

**Cathay Brochure  
(Part 2A of Form ADV)**

**CATHAY CAPITAL NA, LLC**

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**March 24, 2020**

This brochure provides information about the qualifications and business practices of Cathay Capital NA, LLC ("Cathay Capital"). If you have any additional questions about the contents of this brochure, please contact us at 212-858-9020. 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.

Cathay Capital is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors and Knowledgeable Employees by means of a private placement memorandum and related subscription materials.

Additional information about Cathay Capital is available on the SEC's website at <http://www.adviserinfo.sec.gov>. The SEC's web site also provides information about any of our affiliated persons who are registered, or are required to be registered, as investment adviser representatives of Cathay Capital.

## **Item 2. Material Changes**

The material amendments have occurred since this Brochure's last annual amendment on March 29, 2019 are as follows:

- Item 4 was updated to reflect changes to Cathay Capital's ownership and assets under management; and
- Item 8 was updated to include *Pandemic Risk* as a risk that applies to the operation of Cathay Capital as well as its management of the Cathay Fund.

The Disclosure Brochure may be requested by contacting Cathay Capital at 212-858-9020 or emailing your request to Andre.Puong@Cathay.Fr.

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## **Item 4. Advisory Business**

Cathay Capital is a federally registered investment adviser that provides investment management and fund administrative services to clients, as further described below. Cathay Capital is a Delaware limited liability company that has been in business since 2015.

Cathay Capital's principal owner is Cathay Capital Private Equity LLC, which owns 75% of the Firm. Cathay Capital Private Equity LLC is wholly-owned by Cathay Capital Europe S.a.r.l. Mr. Mingpo Cai owns 80% of Cathay Capital Europe S.a.r.l. Cathay Capital Private Equity LLC provides investment advisory services to other private funds based in Europe.

Cathay Capital provides investment advisory services to two Cayman Islands limited partnerships that together form a pooled investment vehicle (the "Cathay Fund") exempt from registration under the Investment Company Act of 1940, as amended (the "1940 Act") and whose securities are not registered under the Securities Act of 1933, as amended (the "Securities Act"). As the investment adviser of each partnership and the Cathay Fund, Cathay Capital, along with the general partner of the Cathay Fund Cathay Capital North American-Sino Fund GP, LP (the "General Partner"), identifies investment opportunities for, and participates in the acquisition, management, monitoring and disposition of investments of, the Cathay Fund.

Cathay Capital attempts to create value in the companies in which the Cathay Fund invests by seeking to: (i) build out distribution of Western products and services into China, (ii) bring Western technology, product branding, distribution techniques, management disciplines/best practices and governance to entrepreneurial Chinese companies; (iii) identify and helping execute cross-border acquisitions and divestitures and (iv) assist Chinese companies in forming partnerships and joint ventures with Western companies.

Cathay Capital's investments take the form of equity and equity-related interests and, on a select basis, debt securities in small to middle-market companies having their principal place of business or activities mainly in North America and/or China (the "Target Markets") that Cathay Capital believes may have a high potential for growth, strong value creation potential and a capacity for development on an international basis. These investments may also, to a lesser extent, invest in companies having their principal place of business or activities outside of the Target Markets with a view to accompany the business development of such companies in the Target Markets (or invest in companies having their principal place of business or activities within the Target Markets with a view to accompany their business development outside of the Target Markets).

Cathay Capital provides investment advisory services to the Cathay Fund pursuant to an Investment Management Agreement among Cathay Capital, the General Partner, and the Fund ("Advisory Agreement"). Investment advice is provided directly to the Cathay Fund,

subject to the direction and control of the General Partner and not individually to the investors in the Cathay Fund.

Any restrictions on investments in certain types of securities is established by the General Partner of the Cathay Fund, and set forth in the documentation received by each limited partner prior to investment in the Fund. Once invested in the Cathay Fund, investors cannot impose restrictions on the types of securities in which the Fund may invest.

As of December 31, 2019, Cathay Capital had approximately \$125.7 million in discretionary assets under management. Cathay does not have any non-discretionary assets under management.

## **Item 5. Fees and Compensation**

As compensation for investment advisory services provided to the Cathay Fund, Cathay Capital bills the Cathay Fund and receives an annual investment management fee payable quarterly in advance. Management fees paid by the Cathay Fund are indirectly borne by the investors in the Fund.

The precise amount, and the manner and calculation of, the management fee for the Cathay Fund is established by Cathay Capital and set forth in the applicable advisory agreement, limited partnership agreement (or analogous organizational document) and/or other documentation received by each investor prior to investing in a Cathay Fund.

Prospective investors should review in the private placement memorandum, the Advisory Agreement, limited partnership agreement (or analogous organization document) and/or other documentation carefully before investing.

Cathay Capital may waive all or a portion of a future installment of the management fee. Any waived amount may (a) reduce, on a dollar-for-dollar basis, the amount of capital contributions that the General Partner would otherwise be required to make in respect of its commitment and the limited partners will be required to make additional capital contributions to satisfy such shortfall, pro rata, in accordance with their respective commitments, up to the amount of the waived amount or (b) increase the allocation of profits to the General Partner. Cathay Capital (or an affiliate thereof) will be entitled to any distributions otherwise distributable to the limited partners in respect of the waived amount, but solely out of profits from investments.

Cathay Capital or its affiliates will occasionally earn break-up fees, transaction fees, deal monitoring fees, consulting fees, managing fees, directors' fees or other similar fees in connection with investments by the Cathay Fund. To the extent provided in the organizational and offering documents of the Cathay Fund, such fees will be applied by the General Partner to offset, pay or reserve for the payment of expenses (or to repay any credit facility drawdowns used to pay the same) or, if paid to the General Partner or its affiliates, to offset the management fee payable by the Cathay Fund, with any balance

distributed in accordance with the distribution procedures; provided, that any fees or carried interest distributions received by the General Partner or its affiliates in connection with a co-investment opportunity shall be for the account of the General Partner or such affiliate and shall not reduce the management fee. If an alternative investment vehicle, successor fund or other person or entity co-invests in the Cathay Fund's investments, or would have co-invested in an unconsummated investment, then the Cathay Fund is only entitled to the portion of such fees from the co-investment equal to the Fund's share of the proportionate amount that the Fund has or would have invested therein.

The Cathay Fund bears all of the legal and other organizational expenses incurred in forming the partnerships, General Partner and related investment advisory entities and obtaining commitments from the investors ("Organizational Expenses"). Cathay Capital's management fee is reduced by (a) all amounts paid by the Cathay Fund to any placement agent or financial advisor relating to the raising of capital from the limited partners and (b) Organizational Expenses paid by the Cathay Fund in excess of \$1.5 million.

To the extent provided in the Advisory Agreement and the partnership agreements (or other organizational documents), Cathay Capital is responsible for costs and expenses relating to its own operations, including rent, salary, furniture and fixtures and all other office equipment. The Cathay Fund bears other expenses relating to it, to the extent not borne by the underlying companies in which it invests. Generally, each Cathay Fund bears all costs and expenses relating to the Fund's operations, including, but not limited to: (a) legal, auditing, consulting, banking, third party administration and accounting fees and expenses (including costs of reports to the investors, financial statements, K-1s, data services, and financial modeling software and services); (b) printing and translation costs; (c) expenses of the Advisory Committee [See Item 11 below for more information] and meetings of limited partners; (d) all expenses associated with the consideration, acquisition, holding and disposition of its proposed or actual investments (including proposed or actual warehoused investments), including, without limitation, hedging activities and temporary investments, appraisal and valuation expenses, finders' fees, listing fees, underwriting/syndication fees, any and all costs associated with alternative investment vehicles and any holding vehicles, indemnification and other unreimbursed expenses; (e) insurance covering directors and employees of Cathay Capital or third parties appointed as manager, director, member or equivalent positions of portfolio companies and all extraordinary expenses (such as litigation); (f) interest on and fees and expenses arising out of all permitted borrowings made by the Cathay Fund; (g) all third party expenses relating to unconsummated transactions including break-up fees; (h) all expenses of liquidating the investment vehicle; and (i) any registration expenses or taxes, fees or other governmental charges levied against the investment vehicle and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Cathay Fund. There may be other fees and expenses as well depending upon the particular investments of the Cathay Fund.

The appropriate allocation between a Cathay Fund and any co-investment vehicles of expenses and fees generated in the course of evaluating potential investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorney fees

and the fees of other professionals, will be determined by Cathay Capital and its affiliates in their good faith discretion, consistent with the limited partnership agreement (or analogous organizational documents) of the Cathay Fund, as applicable.

Additionally, see Item 6 below regarding “carried interest” that the Cathay Fund may pay.

Although Cathay Capital does not intend to generally utilize the services of broker-dealers for transaction related services, in the event that it chooses to use a broker-dealer for limited purposes relating to a particular pooled investment vehicle, the vehicle will incur brokerage and other transaction costs. For additional information regarding brokerage practices, please see Item 12 below.

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

A portion of each Cathay Fund’s net investment profit may be allocated to the capital account of its General Partner as “carried interest.” The General Partner of the Cathay Fund is a related person of Cathay Capital.

The fact that the carried interest is based on a percentage of net profits may create an incentive for the General Partner (and Cathay Capital) to cause an investment vehicle to make riskier or more speculative investments than otherwise would be the case.

However, Cathay Capital’s investment team’s investment in the Cathay Fund, as well as the team’s interest in the carried interest, may align, to some extent, the interest of the team with the interest of the limited partner investors, although the team may have economic interests in the other funds managed by affiliates of Cathay Capital (the “Other Cathay Capital Group Funds”) and investments and may receive management fees and carried interests relating to these interests.

To the extent provided in the partnership agreements (or other organizational documents), the General Partner may, but is not be obligated to, offer available co-investment opportunities to certain limited partners or other persons (including investment vehicles and accounts managed by Cathay Capital or its affiliates) on such terms and conditions as shall be determined by the General Partner. If an investment vehicle co-invests with any affiliate of the General Partner, it shall do so on a *pari passu* basis unless co-investment on other terms is approved by an advisory committee formed by the General Partner consisting of selected representatives of the limited partners (the “Advisory Committee”).

If the Cathay Fund co-invests with any party that is not an affiliate of the General Partner, it may do so on such terms as the General Partner deems appropriate, which may include payment of fees or carried interest to a third party and/or payment of fees or carried interest by a third party to the General Partner or its affiliate. Any such fees or carried interest paid to the General Partner or its affiliate shall be for the account of the General Partner and/or such affiliate, as applicable, and shall not reduce the fees and carried

interest payable to the General Partner and its affiliates. The General Partner will not be required to offer any limited partner the opportunity to co-invest with the Cathay Fund.

The Cathay Fund may have substantially similar investment objectives with slightly different investment strategies than the Other Cathay Capital Group Funds. Cathay Capital will work with prospective portfolio companies to determine which funds would provide the most appropriate source of capital. Currently, the primary standard for suitability is the determination of the region, either North America or Western Europe, for which the prospective portfolio company is believed to likely derive the greatest opportunity for growth or strategic partnership. For example, the Cathay Fund focuses on prospective portfolio companies that are believed to have the greatest opportunity for growth in North America.

From time-to-time, opportunities may arise for which investments by more than one fund may be appropriate. For example, this may arise where a prospective portfolio company has a cross-border strategy that would focus on both Europe and North America, and, therefore, this company would be appropriate for both the U.S.-based Cathay Fund and another Cathay Capital Group Fund. In the event an investment opportunity falls within the investment policy of more than one fund, the funds will generally co-invest pro rata to their respective investment capacity (i.e. their respective commitments available for investments).

Alternatively, for any new given Chinese investment opportunity, the allocation rule will be the following:

- If the cross-border value forecast to be created in Europe exceeds 50% of the total cross-border value forecast to be created, such opportunity will be fully assigned to the Other Cathay Capital Group Fund.
- If the cross-border value forecast to be created in North America exceeds 50% of the total cross-border value forecast to be created, such opportunity will be fully assigned to the Cathay Fund.

In cases where there are no sales (or EBITDA or net income) anticipated to be generated through the cross-border development (such as for example a “best practice partnership”) or if the anticipated level of sales (EBITDA or Net Income) anticipated to be generated through the cross-border development is negligible, then the allocation rule will be as follows:

- If the anticipated cross-border development is mainly in Europe, with business partners identified in Europe and already established contacts, as indicated in the investment memo, then the deal will be allocated to the adequate Other Cathay Capital Group Fund.
- If the anticipated cross-border development is mainly in North America, with business partners identified in North America and already established



contacts, as already indicated in the investment memo, then the deal will be allocated to the Cathay Fund.

## **Item 7. Types of Clients**

Cathay Capital provides investment advisory services directly to the Cathay Fund, subject to the direction and control of the General Partner of the Fund and not individually to the limited partners of the Fund.

The Cathay Fund is not required to register as an investment company pursuant to the 1940 Act in reliance on Sections 3(c)(1) and 3(c)(7). Section 3(c)(1) excepts from the definition of investment company any issuer whose outstanding securities (other than short-term paper) are beneficially owned by not more than one hundred persons and that is not making and does not at that time propose to make a public offering of such securities.

Section 3(c)(7) excepts from the definition of investment company any issuer whose outstanding securities are owned exclusively by persons who, at the time of acquisition of such securities, are qualified purchasers and that is not making and does not at that time propose to make a public offering of such securities. The term "qualified purchaser" is defined in Section 2(a)(51) of the Investment Company Act, in which case each prospective U.S. investor must be either a "qualified purchaser" within the meaning of Section 2(a)(51) of the 1940 Act or a "knowledgeable employee" of the Fund as defined in Rule 3c-5(a)(4) of the Investment Company Act, or, if the exclusion under Section 3(c)(7) is not available, another exclusion or exemption under the 1940 Act.

Minimum investment commitments may be established for investors in the Cathay Fund, which will be set forth in the relevant offering documents. The General Partner of the Cathay Fund, in its sole discretion, may permit investments that are less than the minimum investment commitment set forth in the applicable Cathay Fund offering documents.

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

### **Investment Strategy**

Cathay Capital partners with management teams to invest in growing companies in North America and China that it believes can benefit from international expansion and/or a more sophisticated distribution approach. Cathay Capital attempts to accelerate its investment portfolio companies' access to Chinese markets for Western companies via its networks, ecosystem, operating capabilities, local presence in China and deep knowledge of Chinese legal, regulatory and governance frameworks. Additionally, Cathay Capital will, as deemed appropriate, introduce sophisticated product branding, distribution techniques, new technologies and Western best practices and transparency to Chinese companies to help

these entities seek to generate sustainable growth with a goal of achieving higher valuations upon exit. Cathay Capital will typically seek to invest on a noncompetitive basis by proposing growth plans to companies that are not necessarily seeking investments or acquisitions.

Prior to making an investment, Cathay Capital will typically seek to establish a relationship of trust with company management teams. Cathay Capital will generally initiate such relationships through value added proposals to company management teams, whose trust it considers essential to a business plan's successful implementation.

In addition, Cathay Capital leverages the expertise of investment and industry leaders and executives to assist the investment team in seeking non-competitive investment opportunities, make introductions to potential strategic partners, evaluate new opportunities and provide value added direction and assistance.

Cathay Capital seeks to identify lower middle market companies with leading brands, leadership in their sectors, or both. Cathay Capital works closely with management teams to evaluate and execute new market entries, introduce Western portfolio companies to decision makers at major Chinese companies and assist Chinese companies in securing new contracts with Western counterparts. Cathay Capital seeks to strengthen its portfolio company brands by focusing on quality and service perceptions on a local basis, often increasing marketing budgets. Cathay Capital's access to business partners and knowledge of regulations and corporate cultures in multiple jurisdictions may help accelerate the process of efficiently integrating its portfolio companies into local markets.

Cathay Capital tailors its investment to the specifics of each opportunity, which results in a variety of deal structures:

- Capital increases through the issuance of new equity (common or preferred stock) or quasi-equity (straight or convertible debt);
- Buyouts, including acting in concert with management by facilitating management buyouts or buy ins;
- Minority and majority transactions periodically with other financial sponsors or public companies where Cathay Capital would play the role of local partner in either North America or China;
- Partial exits by owner-managers or shareholder restructurings (e.g., exits of minority shareholders); and,
- Take privates and negotiated capital increases with public companies.

## **Risks**

The purchase of limited partnership interests in the Cathay Fund involves significant risks relating to investments in limited partnerships generally, and to the structure and investment objectives of the Cathay Fund in particular. The following are the risks related to the Cathay Fund's investment objective and Cathay Capital's investment activities. The risks particular to the Cathay Fund, such as dependence on key personnel, default by

limited partners, and restrictions on transfer, are detailed in the Fund's offering documents.

### **Reliance on Management of the Investment Adviser**

Decisions with respect to the management of the Cathay Fund may be made by the General Partner of the Cathay Fund with the advice of Cathay Capital. The success the Cathay Fund depends on the ability of its General Partner and Cathay Capital to identify and consummate investments, to improve the operating performance of the investments, and dispose of investments at a profit. The loss of the services of one or more members of the professional staff of Cathay Capital or the General Partner could have an adverse impact on the Cathay Fund's ability to realize its investment objective. In addition, all of the officers and employees responsible for managing the Cathay Fund have responsibilities with respect to other investment vehicles and accounts managed by affiliates of Cathay Capital. Thus, such persons have demands made on their time for the investment, monitoring, exit strategy and other functions of other funds and accounts.

### **Illiquidity of Investments**

The majority of the investments made by the Cathay Fund are in unlisted companies that may be difficult to transfer. Cathay Capital may not be able to sell such securities publicly without the expense, time and other burdens required to register the securities under applicable laws. In addition, practical limitations may inhibit the Cathay Fund's ability to liquidate its investments in unlisted companies when it owns a relatively large percentage of the company's equity securities. Sales of such securities may also be limited by market conditions, which may be unfavorable for sales of securities of particular issuers or issuers in particular industries. Moreover, the Cathay Fund may enter into shareholder agreements with respect to a portfolio company which may make the disposal of an investment more difficult. In addition, the Cathay Fund may be represented on the board of one or more portfolio companies or may be deemed to be represented by its ability to nominate observers to such boards. As a result of regulations designed to prevent market abuse, the ability to sell interests in such portfolio companies when and upon the terms that it may otherwise desire may be impaired. The limitations on liquidity of such investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized. Upon liquidation, these investments may even be distributed in kind and investors may then hold minority interests in one or more unlisted companies.

### **Little or No Near-Term Cash Flow**

Although the Cathay Fund's investments may occasionally generate current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition of such investment. Accordingly, it is not expected that significant returns will occur for a number of years after investments are made. During that period, investors will not benefit from any return of their investment. Therefore, there may be little or no near-term cash flow available to investors.

Moreover, the return of capital and the realization of gains, if any, depends on various factors, including future operating results, the value of the assets and market conditions at

the time of disposition, any related transaction costs and the timing and manner of sale. There can be no assurance that the operation of the Cathay Fund will be profitable, that the Fund will be able to avoid losses or that cash from its investments will be available for distribution to investors. The Fund will have no source of funds from which to make distributions to limited partners other than income and gains received on its investments and the return of capital.

### **Investments Longer than Term**

Although it is expected that the Cathay Fund's investments will be disposed of prior to dissolution or be suitable for in kind distribution at dissolution, the General Partner may have only a limited ability to extend the term of the Cathay Fund, and therefore, the Fund may have to sell, distribute or dispose of its investments at a disadvantageous time as a result of dissolution.

### **Competition for Investment Opportunities**

The activity of identifying, completing and realizing attractive investments is highly competitive and involves a high degree of uncertainty. Cathay Capital competes for portfolio companies with other investment vehicles, as well as financial institutions and other institutional investors. Additional investment vehicles and companies with similar investment objectives may be formed by unrelated parties and further consolidations may occur (resulting in larger funds and vehicles). There can be no assurance that Cathay Capital can locate, complete and exit investments. This may lead to Cathay Capital only making a limited number of investments. Since these investments may involve a high degree of risk, poor performance by a few could significantly affect the return to investors, and failure to invest the total commitments will reduce the potential for returns. Increased competition also has an effect on acquisition and other costs, thereby potentially reducing investment returns.

### **Lack of Diversification**

Although diversification is an objective of the Cathay Fund, there is no assurance as to the degree of diversification that will be achieved in the Fund's portfolio of investments. The Cathay Fund may make only a limited number of investments and, as a consequence, the aggregate return of the Cathay Fund may be substantially adversely affected by the unfavorable performance of a single investment. If Cathay Capital makes an investment with the intent of selling a portion of it, Cathay Capital may be unable to successfully complete such a sale. This concentration could lead to increased risk, unintended long-term investments and reduced diversification.

### **Valuation Risks**

Cathay Capital does not expect there to be any liquid market, or only a limited liquid market, for the Cathay Fund's investments. Therefore, the fair value of these investments may not be readily determinable. Cathay Capital will value each of Cathay Fund's investments periodically at fair value as determined by the General Partner. The valuations used for a substantial portion of the investments may not reflect the most recently available market information. The types of factors that may be considered in fair value pricing of the investments include discounted cash flows, comparable companies' analysis,

comparable transactions analysis, prevailing market conditions with respect to the location of a portfolio company, similar asset sales and other relevant factors. Because such valuations are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. Therefore, the General Partner's determination of fair value may differ materially from the actual results obtainable in an arm's length sale of such investments to a third party.

### **Risks Relating to Due Diligence of Portfolio Companies**

Before making investments, the General Partner and/or Cathay Capital will typically conduct due diligence that they deem reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment. Such involvement of third-party advisors or consultants may present a number of risks primarily relating to the General Partner's reduced control of the functions that are outsourced.

When conducting due diligence, the General Partner and/or Cathay Capital will rely on the resources available to them, including information provided by the target portfolio company and, in some circumstances, third-party investigations. The due diligence investigation may not reveal or highlight all relevant facts necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful. Conduct occurring at Portfolio Companies, even activities that occurred prior to the Cathay Fund's investment therein, could have an adverse impact on the Fund.

### **Expedited Investment Decisions and Analyses**

Investment analyses and decisions may be required to be undertaken on an expedited basis to take advantage of certain investment opportunities. In such cases, the information available at the time an investment decision is made may be limited, and Cathay Capital may not have access to complete information regarding a potential investment. Therefore, no assurance can be given that the General Partner will have knowledge of all circumstances that may adversely affect an investment. In addition, the General Partner expects to rely upon specialized expert input by various third-party consultants and service providers in connection with its evaluation of proposed investments.

### **Bridge Investments**

The Cathay Fund may provide bridge financing to one or more portfolio companies in which it invests with the expectation of a subsequent sale, transfer, refinancing or syndication within twelve months. For reasons not always in the Cathay Fund's control, such sale, transfer, refinancing or syndication may not occur, which would result in such bridge investment being outstanding longer than anticipated. In such event the Cathay Fund may have more risk associated with such portfolio company or more capital invested in such portfolio company than originally anticipated and would not be able to invest that capital in other investments of the Fund.

**Platform/Staged Investments**

Certain of the Cathay Fund's investments, especially those in a development or "platform" phase, may require additional financing to satisfy their working capital requirements. The amount of such additional financing needed will depend upon the maturity and objectives of the investment and current state of financing markets. Each such round of financing is typically intended to provide a company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, a portfolio company may have to raise additional capital at a price unfavorable to the existing investors, including the Cathay Fund.

In addition, in the event Cathay Capital chooses to effect a transaction by means of a multi-step or "staged" acquisition, there can be no assurance that all of such required steps can be successfully consummated. This could result in the Cathay Fund owning a significant portion of a company without having working control over such company or access to its cash flow and without being able to dispose of investment at prices equal to or greater than its purchase price.

**Dilution of Investments in Portfolio Companies**

A Portfolio Company in which the Cathay Fund invests may be authorized to issue an unlimited number of common shares without par value. Sales of substantial amounts of common shares (including shares issuable upon the exercise of stock options, the conversion of notes and the exercise of warrants), or the perception that such sales could occur, could materially adversely affect prevailing market prices for the common shares and the ability of such portfolio company to raise equity capital in the future. In addition, any such issuances of additional common shares in a portfolio company may significantly dilute the Cathay Fund's investments therein, decreasing the Fund's control or influence over such portfolio company and possibly its return on its investment therein.

**Lack of Operating Cash Flow**

Portfolio companies may have no revenues from ongoing operations and may have recorded losses since inception. Moreover, they may expect to incur operating losses in future periods due to continuing expenses associated with the operation, development and/or expansion of such portfolio company's business. Any such portfolio company may have limited financial resources and its ability to achieve and maintain profitability and positive cash flow is dependent upon many factors, including the ability of the portfolio company's management to successfully implement its business strategy, global and local supply and demand for the goods or services such portfolio company offers and social, political and economic events and conditions impacting the markets in which such portfolio company operates.

Additional funds raised by a portfolio company through the issuance of equity or convertible debt securities will cause such portfolio company's current shareholders to experience dilution. Such securities may grant rights, preferences or privileges senior to those of the common shareholders. There is no certainty that a portfolio company will be able to raise funds in the event it needs to do so.

### **Third-Party Financing and Use of Leverage**

Portfolio companies may require significant external financing to operate or develop their business. The Cathay Fund's ability to generate attractive investment returns for its limited partners may be materially and adversely affected to the extent the Fund is unable to obtain favorable financing terms for its portfolio companies and/or to the extent a portfolio company is unable to obtain financing on favorable terms for itself or at all. Failure to obtain sufficient financing could result in the delay or indefinite postponement of the operation or development of the portfolio company's business.

However, too much leverage poses its own risks to the operation and performance of Portfolio Companies. The Portfolio Companies in which the Fund invests may not have any contractual restrictions on their ability to incur debt and accordingly, any such Portfolio company could incur significant amounts of indebtedness to finance its operations. Use of leverage by any particular Portfolio company will increase the exposure of such Portfolio company to adverse economic factors such as rising interest rates, severe economic downturns or deterioration in the condition of such Portfolio company or its market. In the event a Portfolio company is unable to generate sufficient cash flow to meet its principal and interest payments on its indebtedness, the value of the Fund's equity investment in such Portfolio company could be significantly reduced or even eliminated. There are also financing costs associated with leverage and any such indebtedness could contain covenants that could restrict such Portfolio company's operations. The Fund and/or the Portfolio company may also be subject to the risk of the inability of lenders or other counterparties to perform with respect to such transactions, whether due to insolvency, bankruptcy or other causes, which could subject the Fund to substantial losses.

### **Credit Facility**

The Cathay Fund may enter into a credit facility with one or more lenders in order to (i) pay Fund Expenses, (ii) finance the acquisition of the Fund's investments on an interim basis and (iii) provide capital for Bridge Investments. It is anticipated that any such credit facility will contain a number of common covenants that might restrict the ability of the Fund to engage in its normal course of business. The credit facility may be directly or indirectly collateralized by multiple investments and may be secured by the Partners' Interests in the Fund and/or by the assignment of the obligations of the Partners to make capital contributions to the Fund. In furtherance of the foregoing, the Partners may be required to execute and deliver such documents as may be required by a lender to obtain and retain such financing and/or such other documents, as determined by the General Partner to be required in connection with such financing, including without limitation, certain consents, confirmations and acknowledgements. Any inability of the Cathay Fund to repay such borrowings could enable a lender to take action against the limited partners. The Cathay Fund may incur variable rate indebtedness under credit facilities. In that case, increases in interest rates would increase the Fund's interest costs, thereby, among other things, decreasing the amount of available funds for distribution to the limited partners. Increases in interest rates also may cause a reduction in the value of the Fund's investments. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political

considerations and other factors beyond the control of the Cathay Fund. Consequently, the profitability of the Cathay Fund may be adversely affected during any period as a result of changing interest rates.

### **Controlling and Non-Controlling Investments**

Cathay Capital may carry out some of a Cathay Fund's investments through the buyout or acquisition of controlling interests in portfolio companies. Acquisitions of such companies have certain risks over and above those associated with the purchase of a minority interest in such companies. In addition, the exercise of control over an entity can impose additional risks of liability for its activities, including environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored.

Alternatively, in the case of a non-controlling interest in a portfolio company, Cathay Capital may have a limited ability to protect the Cathay Fund's position in such investments. In such cases, the day-to-day operations of each such company will be the responsibility of the company's management team. In such cases, Cathay Capital will be significantly reliant on the existing management, board of directors and other shareholders who may not be affiliated Cathay Capital and whose interests may conflict with those of Cathay Capital.

### **Joint Ventures and Co-Investments with Third Parties**

Instead of purchasing investments directly, the Cathay Fund may invest as a partner or a co-venturer with affiliates of the General Partner (including other investment funds managed by the General Partner or its affiliates and/or third parties through partnerships, joint ventures or similar arrangements), thereby acquiring jointly-controlled or non-controlling interests in certain investments. Such investments may involve risks not present in investments where another participant is not involved, including the possibility that such other participant may have financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of Cathay Capital or may be in a position to take (or block) action in a manner contrary to the Cathay Fund's investment objectives. In addition, the Cathay Fund may be liable for the actions of its third-party partners or co-venturers. In certain circumstances involving a third-party management group, such third parties may receive compensation relating to such investments, including incentive compensation and management fees.

### **Currency Risks**

The base currency of the Cathay Fund that Cathay Capital advises will be U.S. dollars, although some or all of the investments may be denominated in other currencies, including the yuan or renminbi (RMB) in China and the euro. Investors may therefore be exposed to currency exchange rate fluctuations. In addition, movements in the exchange rate between U.S. dollars and the currency applicable to a particular limited partner may have an impact upon such limited partner's returns in their own currency or account.

### **Financial Market Fluctuations**



General fluctuations in the market prices of securities and economic conditions generally, particularly of the type experienced since 2008, may affect Cathay Capital's ability to make investment and the value of the investments held by the Cathay Fund. While current market conditions may create opportunities to make investments at prices that Cathay Capital believes are attractive, it creates a number of risks. There can be no assurance that the market will become more liquid than it is at present and it may continue to be volatile for the foreseeable future. The Cathay Fund may be adversely affected to the extent that it seeks to dispose of any of its investments into an illiquid or volatile market, and Cathay Capital may find itself unable to dispose of an investment at a price that reflects the investment's fair value. The duration and ultimate effect of current market conditions and whether such conditions may worsen cannot be predicted.

### **General Regulatory Risks**

Legal, tax and regulatory changes could occur that may adversely affect Cathay Capital and the Cathay Fund. The regulatory environment for private investment funds is evolving, and changes in the regulation of private investment funds may adversely affect the value of investments held by the Cathay Fund and its ability to obtain the leverage they might otherwise obtain or to pursue their trading strategies. New laws or revised regulations imposed by the SEC, other governmental regulatory authorities, self-regulatory organizations or industry bodies that supervise the financial markets that could adversely affect Cathay Capital may be adopted in the future. The Cathay Fund may also be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these regulatory authorities or self-regulatory organizations.

### **Investments Across Multiple Countries**

The companies in which the Cathay Fund may invest in may operate in a number of different countries and may be exposed to various levels of political, economic and other risks and uncertainties. Differences in market conditions, laws, regulations and business practices across countries create legal and regulatory uncertainty and complications in the operation and development of the company's business, including: (i) differences in currencies, giving rise to exchange risks, including fluctuations in the rate of exchange between the U.S. dollar and the Chinese yuan or RMB and various non-U.S. currencies in which other non-U.S. investments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iii) differences in the securities markets across the various countries, including potential price volatility in and relative illiquidity of some non-U.S. securities markets, the absence of uniform accounting, auditing, and financial reporting standards, practices and disclosure requirements, and less government supervision and regulation; (iv) certain economic, social and political risks, including potential exchange control regulations and restrictions on non-U.S. investment and repatriation of capital, the risks of political, economic, or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation, confiscatory taxation or the imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, and adverse economic and political developments; (v) the possible imposition of non-U.S. taxes on income, gains and gross sales or other proceeds recognized

with respect to such securities or instruments; and (vi) differing and potentially less well-developed or well-tested corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties and the protection of investors; (vii) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (viii) political hostility to investments by foreign or private equity investors and (ix) less publicly available information.

Changes, if any, in investment policies or shifts in political attitude in such jurisdictions may adversely affect a Portfolio Company's operations or potential profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, retention taxes, expropriation of property, foreign investment, maintenance of claims and environmental legislation as well as government regulations that favor local business over foreign business. Failure to comply strictly with applicable laws, regulations and local practices could result in losses, liabilities, fines and penalties as well as the loss of licenses, approvals or other qualifications necessary for the operation of the portfolio company's business.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Cathay Fund's investments.

### **Chinese Regulatory Risks**

Although the Chinese government has adopted regulations aimed at opening the Chinese economy to foreign investment, there are uncertainties concerning the measures taken by the Chinese government to implement those regulations and increase the transparency of the current regulatory framework.

The performance investments in China will depend on the continued progress of Chinese legal and regulatory reforms to make China more favorable to foreign investment and, in particular, depend upon actions by the Chinese government to:

- rationalize the approval procedure of transnational acquisitions and increase its transparency;
- establish a solid framework for organized competition;
- open the capital markets to foreign investors;
- encourage Chinese companies to adopt more transparent operating procedures and communicate accurate and updated financial information in order to facilitate the evaluation of potential acquisitions; and
- soften restrictions applicable to foreign participation and review the categories of firms which can or cannot be transferred to foreign investors.

### **Pandemic Risk**

Disease outbreaks that affect local economies or the global economy may materially and adversely impact the Cathay Fund and/or Cathay Capital's business. These types of

outbreaks have the potential to cause severe decreases in core business activities such as manufacturing, purchasing, tourism, business conferences and workplace participation, among others. These disruptions also have the potential to lead to instability in the marketplace, including market losses and overall volatility. In the face of such instability, governments may take extreme and unpredictable measures to combat the spread of disease and mitigate the resulting market disruptions and losses. In the event of a pandemic or an outbreak, there can be no assurance that Cathay Capital or its service providers will be able to maintain normal business operations for an extended period of time or will be able to retain the services of key personnel on a temporary or long-term basis due to illness or other reasons. The full impact of a pandemic or disease outbreaks is unknown, which could result in a high degree of uncertainty for potentially extended periods of time.

## **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 your evaluation of Cathay Capital or the integrity of Cathay Capital's management. There are no material legal or disciplinary events to disclose related to Cathay Capital's business or its management.

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

Cathay Capital is 75% owned by Cathay Capital Private Equity LLC. Cathay Capital Private Equity is wholly-owned by Cathay Capital Europe S.a.r.l., a Luxembourg company founded in 2011 and controlled by Mingpo Cai, a Chinese entrepreneur. Mingpo Cai owns 80% of Cathay Capital Europe S.a.r.l. Cathay Capital Private Equity LLC provides investment advisory services to other private funds based in Europe.

Cathay Capital, its affiliates, key persons and other employees may conduct, for their own account or on behalf of others, business activities of the type conducted by the Cathay Fund. Conflicts may therefore arise in the allocation of personnel and resources. Cathay Capital and its affiliates strive to maintain a culture of teamwork, collaboration, and leveraging synergies across various teams. Therefore, if such conflicts arise among the adequate allocation of personnel and resources, such issues will be resolved by reallocating resources so that adequate time and resources are devoted to the Cathay Fund.

### **Related General Partners**

Cathay Capital North American-Sino Fund GP, LP is the General Partner of the Cathay Fund. The General Partner has delegated the management of the Cathay Fund to Cathay Capital, through an investment management agreement entered on July 6, 2015 between the Cathay Fund, Cathay Capital, and the General Partner.

The governance, investment strategy and decision-making process with respect to the investments held by the Cathay Fund is directed by the Investment Committee. The Investment Committee is currently managed by Cathay Capital and consists of:

- Mingpo Cai, the President, Chief Executive Officer, Treasurer and Secretary of Cathay Capital. Mr. Cai is also the Founder and President of Cathay Capital Europe S.a.r.l. which owns Cathay Capital Private Equity LLC, which is the principal owner of Cathay Capital. Mr. Cai owns 80% of Cathay Capital Europe S.a.r.l.
- Mark Woods, Partner based in the U.S.
- Andre Puong, Partner based in the U.S.
- Lanchun Duan, Managing Partner based in Shanghai
- Anne Wang, Partner based in Shanghai

Cathay Capital is not affiliated with any broker-dealer, nor does it have personnel who are registered representatives of a broker-dealer. Neither Cathay Capital nor its representatives are registered as a Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Advisor.

Cathay Capital does not recommend or select other investment advisers. It does not receive compensation from any advisers or third parties.

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

### **Code of Ethics**

Cathay Capital has adopted a Code of Ethics that complies with Rule 204A-1 under the Advisers Act. The Code of Ethics applies to all of Cathay Capital's access persons. The term "Access Person" means: (i) every Director or officer of Adviser, (ii) every Covered Person of Adviser who, in connection with his or her regular functions or duties, makes, participates in or obtains information regarding the purchase or sale of a Security for any client, or has access to nonpublic information about the portfolio holdings of any client, or whose functions relate to the making of any recommendations with respect to purchases and sales, and (iii) every other person (whether or not a Covered Person of Adviser, such as consultants) who is subject to Adviser's supervision and control who has access to nonpublic information regarding any purchase or sale of securities of any client, or has access to nonpublic information about the portfolio holdings of any client.

Cathay Capital's Code of Ethics addresses the following areas: acting as a fiduciary by placing the interests of the clients first, avoidance of conflicts of interest, disclosure of outside business activities, reporting of certain gifts and entertainment, treatment of confidential information, political contributions, prohibition against insider trading, and procedures for personal securities transactions of Cathay Capital's covered persons and pre-clearance of initial public offerings, limited offerings and private offerings. Each Access Person is required to certify annually that he or she has read and understands the Code of

Ethics. Cathay Capital will provide a copy of its Code of Ethics to any client or prospective client upon request. Please contact Andre Puong at Andre.Puong@cathay.fr for a copy.

Cathay Capital's Chief Compliance Officer ("CCO") is responsible for ensuring that Cathay Capital receives duplicate brokerage account statements for anyone associated with Cathay Capital who has a securities account with a broker-dealer. A review of the trading activity of Cathay Capital personnel with such securities accounts is conducted quarterly to ensure that the personnel comply with Cathay Capital's personal trading policy.

### **Conflicts of Interest**

The conflicts of interest that may be encountered by Cathay Capital include those discussed below, although these discussions do not describe all of the conflicts that may be faced by Cathay Capital and the Cathay Fund. Dealing with conflicts of interest is complex and difficult, and new and different types of conflicts are likely to subsequently arise.

The discussion below reflects the intended practices of Cathay Capital and the Cathay Fund. Please refer to the limited partnership agreement (or analogous organizational document) of the Cathay Fund for details regarding the practices of the Cathay Fund.

Cathay Capital and its affiliates engage in a broad range of activities, including investment activities on their own account and for the account of other Cathay funds or accounts, and providing other services.

As of the date of this brochure, certain members of Cathay Capital's management team (and members of affiliated entities) currently invest in the Cathay Fund, however, each member may increase, change or discontinue his or her investment at any time (subject to the governing documents of the applicable Fund).

Cathay Capital has formed an advisory committee consisting of selected representatives of the Cathay Fund limited partners (the "Advisory Committee"). The Advisory Committee advises the General Partner regarding conflicts of interest and other issues. The Advisory Committee may waive certain provisions of the partnership agreements and will provide any consent required of the "client" under the Advisers Act. The members of the Advisory Committee are entitled to reimbursement for reasonable out-of-pocket expenses incurred in connection with their service on the Advisory Committee. The Advisory Committee meets at least annually.

### **Miscellaneous Revenues**

Cathay Capital or its affiliates receive miscellaneous revenues payable by third parties arising from the Cathay Fund's investments or potential investments, which may include transaction, commitment, closing, monitoring, managing, directors', financing, structuring, divestiture, topping, break-up, advisory and financial consulting or other similar fees. Except for any fees authorized, acknowledged or approved in accordance with the Cathay Fund's limited partnership agreement, Cathay Capital or its affiliates either (i) remit to the Cathay Fund a pro rata share of such miscellaneous revenues (net of any applicable

expenses) or (ii) offset or reduce the next installment of the management fee payable by the Cathay Fund to Cathay Capital under the limited partnership agreement.

### **Other Activities of the Manager**

Certain members and affiliates of Cathay Capital are investors in, and among the general partners of, certain commingled funds, joint ventures and single-investor investment entities and public companies. Further, members of Cathay Capital's management team (and members of affiliated entities) may invest, from time to time, in the Cathay Fund. Except with respect to investments required to be presented to the Cathay Fund pursuant to the partnership agreement (or other organizational documents), Cathay Capital, and/or its members or affiliates will not be restricted with respect to any other investment activities and platforms. Funds or investment entities managed by the members or affiliates of Cathay Capital may make investments in other companies that compete with the companies in which the Cathay Fund invest in and may be in competition with the vehicle for buyers and financings of assets. Additionally, conflicts may arise with respect to investment opportunities available to the Cathay Fund, Cathay Capital and other funds or entities managed by its members or affiliates. If such conflicts arise, allocation of such investment opportunities will be made by the General Partner and its affiliates in a manner that they determine, in their discretion, to be fair and reasonable while providing the best opportunity for the growth and development of the target company's business.

### **Allocation of Personnel**

Cathay Capital's key persons and other employees may conduct, for their own account or on behalf of others, business activities of the type conducted by a Cathay Fund. Key persons and such employees will not be spending all of their time in connection with a particular Cathay Fund. Conflicts may therefore arise in the allocation of personnel and resources.

Cathay Capital and its affiliates strive to maintain a culture of teamwork, collaboration, and leveraging synergies across various teams. Therefore, if such conflicts arise among the adequate allocation of personnel and resources, such issues will be resolved by reallocating resources so that adequate time and resources are devoted to each Cathay Fund.

### **Existing Relationships**

Cathay Capital's affiliates have long-term relationships with a significant number of industry and market participants. In determining whether to invest in a company on behalf of a Cathay Fund, the General Partner will consider those relationships and there may be certain transactions that will not be offered to or undertaken in view of such relationships. In addition, the existence and development of such relationships may be taken into account in the management of a Cathay Fund and its investments. In serving on the board of any portfolio companies, Cathay Capital or an affiliate thereof may recommend actions by the portfolio company that would directly or indirectly compete with or adversely affect a Cathay Fund.

In the case of such existing relationships, these relationships will be reviewed by the Advisory Committee. If the pre-existing relationship involves a member of the Investment Committee, the member will be asked to abstain from any decision of whether to invest in a particular company.

### **Diverse Investor Group**

Investors in the Cathay Fund may have conflicting investment, tax, and other interests. These conflicting interests may be related to, or arise from, among other matters, the acquisition or structuring of investments and the timing and disposition of investments. Conflicts of interest may arise in connection with decisions made by the General Partner or Cathay Capital that may be more beneficial for one investor than for another (for example with respect to investors' particular tax situations). In addition, the Cathay Fund may make investments that may have a negative impact on related or unrelated investments.

### **Side Letters**

The General Partner (on its own behalf and/or on behalf of a Cathay Fund) and/or Cathay Capital, without any act, approval or vote of any limited partner, has entered into letter agreements or other similar agreements (collectively, "Side Letters") with one or more limited partners that have the effect of establishing rights under, or altering or supplementing the terms of any of the operative agreements. Any rights established, or any terms of any of the operative agreements altered or supplemented, in a Side Letter with a limited partner shall govern notwithstanding any other provision of any of the operative agreements. As a result of any Side Letters, certain limited partners will receive additional benefits that others will not receive. Neither the General Partner nor Cathay Capital will be required to notify any other limited partner of the existence of any Side Letters or any of the rights or terms or provisions thereof, and neither the General Partner nor Cathay Capital will be required to offer such additional or different rights or terms to any other limited partner. Other limited partners will have no recourse against the Fund, the General Partner, Cathay Capital or any of their respective affiliates in the event that one or more limited partners receive additional or different rights or terms as a result of any Side Letter.

In the case of Side Letters, these relationships will be reviewed by the Advisory Committee. If the Side Letter involves one of the members of the Advisory Committee, that member of the Committee will abstain from consideration of the Side Letter.

### **Allocation of Opportunities**

As set forth in the Cathay Fund's limited partnership agreement, for a limited period, the General Partner is required to offer to the Fund each opportunity sourced by Cathay Capital or its affiliates for the Cathay Fund to consider acquiring if such investment is a suitable for the Fund and the Fund has adequate available resources. The General Partner not need to offer to the Cathay Fund investment opportunities in certain circumstances, which may include, when the Advisory Committee has consented to otherwise, the General Partner determines in good faith it would not be in the Cathay Fund's best interest to invest in the

opportunity, the General Partner has determined in good faith not to pursue the opportunity.,

From time-to-time, opportunities will arise where investments by the other Cathay Capital Group Funds will be appropriate. Please see Item 6 for a discussion of side-by-side management of the Cathay Fund and the Other Cathay Capital Group Funds.

## **Item 12. Brokerage Practices**

Cathay Capital focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions without the aid of a broker-dealer. Although Cathay Capital does not regularly engage in public securities transactions, to the extent it does so, it will follow the brokerage practices described below.

Given the nature of Cathay Capital's business, Cathay Capital does not block trades, nor does it recommend, request or require that the Cathay Fund direct Cathay Capital to execute transactions through a specified broker-dealer. Instead, the relevant Cathay Fund receives interests of ownership or shares at the prices set by and in transactions agreed to by the acquired company and Cathay Capital.

Cathay Capital does not receive research, products or services other than execution from broker-dealers or third parties in connection with client securities transactions in publically traded securities.

Cathay Capital does not engage in cross trades.

To the extent Cathay Capital is required by applicable law, and in the event Cathay Capital invests in a marketable security where the involvement of a broker is required, Cathay Capital has a fiduciary duty to seek to obtain best execution. Brokers will be selected with a view to obtaining best execution of transactions. Cathay Capital believes that best execution is typically achieved not necessarily by negotiating the lowest commission rate but by seeking to obtain the best overall result. Cathay Capital will consider all factors it deems relevant including execution capabilities, financial stability of the broker, responsiveness, confidentiality, promptness, clearance, settlement, and price.

## **Item 13. Review of Accounts**

Cathay Capital closely monitors the portfolio companies of the Cathay Fund and maintains an ongoing oversight position in such portfolio companies. The portfolio companies of the Cathay Fund are generally private, illiquid and long-term in nature and accordingly, Cathay Capital's review of them is not directed towards a short-term decision to dispose of securities.



Cathay Capital reviews client accounts on a quarterly basis, in conjunction with meetings of the Cathay Capital Valuation Committee, which is composed variously of a cross-section of Cathay Capital personnel, including its partners and associates. Investment models and capital markets are monitored on a continuous basis. Additional reviews may occur when market conditions change or there are material events that would impact the assets in a Cathay Fund or the way it should be managed.

Cathay Capital's investment professionals prepare written quarterly valuation reports that are reviewed by Cathay Capital's Valuation Committee. These quarterly reports prepared contain a detailed list of holdings, performance review, and general market information. This information is used as the basis for the reports that are provided to investors in the Funds.

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

This Item requires an investment adviser to provide information relating to its arrangements with third-parties through which it: (a) receives compensation from third-parties for providing investment management services to the adviser's clients; or (b) it provides compensation to third-parties for client referrals.

Cathay Capital or its affiliates earn break-up fees, transaction fees, deal monitoring fees, consulting fees, managing fees, directors' fees or other similar fees in connection with investments by the Cathay Fund. Such fees are applied by the General Partner to offset, pay or reserve for the payment of expenses (or to repay any credit facility drawdowns used to pay the same) or, if paid to the General Partner or its affiliates, to offset the management fee payable by the Cathay Fund, with any balance distributed in accordance with the distribution procedures; provided, that any fees or carried interest distributions received by the General Partner or its affiliates in connection with a co-investment opportunity shall be for the account of the General Partner or such Affiliate and shall not reduce the management fee. If an alternative investment vehicle, successor fund or other person or entity co-invests in an investment or would have co-invested in an unconsummated investment with the Cathay Fund, then the partnership shall only be entitled to the portion of such fees equal to the partnership's share of the proportionate amount that the Cathay Fund has or would have invested therein.

The Cathay Fund is currently closed to new investment, and as such, Cathay Capital no longer compensates any third parties or placement agents for the solicitation of investments in the Cathay Fund.

## **Item 15. Custody**

Cathay Capital maintains custody of the Cathay Fund's assets held in the Cathay Fund's name with First Republic Bank, a qualified custodian located in San Francisco, California, and with branch offices throughout the United States, including New York City, the place of business of Cathay Capital. Cathay Capital is deemed to have custody of the assets of the Cathay Fund, as its affiliated entity, Cathay Capital North American-Sino Fund GP, LP, serves as general partner to the Cathay Fund. An independent, PCAOB-registered accounting firm performs an annual audit of the Cathay Fund's financial statements and Cathay Capital delivers the Cathay Fund's audited financial statements to all investors within 120 days following the Cathay Fund's fiscal year end.

## **Item 16. Investment Discretion**

Cathay Capital has discretionary authority to manage investments on behalf of the Cathay Fund. Cathay Capital assumes this discretionary authority pursuant to the terms of the relevant Advisory Agreement with the Cathay Fund. Investment advice is provided by Cathay Capital directly to the Cathay Fund, subject to the direction and control of the affiliated General Partner of such Cathay Fund and not individually to the investors in the Cathay Fund.

Any restrictions on investments in certain types of securities are established by the General Partner of the Cathay Fund, and are set forth in the documentation received by each limited partner prior to investment in the Cathay Fund.

## **Item 17. Voting Client Securities**

Cathay Capital has adopted Proxy Voting Policies and Procedures (the "Proxy Policy") to address how it will vote proxies, as applicable, to the Cathay Fund's portfolio investments. The majority of "proxies" received by Cathay Capital will be written shareholder consents (or similar instruments) for private companies, although Cathay Capital may also receive traditional proxies from public companies.

If there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that Cathay Capital may address the conflict using several alternatives, including by seeking the advice of the Advisory Committee on the proposed proxy vote, or through other alternatives set forth in the Proxy Policy.

Clients may discuss proxies and/or receive a copy of Cathay Capital's Proxy Policy and proxy voting record by calling 212-858-9020.

## **Item 18. Financial Information**

This Item requires investment advisers to provide certain financial information or disclosures about their financial condition. Cathay Capital does not require prepayment of fees six months or more in advance. Therefore, it is not required to include a balance sheet with this brochure. Cathay Capital has no financial hardships or other conditions that is reasonably likely to impair its ability to meet its contractual obligations to the clients. Cathay Capital has not been the subject of a bankruptcy proceeding.