity securities, including, without limitation, trust preferred securities issued by bank and insurance holding companies and real estate investment trusts, high yield bonds, syndicated bank loans, mortgage loans, common and preferred equity of various issuers, and other types of investments. HCM specializes in complex financial instruments and uncovering overlooked long-term value opportunities within inefficient markets. With a disciplined, systematic approach, HCM believes that it can achieve high risk-adjusted returns with calculated investments at deeply discounted fundamental values in dislocated markets. Structured finance

investments and other types of investments that HCM advises on can be complex, opaque and require specialized expertise to analyze.

HCM provides its investment management services through a variety of vehicles, including private funds and separate accounts. A description of the advisory services HCM provides in respect of these vehicles is as follows.

Hildene Opportunities Master Fund, Ltd. ("HOF")

HOF was launched in May 2008 for the purpose of investing and trading primarily in structured finance securities including collateralized debt obligations, collateralized loan obligations, mortgage-backed securities, asset-backed securities, bank debt, special situations, high-yield bonds and special situation equity securities. HOF is part of a "master-feeder" fund structure comprised of investments by two feeder funds, Hildene Opportunities Fund, LP, a Delaware limited partnership established for U.S. taxable investors, and Hildene Opportunities Offshore Fund, Ltd., a Cayman Islands-based corporation established for non-U.S investors and U.S. tax-exempt investors.

HOF's investment objective is to achieve absolute risk-adjusted returns over an extended period of time with a minimum correlation to the broadly-based stock and bond indices. HOF invests primarily in CDOs backed by trust-preferred securities ("TruPS") issued by small and regional financial institutions in the United States (including CDOs managed by affiliates of HCM).

HOF invests in securities that are complex and illiquid, and leverage is used in an effort to enhance returns.

Hildene Opportunities Master Fund II, Ltd. ("HOF II")

HOF II was launched in August 2011 for the purpose of investing and trading primarily in credit-related opportunities including small and medium-sized corporate credits, single name credits, CLOs, seasoned residential mortgage-backed securities, asset backed securities, bank debt, special situations, high-yield bonds, seasoned ABS CDOs, CRE CDOs, TruPS CDOs and other structured credit investments (including CDOs managed by affiliates of HCM). HOF II is part of a "master-feeder" fund structure comprised of investments by two feeder funds, Hildene Opportunities Fund II, LP, a Delaware limited partnership established for U.S. taxable investors, and Hildene Opportunities Offshore Fund II, Ltd., a Cayman Islands-based corporation established for non-U.S investors and U.S. tax-exempt investors.

HOF II's investment objective is to achieve absolute risk-adjusted returns over an extended period of time with a minimum correlation to the broadly-based stock and bond indices. To do this, HOF II primarily invests in credit-based securities, applying a thorough and multi-faceted fundamental valuation of the underlying structure. This entails an in-depth analysis of the legal components, a detailed analysis of the underlying cash flows and a thorough understanding of the overall credit risk of the underlying investment.

HOF II invests in securities that are complex and illiquid, and leverage is used in an effort to enhance returns.

### Other Private Funds

In addition to HOF and HOF II, HCM may also from time to time manage other related private funds which utilize investment strategies that may or may not be similar to strategies employed by HCM on behalf of HOF and/or HOF II.

### Separate Accounts

HCM manages separate accounts for institutional clients. These separate accounts invest primarily in structured finance opportunities, including CDOs and collateralized loan obligations, preferred stock and sub-debt issued by banks or bank holding companies under the Troubled Asset Relief Program (TARP), high yield bonds, and other types of credit-related assets. Specific investment strategies employed by HCM in connection with any separate account are memorialized in an advisory services contract with the account holder.

Notwithstanding the foregoing, HCM generally retains the authority to invest and trade on behalf of its clients in a wide variety of instruments and securities of all kinds and descriptions, whether privately placed or publicly traded, including but not limited to common or preferred stock, bonds and other debt securities (including U.S. government and agency securities), convertible securities, accounts receivable, notes, interests in other investment funds and vehicles, loans and loan participations (including second lien or mezzanine loans on a secured or unsecured basis), instruments issued by distressed companies, limited partnership or limited liability company interests, repurchase agreements with respect to any securities, mutual fund shares, closed-end investment funds, options, warrants, commodities, futures contracts, currencies (including forward contracts therein), derivative products of all types (including interest rate and currency derivatives, total return swaps, credit default swaps and other types of swaps, forward contracts and structured/indexed securities), monetary instruments and cash and cash equivalent investments.

### Tailored Advice and Investment Restrictions

HCM offers investment strategies through a variety of vehicles, including separate accounts and private funds. HCM may agree to tailor its advice in respect of separate account clients on a client-by-client basis, and may agree to impose reasonable restrictions on the types of investments made on behalf of such account. HCM's investment advice in respect of the private funds it manages is governed by the offering materials and governing documents of such funds, and is not tailored to specific investors in such funds.

On occasion, investment opportunities may be identified which may be larger than HCM seeks for a fund, or which may be inappropriate for certain investors in a fund. In such circumstances, HCM may allow specific clients and/or fund investors to participate directly in such investments, either on a standalone basis or alongside an investment by the fund. Any such opportunities are presented only to individual clients or fund investors who have previously expressed an interest in considering such opportunities and are sophisticated enough to understand both the risks of the investment and the risk to the client from direct exposure to the same investment held within the fund.

## *Relying Advisers*

### *Hildene Collateral Management Company, LLC*

HCMC is primarily engaged in the business of providing portfolio and collateral management services to various CDO issuers. HCMC currently acts as collateral manager for the following CDO issuers: Trapeza CDO I, LLC, Trapeza CDO III, LLC, Trapeza CDO IV, LLC, Trapeza CDO V, Ltd., Trapeza CDO VI, Ltd., Trapeza CDO VII, Ltd., Trapeza CDO IX, Ltd., Trapeza CDO X, Ltd., Trapeza CDO XI, Ltd., Trapeza CDO XII, Ltd. and Trapeza CDO XIII, Ltd. (collectively, the "Trapeza CDOs"); and Alesco Preferred Funding X, Ltd., Alesco Preferred Funding XI, Ltd., Alesco Preferred Funding XII, Ltd., Alesco Preferred Funding XIII, Ltd., Alesco Preferred Funding XIV, Ltd., Alesco Preferred Funding XV, Ltd., Alesco Preferred Funding XVI, Ltd. and Alesco Preferred Funding XVII, Ltd. (collectively, the "Alesco CDOs"). The management rights in respect of the Trapeza CDOs were acquired from Trapeza Capital Management, LLC and its affiliates between March 6, 2017 and June 8, 2017. The management rights in respect of the Alesco CDOs were acquired from affiliates of Fortress Investment Group LLC on November 27, 2018. The Trapeza CDOs and Alesco CDOs are each governed by an indenture that sets forth the manner in which each CDO is to be managed, including types of eligible collateral, investment objectives and risk criteria. From time to time, other advisory clients of Hildene may invest in securities issued by the Trapeza CDOs and/or the Alesco CDOs.

### *Hildene Structured Advisors, LLC*

HSA is primarily engaged in the business of providing portfolio and collateral management services to new issue CDOs sponsored by HSA. To date, HSA has sponsored four securitization transactions: Hildene TruPS Securitization 2018-1, Ltd. ("HITR 2018-1"); Hildene TruPS Securitization 2019-2, Ltd. ("HITR 2019-2"); Hildene TruPS Resecuritization 2019-P10B, LLC ("HITRR P10B"); and Hildene TruPS Resecuritization 2019-P12B, LLC ("HITRR P12B"). HSA has also sponsored and currently manages two other pre-securitization warehouse vehicles in anticipation of one or more future securitization transactions: Hildene TruPS Securitization 2019-3, Ltd. ("HITR 2019-3"); and Hildene Financials Securitization 2020-1, Ltd. ("HIFI 2020-1" and, together with HITR 2018-1, HITR 2018-2, HITRR P10B, HITRR P12B and HITR 2019-3, collectively, the "HSA CDOs"). HSA has entered into an investment management agreement and/or collateral management agreement with each of the HSA CDOs that sets forth the manner in which each HSA CDO is to be managed, including types of eligible collateral, investment objectives and risk criteria. HSA is responsible for the selection of any securities to be acquired and held by each of the HSA CDOs as collateral. Certain clients of Hildene, including HOF, HOF II and certain separately managed accounts, invest in one or more of the HSA CDOs, and may invest in future warehouses or CDOs sponsored or managed by HSA, provided that such clients will not be subject to any underlying management or incentive fees charged by HSA or its affiliates.

## *Wrap Fee Programs*

Hildene does not offer or participate in any wrap fee programs.

## *Client Assets Under Management*

As of December 31, 2019, Hildene managed client assets on a discretionary basis in the approximate amount of \$9,152,085,000, including (i) approximately \$2,733,705,000 of hedge fund and separately managed

account assets managed by HCM; (ii) approximately \$5,777,448,000 aggregate par notional value of collateralized debt obligations managed by HCMC; and (iii) approximately \$640,931,000 aggregate par notional value (or fair value, if available) of collateralized debt obligations ("Sponsored CDO AUM") managed by HSA. To avoid double-counting of client assets under management, Sponsored CDO AUM excludes the fair market value of securities issued by HSA-sponsored CDOs that are retained by other Hildene clients. Hildene does not currently manage any assets on a non-discretionary basis.



## **ITEM 5: FEES AND COMPENSATION**

HCM charges a management fee to clients based on a percentage of assets the client has supervised by HCM. The standard management fees charged to clients range from 1% per annum to 2% per annum. Management fees are generally deducted from the assets managed by HCM on behalf of a client on a quarterly basis, in advance; provided that certain separately managed account clients may pay management fees on a less frequent basis. Management fees may be negotiable depending on the size of the client's investment and/or the client's investment strategy. HCM may also elect to waive any management fees payable by any investor or client. Management fees are typically non-refundable once paid, though Hildene may negotiate with a client to refund a pro rata portion of management fees paid in advance in respect of certain separately managed accounts in the event such account is terminated during the applicable fee period. As discussed in Item 6, HCM also typically receives an incentive fee or allocation based on the performance of each account for which it provides investment management services, subject to a high-water mark.

HCMC receives base management fees equal to between 0.10% to 0.25% of the collateral balance of each CDO it manages. However, some portions of HCMC's fees may be payable only after certain levels of payments have been made to the holders of securities issued by the CDO. In addition, HCMC may receive a subordinated management fee of between 0.10% and 0.20% of the collateral balance of the CDO, and may also receive performance fees as discussed in Item 6 below.

All fees attributable to the Trapeza CDOs and Alesco CDOs are paid quarterly (or, for some Trapeza CDOs, biannually) to HCMC by an independent trustee for the CDO in accordance with the terms of the applicable indenture. Management fees attributable to Trapeza CDOs and Alesco CDOs are calculated by the trustee and confirmed by HCMC. HCMC does not require the CDOs to pay fees in advance.

HSA does not currently charge any fees in respect of the services it provides to any of the HSA CDOs. HSA may in the future charge a management fee and/or an incentive fee in respect of CDOs for which it provides collateral management services.

Neither HCM nor any of its relying advisers or supervised persons accepts compensation for the sale of securities or other investment products.

Other than management fees and the incentive fees discussed above and in Item 6 below, neither HCM nor its relying advisers receives any additional fees from clients for its services. However, funds and separate accounts managed by HCM and its relying advisers pay for certain fees and expenses, such as administrator fees, custodian/settlement agent fees, accounting fees, legal fees and transaction costs.

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

HCM receives an incentive fee or allocation based on the performance of each account for which it provides investment management services. This performance-based payment is payable either directly to HCM or to an affiliate of HCM. The standard incentive payment for clients ranges from 15% to 20% per annum, subject to a high-water mark. Incentive fees may be negotiable depending on the size of the client's investment. HCM seeks to align its incentive fees with investors and has committed with certain HOF investors and all HOF II investors to classify certain amounts of incentives as unearned redemption payments that are not earned or payable until capital is withdrawn or redeemed by the investor. Each client paying an incentive fee to HCM must qualify as a "qualified client" under Rule 205-3 promulgated under the Investment Advisers Act of 1940, as amended.

Earned incentive payments are deducted from a client's assets at the end of each year and/or upon each withdrawal of capital by a client, and, in the case of private funds managed by HCM, are typically treated as an allocation by such fund to HCM or its affiliates.

HCM may manage its own accounts or the accounts of an affiliate of HCM (an "Affiliated Account") alongside client accounts on a side-by-side basis. Affiliated Accounts and client accounts may have similar investment objectives, investment guidelines and investment limitations, and certain investment opportunities considered by HCM may be suitable for both clients and Affiliated Accounts. In such circumstances, in accordance with HCM's trade allocation policy, HCM shall first allocate such opportunities to HCM's clients for whom allocation would be appropriate, in such amounts as may be appropriate, prior to allocating such opportunities to any Affiliated Accounts. In any circumstance involving the side-by-side management of client accounts and Affiliated Accounts, HCM shall always put client accounts first. HCM has adopted the foregoing policy to ensure the fair and equitable allocation of investment opportunities among clients and Affiliated Accounts.

HCM also manages client accounts (including private funds and separately managed accounts) on a side-by-side basis. For more information, please see "Allocation of Trades" in Item 12 below.

HCMC charges a performance fee of between .15% and .25% per annum to the Trapeza CDOs and Alesco CDOs it manages, as set forth in the applicable indenture. The performance fee is payable when the equity class of securities of the CDO has achieved a specified return on investment.

HSA does not currently charge any fees in respect of the services it provides to any of the HITR SPVs. HSA may in the future charge a management fee and/or an incentive fee in respect of CDOs for which it provides collateral management services.

## **ITEM 7: TYPES OF CLIENTS**

HCM offers discretionary investment management services to private funds, including HOF and HOF II, and to separate accounts. Investors are generally institutional clients, such as banks, insurance companies, pension funds, corporations and other business entities, as well as family offices, endowments and trusts. From time to time, HCM offers advisory services to high net worth individuals through private funds or separate accounts.

HCM generally requires a minimum investment of \$1,000,000 from investors in its private funds and a minimum investment of \$50,000,000 from separate account clients. Occasionally, investments less than these amounts are accepted by HCM from “friends and family” and other investors and clients, as determined by HCM in its discretion. Prospective investors should refer to the appropriate fund offering documents or separate account advisory contract, as the case may be, for additional qualification requirements for investment.

HCMC provides portfolio and collateral management services to the Trapeza CDOs and Alesco CDOs. Certain private funds and separate accounts managed by HCM are also investors in the Trapeza CDOs and Alesco CDOs managed by HCMC.

HSA provides portfolio and collateral management services to the HSA CDOs. Certain private funds and separate accounts managed by HCM are also investors in the HSA CDOs managed by HSA.

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

### **Methods of Analysis and Investment Strategy**

HCM primarily provides advice regarding structured finance opportunities, including CDOs, CLOs, RMBS, and other types of debt securities backed by the payments from pools of fixed income instruments. HCM also advises clients on other types of fixed income and equity securities, including, without limitation, trust preferred securities issued by bank and insurance holding companies and real estate investment trusts, high yield bonds, syndicated bank loans, mortgage loans, common and preferred equity of various issuers, and other types of investments. HCM's investment ideas are generated from a wide variety of sources.

HCM uses a bottom-up approach that analyzes each investment opportunity from a fundamental and technical perspective, evaluating innate structural value, net asset value, liquidation value and other fundamental and technical factors. Using this approach, HCM purchases instruments and securities that it believes are mispriced because of either their complexity or a technical component in the marketplace. Ultimate value is achieved through a long-term view that focuses the general realization of value in the underlying assets. HCM believes that performance is best achieved when understanding all the macroeconomic components of the overall market and dissecting microeconomic drivers that define a structure or company.

HCM typically gathers information about an investment from a number of sources including, but not limited to, trustee reports, syndicated software, issuers, customers, vendors, suppliers, competitors, consultants, advisors, dealers and industry executives. Through these channels of communication, HCM is often alerted to relevant news, nuances and information that may enhance the effectiveness of its investment analysis. HCM also gathers information from public filings (10-K's, 10-Q's, 8-K's, 13-G's, etc.), trade and financial publications, publication search engines, yield rankings, valuation screens, corporate action calendars, investment conferences and other available information sources.

HCM's due diligence is founded on an in depth knowledge of underlying structural nuances. A thorough analysis of the expected result based on financial engineering and an overall understanding of the terminal value and risks of the underlying credits of a specific company will be utilized in decision-making.

HCMC monitors the portfolio investments of the Trapeza CDOs and Alesco CDOs to evaluate their performance. However, because the reinvestment period has ended with respect to each of the Trapeza CDOs and Alesco CDOs, HCMC is not actively making new portfolio investments on behalf of the Trapeza CDOs or Alesco CDOs. In monitoring portfolio investments with respect to the Trapeza CDOs and Alesco CDOs, HCMC analysts review a variety of sources for information including, but not limited to, financial newspapers and magazines; inspections of and meetings with portfolio companies; third party research materials; corporate rating services; company press releases; and corporate regulatory filings.

### **Summary of Material Risks**

Hildene invests in securities that are complex and may be distressed. Prices of securities react to the business and financial condition of the company that issued them as well as macro-economic factors. Prices of a security will generally rise and fall based on changes in the business or financial condition of the issuing company, changes in management and the potential for merger and acquisitions.

Investing in any security entails risk of loss, particularly when the securities are complex or distressed. Hildene has listed certain risks below; however the list of risks is not comprehensive or complete. Clients are strongly advised to review the risk factors and potential conflicts of interest contained in the relevant offering materials, organizational documents and/or investment management agreements relating to their investments with Hildene.

The investment strategies that Hildene employs for its clients may entail various risks, including, but not limited to, the following:

- Structured Finance Securities. The investment strategies employed by Hildene involve investing and trading in structured finance products. Investing in structured finance securities may entail a variety of unique risks. In addition, the performance of a structured finance security will be affected by a variety of factors, including its priority in the capital structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.
- Distressed Securities. The investment strategies employed by Hildene may involve investing in distressed securities or underperforming or non-performing debt. Distressed debt securities are subject to the significant risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk) and also may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Distressed securities may react to developments affecting market and credit risk to a greater extent than non-distressed securities. In addition, certain types of distressed securities involve bankruptcy risks, including with respect to securities purchased after an issuer emerges from a bankruptcy reorganization. With respect to post-reorganization securities, such securities typically entail a higher degree of risk than investments in securities of companies which have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to increased selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If Hildene's evaluation of the anticipated outcome of an investment situation should prove incorrect, clients holding such investment could experience a loss.
- Concentration of Investments. The investment strategies employed by Hildene may be concentrated and may involve investing in a small number of investments. The allocation of a large portion of an account's capital to one or a small number of investments could increase the risk of investing in the account because of the lack of diversification in its portfolio. The concentration of an account's portfolio in any one issuer, industry or strategy would subject such account to a greater degree of risk with respect to the failure of one or a few issuers or with respect to economic downturns in relation to such industry.
- Leverage. Hildene may use leverage in connection with the investment strategies employed for certain clients, including HOF and HOF II, including the use of borrowed funds and investments in certain types of options. Hildene may also employ leverage through the use of total return swaps or credit default swaps, or through repurchase transactions. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent a client purchases securities with borrowed funds, its net assets will tend

to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the performance of a client's account. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the use of leverage would result in a lower rate of return than if the applicable account were not leveraged.

- Limited Liquidity. The investment strategies employed by Hildene may involve investing in assets that are illiquid or have limited liquidity. At times, the Hildene may be unable to realize certain of its illiquid investments, or would only be able to realize such investments at a value determined by Hildene to be a discount to their true value. If an investment is thinly traded or is not traded at all, Hildene could have difficulty unwinding the investment at a desirable price. If invested in illiquid assets, a client's account might suffer significant losses if forced to unwind an illiquid investment as a result of changing market conditions, margin calls or other factors.
- Investments in Undervalued Securities. The investment strategies employed by Hildene may involve investing in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from these investments may not adequately compensate for the business and financial risks assumed. Hildene may make certain speculative investments in securities which Hildene believes to be undervalued, however, there are no assurances that the securities purchased will in fact be undervalued. In addition, Hildene may be required to hold such securities for a substantial period of time before realizing their anticipated value.
- COVID-19. Our investment advisory activities or portfolio company operations could be adversely affected by events outside of our control, such as natural disasters or health epidemics. Beginning in late 2019, the media has reported a public health epidemic relating to the disease COVID-19, prompting government-imposed closures of certain travel and business. It is unknown whether and how the market may be affected if such an epidemic persists for an extended period of time. Hildene and/or its clients may incur expenses, delays, or interruption of critical business functions relating to such events outside of our control, which could have a material adverse impact on our investment advisory business including, but not limited to, the financial conditions or prospects of our clients and the sourcing of new investment opportunities. Such material adverse impact could, in turn, adversely affect the performance of Hildene-managed accounts. Hildene has implemented its business continuity plan in response to the COVID-19 pandemic, and currently most of Hildene's employees are working remotely to limit contact by individuals in a countrywide effort to thwart the spread of this disease.

In addition, various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of HCM, in its role as investment manager of private funds and separate accounts, and HCMC, in its role as collateral manager of CDOs, including the Trapeza CDOs and Alesco CDOs. HCM and its affiliates may own, or advise private funds and separate accounts that own, equity or debt securities issued by CDOs for which HCMC acts as collateral manager. In particular, HOF and certain separate accounts managed by HCM own equity and debt securities issued by the Trapeza CDOs and Alesco CDOs. HCM and HCMC will endeavor to resolve any conflicts in a manner that HCM and HCMC deem equitable under the facts and circumstances.

Various potential and actual conflicts of interest may also arise from the overall advisory, investment and other activities of HCM, in its role as investment manager of private funds and separate accounts, and HSA, in its role as collateral manager of the HSA CDOs. In particular, HOF, HOF II and certain separate accounts managed by HCM own equity or debt securities issued by the HSA CDOs. HCM and HSA will endeavor to resolve any conflicts in a manner that HCM and HSA deem equitable under the facts and circumstances.

Investors in private funds or separate accounts managed by HCM and CDOs managed by HCMC or HSA should refer to the offering memoranda, organizational documents and/or investment management agreements relating to their investments with Hildene for a more complete description of the risks associated with such investment.

Investors should be prepared to bear the risk of loss of some or all of their investment with HCM, HCMC or HSA.

#### **ITEM 9: DISCIPLINARY INFORMATION**

Hildene has no disciplinary events to disclose.



## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither HCM, HCMC, HSA nor any of their respective management persons has registered as, or has a pending application to register as, a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor or an associated person of any of the foregoing entities.

Other than (i) Hildene Advisors, LLC ("HADV"), a Delaware limited liability company and an affiliate of HCM that serves as the general partner of certain feeder funds of HOF and HOF II, and (ii) Hildene Trapeza Manager, Inc. ("HTMI"), a Delaware corporation and an affiliate of HCMC that serves as the manager of certain Trapeza CDOs for which HCMC serves as collateral manager, neither HCM, HCMC nor HSA has any financial industry affiliations material to its advisory business. Each of HCMC and HSA is currently registered with the SEC as a relying adviser of HCM. Neither HADV nor HTMI is registered or licensed in any capacity with any regulatory body, nor do they conduct any activities other than serving as the general partner or manager, as the case may be, of certain private funds and CDOs managed by HCM and HCMC, respectively.

HCM, HCMC and HSA do not recommend other investment advisors to clients or receive any compensation from other investment advisors. Certain private funds managed by HCM and certain CDOs managed by HCMC (and/or future CDOs sponsored or managed by HSA) may have common investors.

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

### **Code of Ethics and Personal Trading**

HCM has adopted a written Code of Ethics (the “Code”) in compliance with Securities and Exchange Commission (“SEC”) Rule 204A-1. The Code is updated by HCM from time to time to reflect new legislation or regulations, or to otherwise reflect evolving best practices. All employees are required to read the Code, as part of HCM’s overall Compliance Manual (the “Manual”), and annually acknowledge compliance with the policies and procedures set forth therein. HCM will provide a copy of the Code, as contained in the Manual, to any client or prospective client upon request. HCM’s relying advisers, including HCMC and HSA, operate under the same policies and procedures as HCM.

The Code holds individuals to the highest standards of ethical conduct and places upon them a duty to act for the client’s benefit as well as to place the financial interests of HCM’s clients ahead of their own interests at all times. The Code also sets forth trading restrictions and/or prohibitions on certain types of securities for personal accounts, requires mandatory pre-clearance in respect of personal trades conducted in certain types of securities, and mandates reporting of initial holdings information upon employment and periodic transaction reporting thereafter for access persons of Hildene. HCM reviews these reports to ensure compliance by employees with HCM’s policies and procedures regarding personal trading activities.

### **Participation or Interest in Client Transactions**

HCM and/or its principals and affiliates may on occasion own, buy and/or sell securities which HCM recommends to its clients, subject to the personal trading limitations noted above. Such transactions may also include trading in securities in a manner that differs from or is inconsistent with advice given to clients. HCM recognizes that potential conflicts arise from such transactions and has taken reasonable measures to mitigate such conflicts.

Additionally, HCM may occasionally permit certain clients or private fund investors to participate directly along with investments made by a private fund managed by HCM. Any such opportunities are presented only to individual clients and investors who have previously expressed an interest in considering such opportunities and are sophisticated enough to understand both the risks of the investment and the risk to the client from direct exposure to the same investment held within the fund. If, in such event, HCM later determines that it will sell any such investments for the relevant private fund, clients holding the same position will be contacted to give them an opportunity to sell concurrently with such fund.

Certain affiliates of HCM serve as general partner, managing member or investment adviser to pooled investment vehicles which HCM recommends to its clients. In particular, if HCM determines that that it is in a client’s best interest, HCM may recommend that its clients invest in securities issued by the Trapeza CDOs, Alesco CDOs or HSA CDOs, for which affiliates of HCM serve as the collateral manager and/or managing member. HCMC receives collateral management fees from the Trapeza CDOs and Alesco CDOs as described in Items 5 and 6 above. HSA does not currently charge any fees in respect of the services it provides to any of the HSA CDOs.

From time-to-time, HCM engages in transactions in which it causes one of its clients to purchase securities or other instruments from, or sell securities or other instruments to, other clients managed by HCM and/or

its affiliates (“cross trades”) for purposes of portfolio rebalancing or for other reasons as may arise. HCM and or its principals or affiliates may also engage in principal transactions with clients (“principal transactions”), subject to the client’s prior written consent and after full disclosure to the client of HCM and/or its principals’ or affiliates’ interest in the transaction. HCM and/or its affiliates will not take brokerage commissions or otherwise be compensated for effecting these cross trades or principal transactions. If utilized, HCM intends that cross trades and principal transactions will, to the best of HCM’s ability, reflect the fair value of the security or other instrument being purchased or sold. In determining such fair value, HCM will typically rely on the most recent month-end quotations obtained from market makers, dealers or pricing services for cross transacted securities; provided, however, that if HCM obtains reliable information to indicate that the fair value of a security has changed after the most-recent month-end valuation date but before the execution date of a cross trade, HCM may in its discretion revise the valuation to reflect such new pricing information if HCM determines that the most-recent month-end valuation is no longer reflective of the security’s fair value. Prior to effecting any cross trade or principal transaction, HCM will make a good faith determination that the transaction is in the best interests of the relevant clients.

## **ITEM 12: BROKERAGE PRACTICES**

HCM is responsible for the placement of the portfolio transactions of clients and the negotiation of any commissions or spreads paid on such transactions. Portfolio investments are generally purchased through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the investments. Purchases of portfolio investments through brokers will typically involve a commission to the broker. Purchases of portfolio investments from dealers serving as market makers include the spread between the bid and the asked price.

In placing portfolio transactions and negotiating commission rates, HCM will seek to obtain the best execution for its clients where possible; provided, however, that many of HCM's portfolio transactions occur in the OTC marketplace, where HCM may not have the ability to compare or evaluate different broker-dealers in respect of a particular portfolio transaction. In reviewing best execution, HCM may take into account the following factors: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker; (iv) the reputation of the broker; (v) the firm's risk in positioning a block of securities; (vi) efficiency of execution and error resolution; (vii) the quality, comprehensiveness and frequency of available research services considered to be of value; and (viii) the competitiveness of commission rates in comparison with other brokers satisfying HCM's other selection criteria.

HCM is authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide it with such investment and research information or to pay higher commissions to such firms if HCM determines such prices or commissions are reasonable in relation to the overall services provided. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants. HCM is not required to weigh any of these factors equally. Information so received is in addition to and not in lieu of services required to be performed by HCM, and HCM's fees charged to clients are not reduced as a consequence of the receipt of such supplemental research information. Research services provided by broker/dealers used by HCM clients may be utilized by HCM or their affiliates (including other investment funds managed by such persons) in connection with their other investment activities. Since commission rates in the United States are negotiable, HCM's selection of brokers on the basis of considerations which are not limited to applicable commission rates may at times result in HCM's clients being charged higher transaction costs than they could otherwise obtain.

### **Use of "Soft Dollars"**

The term "soft dollars" refers to the receipt by an investment manager of products and services provided by brokers, without any cash payment by the investment manager, based on the volume of brokerage commission revenues generated from securities transactions executed through those brokers on behalf of the investment manager's clients. Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provides a "safe harbor" to investment managers with respect to potential liability for violating their duty to obtain best execution for a client's securities transactions in circumstances in which such managers use soft dollars generated by their advised accounts only for purposes of obtaining

investment research and brokerage services (i) that provide lawful and appropriate assistance to the investment manager in the performance of investment decision-making responsibilities and (ii) where the commissions paid are reasonable in relation to the value of the services provided. HCM does not currently, and does not in the future intend to, engage in any soft dollar transactions. In the event that HCM does engage in any soft dollar transactions, it will not engage in any such transactions other than with respect to products and services which fall within the Section 28(e) safe harbor or where such products or services would otherwise be chargeable to its clients pursuant to the relevant fund offering documentation or separate account advisory contract.

### *Client Referrals*

HCM may direct some of its clients' brokerage business to brokers who refer prospective investors to HCM. Because such referrals, if any, are likely to benefit HCM but will provide an insignificant (if any) benefit to HCM's clients, HCM will have a conflict of interest with its clients when allocating such clients' brokerage business to a broker who has referred investors to HCM. To prevent HCM's clients' brokerage commissions from being used to pay investor referral fees, HCM will not allocate its clients' brokerage business to a referring broker unless HCM determines in good faith that the commissions payable to such broker are not materially higher than those available from non-referring brokers offering services of substantially equal value to such clients.

### *Aggregation of Orders*

HCM will at times determine that certain securities are suitable for acquisition by more than one account, possibly including Affiliated Accounts, and may aggregate purchase or sale orders for client accounts. The aggregation or blocking of transactions typically allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to accounts. HCM's policy is to aggregate transactions where possible and when advantageous to the accounts participating in such transactions. When HCM is placing bids for securities in certain OTC markets in which it and its clients invest, it may routinely aggregate orders into a single bid due to timing constraints and other practical considerations.

From time to time, HCM may participate in auctions or bid solicitations in which HCM bids to acquire securities in its capacity as investment adviser on behalf of its clients. In such instances, HCM will generally place a single bid for securities based upon the aggregate number of securities that HCM seeks to acquire on behalf of all of its clients. HCM will allocate any securities acquired in such auction or pursuant to such bid solicitation among accounts for whom such securities are suitable in accordance with its trade allocation policy described above, with such allocation determined upon acquisition of the relevant securities (rather than at the time of the relevant bid).

Any transaction costs arising from an aggregated transaction will be shared on a pro-rata basis by participating accounts, based upon the assets allocated to each such account in accordance with HCM's trade allocation policy. HCM may aggregate transactions for clients and Affiliated Accounts, subject to HCM's policy to place client account allocations first.

### *Allocation of Trades*

When HCM aggregates orders, HCM will seek to allocate investments among clients, including Affiliated Accounts, on a fair and equitable basis over time based on the following factors: (i) diversity of the accounts'

investment objectives; (ii) differences in the accounts' investment guidelines and investment restrictions; (iii) differences in the accounts' risk tolerances and return targets; (iv) differences in the accounts' existing portfolio holdings and related balancing and diversification concerns; (v) differences in the accounts' relative sizes; (vi) differences in the accounts' available investment resources (including the timing of capital contributions and withdrawals) and side pocket constraints; (vii) differences in the accounts' liquidity requirements; (viii) differences in the accounts' investment time horizons; (ix) tax considerations; and (x) such other factors as HCM may determine to be relevant at the time of allocation. In addition, HCM may take into account settlement costs in making allocation determinations. For example, if the amount of a security that would be allocated to a particular account would be small in view of the factors described above, and if HCM determines in its discretion that the settlement costs associated with making such allocation would outweigh the benefits of such allocation due to the small amount of securities proposed to be allocated, HCM may elect not to make an allocation to such account.

Allocations may be made among accounts in a manner that is not *pari passu* if such allocation is determined to be reasonable by HCM in accordance with the factors described above. Allocations based on these factors will result in differences in invested positions and securities held among clients, and consequently in performance.

HCM shall endeavor to afford each account fair and equitable treatment in allocating trades among accounts, provided that allocations shall first be made to HCM's clients for whom allocation would be appropriate in light of the factors described above, in such amounts as may be appropriate in accordance with such factors, prior to making any allocation to any Affiliated Accounts.

To the extent relevant, HCMC and HSA adhere to the foregoing brokerage practices in connection with their respective management of the Trapeza CDOs, Alesco CDOs and HSA CDOs.

### **ITEM 13: REVIEW OF ACCOUNTS**

Transaction activity for each HCM account is reviewed on a daily basis. Additionally, HCM investment management personnel review HCM's portfolios on at least a monthly basis for compliance with each portfolio's guidelines and investment strategy. Additional portfolio reviews may be conducted as a result of client contributions or distributions, revised client objectives, or changes in law.

HCM, or an administrator engaged by HCM, typically provides clients with reports concerning account holdings, transaction summaries and performance data either monthly or quarterly. More frequent reporting may be provided as requested by a client. Audited financial statements are typically provided to investors in private funds managed by HCM.

Investments held by CDOs or CDO warehouses are periodically reviewed by investment professionals of HCMC and/or HSA, as applicable. This review primarily focuses on an analysis of each investment's financial performance, a review of each investment's capital structure and a review of each investment's industry prospects. Individual CDO deal metrics are also periodically reviewed.

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

HCM currently has a written agreement in place with a placement agent, SAF Financial Securities LLC ("SAF"), pursuant to which HCM has agreed to pay SAF a percentage of the fees it receives from certain investors that SAF introduces to HCM's private funds. To date, HCM has not paid any fees to SAF.

HCM does not receive economic benefits from any person not a client of HCM in exchange for providing advisory services to HCM clients.

Neither HCM nor HSA has any written agreements in place with any third party marketers. Neither HCMC nor HSA receives any economic benefits from any person not a client of HCMC or HSA, as the case may be, in exchange for providing advisory services.



## **ITEM 15: CUSTODY**

HCM does not have custody of its clients' assets; however, HADV, an affiliate of HCM, serves as the general partner of certain private funds, and HCM has a principal who serves on the board of directors of certain private funds for which HADV and/or HCM are deemed to have custody under certain rules promulgated by the SEC. The assets of HCM clients are held by a qualified custodian, which provides monthly account statements to each client and provides copies of such statements to HCM. Investors in HCM's private funds additionally receive monthly account statements from the applicable fund's administrator. Investors are urged to carefully review such statements.

Additionally, the private funds undergo an audit on an annual basis by an independent public accountant that is both registered with and subject to regular inspection by the Public Company Accounting Oversight Board. In respect of such private funds, HCM provides audited financial statements of each fund to the investors in the fund within 120 days of the end of the fund's fiscal year.

Neither HCMC nor HSA currently maintains custody of any client's funds or securities.

## **ITEM 16: INVESTMENT DISCRETION**

HCM has discretionary authority over its clients' assets pursuant to the advisory contracts it enters into with such clients. This means that HCM places trades in its clients' accounts without contacting the client prior to any trade to obtain the client's permission. HCM's discretion may be limited pursuant to the terms and conditions of the applicable advisory relationship, provided that the restrictions are essentially consistent with HCM's investment process.

Similarly, HSA has discretionary authority over HSA CDOs' assets during warehouse operations pursuant to investment management agreements entered into between HSA and the applicable HSA CDO. HSA's discretion may be limited pursuant to the terms and conditions of the applicable advisory relationship, provided that the restrictions are essentially consistent with HSA's investment process.

The applicable indentures for CDOs managed by HCMC and HSA, including the Trapeza CDOs, the Alesco CDOs and the HSA CDOs, place significant restrictions on HCMC and HSA's ability to buy and sell collateral debt securities on behalf of the CDOs once warehouse operations have ceased and a securitization transaction has occurred. These indentures generally restrict HCMC and HSA from selling collateral debt securities on behalf of a CDO unless such securities have experienced specified credit deterioration, ratings downgrades, or events of default.

## **ITEM 17: VOTING CLIENT INVESTMENTS**

HCM may accept authority to vote client securities for certain clients, including the private funds it manages. In such circumstances, proxy and other corporate action material is promptly reviewed by HCM to evaluate the issues presented. In voting proxies, HCM is guided by general fiduciary principles. HCM's goal is to act prudently, solely in the best interest of the client accounts it manages. HCM attempts to consider all aspects of its vote that could affect the value of the investment; and where HCM votes proxies, it will do so in the manner that it believes will be consistent with efforts to maximize the value of security holdings.

HCM may determine to abstain from voting a proxy or a specific proxy item when it concludes that the potential benefit of voting is outweighed by the cost or when it is not in the client's best interest to vote. In many instances, the disparate interests of HCM's clients may make it difficult for HCM to determine a manner in which to vote and, in those circumstances, HCM may abstain from voting. However, if HCM does vote, HCM shall vote in a manner it believes to be consistent with the interests of its clients and shall not subordinate client interests to its own, or subordinate one client's interest to another client's.

HCMC and HSA's CDO investments are primarily comprised of various tranches of debt securities. Generally, the holders of these investments are not entitled to vote on corporate matters, however, to the extent relevant, HCMC and HSA will adhere to the foregoing voting practices in connection with its management of CDOs.

In furtherance of Hildene's goal to vote proxies in the best interests of clients, Hildene follows procedures designed to identify and address material conflicts that may arise between Hildene's interests and those of its clients before voting proxies on behalf of such clients. In the event a material conflict of interest is identified, certain methods may be used to resolve the conflict, including (i) disclosing the conflict to the client and obtaining its consent before voting; (ii) suggesting to the client that it engage another party to vote the proxy on its behalf; or (iii) such other method as Hildene deems appropriate under the circumstances, given the nature of the conflict.

Clients may obtain a copy of Hildene's proxy voting policies and procedures upon request. Hildene maintains records of each proxy form or corporate action as voted for its clients.

#### **ITEM 18: FINANCIAL INFORMATION**

None of HCM, HCMC or HSA has additional financial circumstances to report. A balance sheet is not required to be provided because none of these entities requires or solicits prepayment of more than \$1,200 in fees per client more than six months in advance of services rendered.

**ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Not applicable.