

# **Yakira Capital Management, Inc.**

## **Form ADV Part 2 Brochure**

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This Brochure provides information about the qualifications and business practices of Yakira Capital Management, Inc. (the “Adviser” or “We”). If you have any questions about the contents of this Brochure, please contact us at (203) 341-0607. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about the Adviser also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Yakira Capital Management, Inc. is a registered investment adviser. Registration as an investment adviser does not imply any level of skill or training.

## **Item 2 – Material Changes**

This brochure is an Updating Amendment filed on April 9, 2021 and is prepared based on rules adopted by the United States Securities and Exchange Commission and replaces the previous version which was dated March 16, 2020.

This Item 2 summarizes the material amendments to this Brochure for the Adviser since March 2020. This section will discuss only specific material changes that are made to the Brochure and provide clients with a summary of those changes. We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year.

### *Summary of Material Changes:*

There were no material changes since the firm's previous ADV Update on March 16, 2020.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge, and will also reference the date of our last annual update of our brochure. Currently, our Brochure may be requested by contacting Nicholas Sabatini, Chief Compliance Officer at 203-341-0702 or [nsabatini@yakirapartners.com](mailto:nsabatini@yakirapartners.com). Additional information about the Adviser is also available via the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 3 – Table of Contents

### Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 – Table of Contents .....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation.....	2
Item 6 – Performance-Based Fees and Side-By-Side Management.....	3
Item 7 – Types of Clients.....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9 – Disciplinary Information.....	16
Item 10 – Other Financial Industry Activities and Affiliations .....	17
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	18
Item 12 – Brokerage Practices.....	20
Item 13 – Review of Accounts.....	22
Item 14 – Client Referrals and Other Compensation .....	23
Item 15 – Custody .....	24
Item 16 – Investment Discretion .....	25
Item 17 – Voting Client Securities.....	26
Item 18 – Financial Information.....	27

#### **Item 4 – Advisory Business**

The Adviser is a Delaware corporation that began operations in 1997 and is principally owned by Bruce M. Kallins, the Adviser's principal, chief investment officer ("Principal").

The Adviser currently provides discretionary investment advisory services to private investment funds. The private investment funds are Yakira Partners, L.P., a Delaware limited partnership and Yakira Enhanced Offshore Fund Ltd., a Cayman Island Limited Company (the "Fund" or the "Funds"). The General Partner of Yakira Partners, L.P. is YP Management, L.L.C., which is a New York limited liability company (the "General Partner"). The Adviser also provides services to one other private investment fund.

The Funds' investment objectives, strategies and processes are described in the Confidential Private Placement Memorandum. The Funds' Private Placement Memorandum and governing documents (collectively the "Offering Documents"), in addition to describing, among other things, our investment management relationship, the Funds' investment program and objective and the specific terms applicable to an investment in the Funds (including as to fees and other compensation, costs and expenses, and liquidity), contains a discussion of various risk factors and considerations, as well as certain conflicts of interest, that generally is more extensive in scope and detail than those described in this Brochure. Accordingly, this Brochure and the information set forth herein are qualified in its entirety by the disclosures and the terms in the Funds' Offering Documents.

The Adviser serves as the Funds' investment manager and has full discretion to manage the Funds' investment portfolio. The Funds' investment objective is to achieve consistent superior investment results over time relatively independent of the returns generated by the overall equity markets. The Funds attempt to realize this by investing principally in securities subject to reorganizations where the Adviser believes the market price does not adequately reflect the effect that such reorganization will have on the securities valuation. The Funds invest primarily in risk arbitrage, restructurings, mergers, exchange offers, closed-end funds, SPACs and other special situations including value plays.

The Funds also engages in balance sheet arbitrage, pair trading within the same industry group, short selling and other investments in securities. The Adviser's methods of analysis, investment strategies, and risks are further described in Item 8 below.

As of December 31, 2020, the Adviser had approximately \$472,934,804 of regulatory assets under management, all of which are managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

### **Management Fees; Performance-Based Compensation**

We generally receive a management fee up to 1.5% per annum calculated as a fixed percentage of the beginning value of the assets under management. The management fee is generally paid quarterly in advance. Any unearned fees are refunded to investors withdrawing from the Funds. In addition, as further described below in Item 6, we or our affiliates are entitled to additional compensation in the form of an incentive allocation or fee of 20% based on the performance achieved for a client over a specified measurement period, generally, a fiscal year (collectively, the management fee and incentive allocation or fee are referred to herein as “fees”). Fees are deducted from the Funds’ assets and allocated to the capital account of each investor in the Funds.

Fees applicable to the Funds are described in the Funds’ offering documents. We are generally permitted under the terms of the Funds’ offering documents to reduce or waive, in our sole discretion, fees for investors in the Funds. For example, we may reduce the fees applicable to investments in the Funds by certain large or strategic investors or for related parties.

We may launch or manage other funds with higher or lower fees and/or different compensation structures. Different client facts and circumstances, including the client’s investment strategy, liquidity profile and prevailing market terms, are typically considered in determining applicable fees.

### **Costs and Expenses**

In addition to the fees discussed above, investors in the Funds bear indirectly the fees and expenses charged to the Funds. Those fees vary, but typically include but are not limited to the following: the Funds’ expenses relating to their investment activities, including brokerage commissions, prime brokerage fees, “bid-ask” spreads, mark-ups, interest expenses, stock loan expenses and other transactional charges. In addition, the Funds will directly bear certain expenses relating to cash management and certain fees relating to the Funds’ administration, such as legal, accounting, audit, tax preparation, consulting and custodial fees and expenses. The Funds may invest in exchange-traded funds or other similar closed-end funds, through which the Funds are charged additional underlying costs and expenses by those funds.

The Funds’ offering documents detail the costs and expenses that are the responsibility of the Funds, as well as certain overhead costs and expenses that generally are the responsibility of the Adviser and/or General Partner.

Clients may pay higher fees to the Adviser and/or General Partner than fees it might pay to other investment advisers for similar services.

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

### **Performance-Based Fees**

As detailed in Item 5 above, our affiliates are entitled to receive performance-based compensation from the Funds in the form of an incentive allocation or fee. The applicable incentive allocation or fee made or payable to us or one of our affiliates generally is calculated as a percentage of “net” new profits. Net new profit is, generally speaking, profit over a “high water mark,” which is the greater of the value of an investment on the last date that incentive compensation was previously paid or the date of the investment. The incentive compensation is allocated to the Adviser or its affiliate as of the end of the fiscal year. In the event that an investor in the Fund withdraws capital at any time other than at the end of a fiscal year, the deduction is made with respect to the investor as though it were being made at the end of a fiscal year. The incentive compensation includes realized and unrealized gains and losses.

All compensation arrangements where the Adviser or its affiliates receives incentive compensation will comply with the requirements of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Performance-based fee arrangements may create an incentive for the Adviser to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement.

### **Side-By-Side Management**

Side-by-side management is the simultaneous management of multiple accounts that follow the same or similar investment strategies. Since the Funds’ assets are traded alongside and not *pari passu*, there are conflicts with regard to the simultaneous management of these accounts. The Adviser is permitted to effect agency cross trades as disclosed in the Funds’ Governing Documents. In such instances where one client needs to sell and another to buy the same security, the Advisor will arrange to sell to, and/or buy from, the market directly. Due to the fact that trading activity results in multiple purchases and sales of securities that are generally allocated across these different vehicles, there are situations that could arise in which a Fund is treated more favorably than another for allocation purposes. The Adviser has adopted policies and procedures to mitigate these conflicts of interest. The Adviser endeavors to allocate trades fairly across all client accounts, however, in doing so, it may take into consideration a number of factors including ticket charges so that no client is disadvantaged.

## **Item 7 – Types of Clients**

The Adviser provides discretionary investment advice to private investment funds, including private investment partnerships.

Interests in the Funds are offered pursuant to applicable exemptions from registration under the Securities Act of 1933 (“Securities Act”), as amended. Investors in the Funds are subject to qualification standards. Investors in the Funds may include, among others, pension plans, foundations, funds of funds, family offices, trusts, other institutional investors and high net worth individuals. Each investor in the Funds shall be an accredited investor and qualified client. In general, a high net worth investor shall have a net worth that exceeds \$1 million excluding its residence to qualify as an investor in the Funds. The minimum initial investment in the Funds is generally \$1,000,000 which is subject to change or waiver at the discretion of the Adviser.

In addition to the Funds, we may in the future provide advisory services to other private investment funds or other separately managed accounts.

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

### **Methods of Analysis**

In formulating investment advice and in managing assets on behalf of the Funds, we primarily use a selective approach in evaluating potential investment situations, generally concentrating on relatively few transactions that we can follow more closely. The Adviser employs strategies involving derivative securities, such as options and convertible securities, which may present more favorable risk reward relationships. It also uses hedging devices frequently. The Fund utilizes leverage when the Adviser believes it is appropriate.

As detailed in the Funds' offering documents, the Funds may also invest in new issues of securities ("new issues"), provided that the Funds comply with the rules and regulations pertaining to such investments, including the rules of the Financial Industry Regulatory Authority.

The Funds may take long, short, speculative, and hedged positions, and engage in stock lending transactions. The Funds may borrow, lend, and pledge money and investments and engage in financing transactions, including purchasing securities on margin, engage in repurchase and reverse repurchase transactions, and provide financing to private companies.

The Funds may trade securities on United States and non-United States exchanges and markets, including over-the-counter markets and emerging markets. The Funds may trade securities in publicly offered and privately placed transactions, on spot, current, future, forward, and when-issued delivery, settlement, and optional commitment basis, on margin, collateral, and partial and full payment basis, and in circumstances where securities may be restricted as to transferability or disposition.

The Adviser may invest the Funds' assets in "restricted securities", such as participations in bank debt, trade claims, debt obligations issued in connection with leveraged buy-outs or other restricted securities. Such securities normally are purchased from institutional investors who originally acquired such securities in "private placements", or pursuant to Rule 144A promulgated under the Securities Act, or pursuant to other applicable exemptions from registration. Restricted securities are securities that have not been registered under the Securities Act and, as a result, are subject to legal restrictions on resale. Restricted securities are not traded on established markets and may be illiquid, difficult to value and subject to wide fluctuations in value. Generally, the Adviser only invests in restricted securities when it has determined that there is an institutional market for such securities, but is not required to do so.

We are not limited in the methods we may use to evaluate a particular investment. Although the strategy and asset allocation used by the Funds is primarily centered on the strategies mentioned



above, the Adviser intends to follow a flexible approach in order to place the Funds in the best position to capitalize on opportunities in the financial markets. Accordingly, the Adviser may employ other strategies and may take advantage of opportunities in diverse asset classes if they meet the Adviser's standards of investment merit.

The Adviser's Principal, Bruce Kallins, is responsible for the general oversight and day-to-day management of the Funds' portfolios.

### **Investment Strategies**

The Adviser may undertake extensive macroeconomic research across all markets to develop investment themes for the Funds. Financial metrics, supply and demand projections, political developments, weather trends as well as technical analysis of price fluctuations may all be evaluated before an investment is made on behalf of the Funds. The Adviser will at times gather information about financial markets from consultants, analysts, competitors, suppliers and customers that may help the effectiveness of the analysis performed.

In general, the Adviser performs its own research in determining underlying investments for the Funds; however, the Adviser's investment ideas may also be generated from a wide variety of sources including industry contacts, trade and financial publications, trade shows, investment conferences and market screens. The Adviser intends to analyze investments on an individual basis. At times, the Adviser, through early identification of sector trends, will invest based on its analysis and conclusions. Security valuation will be assessed utilizing a variety of disciplines to identify favorable risk reward parameters and reasonable valuation relative to growth prospects and the market.

The development of a trading strategy is a continuous process and the Funds' trading strategy and methods may therefore be modified from time to time. The Funds' trading methods are confidential, and the descriptions of them in the Offering Documents are not exhaustive. The Funds' trading strategies may differ from those used by the Adviser and its affiliates with respect to other accounts they manage. Trading decisions require the exercise of judgment by the Adviser. The Adviser may, at times, decide not to make certain trades, thereby forgoing participation in price movements that would have yielded profits or avoided losses. Investors cannot be assured that the strategies or methods utilized by the Adviser will result in profitable trading for the Funds.

### **Risk of Loss**

The investment objectives and methods summarized above represent the Adviser's current intentions. Depending on conditions and trends in the securities markets and the economy in

general, the Adviser may pursue any objectives, use any investment techniques or purchase any type of security that it considers appropriate and in the best interests of the Funds whether or not described in this section. The above discussion includes and is based on numerous assumptions and opinions of the Adviser concerning world financial markets and other matters, the accuracy of which cannot be assured. Investing in securities involves risk of loss that clients should be prepared to bear. The Adviser's past performance generally or the past performance of the Funds should not be construed as an indication of any futures results. There can be no assurance that the Funds' investment strategy will be achieved and if achieved that it will create profitable results.

This summary of risks is qualified in its entirety by the risk factors set forth in the Funds' offering documents.

*Investment and Trading Risks.* All securities investments risk the loss of capital. The Adviser believes that the Clients' investment programs and the Adviser's research techniques will moderate this risk through a careful selection of securities and other financial instruments. However, no guarantee or representation is made that the Clients' investment programs will be successful or that Clients will not incur losses. The Clients' investment programs may utilize investment techniques including, but not limited to, trading in put and call options and other derivatives, the use of leverage and short sales, which in practice can, in certain circumstances, increase the adverse impact to which Clients may be subject.

In certain transactions, Clients may not be "hedged" against market fluctuations or, in reorganization or liquidation situations, may not accurately value the assets of the subject company or the degree of legal and regulatory risk associated with investments in the securities of companies in such situations. This can result in losses, even if the proposed transaction is consummated.

The Adviser will attempt to assess the foregoing risk factors, and others, in determining the extent of the position it will take in the relevant securities and the price it is willing to pay for such securities. However, such risks cannot be eliminated.

*Investment Analysis.* When assessing investment opportunities, the Adviser relies on resources that may have limited or incomplete information. In particular, the Adviser relies on publicly available information and data filed with various government regulators. Although the Adviser expects that it will evaluate information and data as it deems appropriate and will seek independent corroboration when reasonably available, the Adviser will not evaluate all publicly available information and data and is not in a position to confirm the completeness, genuineness or accuracy of the information and data that it evaluates. As a result, there can be no assurance that the due diligence exercise carried out by the Adviser will reveal or highlight all relevant facts that may be necessary or helpful in evaluating investment opportunities. Any failure to have identified the relevant facts may result in an inappropriate investment decision, which may have a material adverse effect on the value of any Clients' investments.

*Concentration of Investments.* Subject to any limitations adopted by the Adviser from time to time, Clients are not restricted in the amount of capital that they may commit to any issuer, security, industry

sector or geographic region, and at times Clients may hold a relatively large concentration in a limited number of issuers, securities, industry sectors and/or geographic regions. Losses incurred in connection with those investments could have a material adverse effect on a Clients' overall financial condition. This is because the value of Clients' investment portfolios will be more susceptible to any single occurrence affecting one or more of those issuers, securities, industry sectors or geographic regions than would be the case with a more diversified investment portfolio.

*Equity Securities.* Clients may invest in equity and equity-related securities. Equity securities fluctuate in value in response to many factors, including the activities, results of operations and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments. In addition, events such as political instability, terrorism and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect a Client's positions.

*Small to Medium Capitalization Companies.* Clients may invest assets in the stocks of companies with small- to medium-sized market capitalizations. While the Adviser believes these investments often provide significant potential for appreciation, these stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks.

*Leverage.* The Adviser uses leverage as part of the Clients' investment programs. Leverage may be obtained by borrowing funds to make trades or by purchasing or entering into derivative instruments that are inherently leveraged, such as swaps, options, futures and forward contracts.

If the interest expense on borrowings were to exceed the net return on the positions acquired with borrowed funds, a Client's use of leverage would result in a lower rate of return than if the Client were not leveraged. If the amount of borrowings which Clients may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Clients' portfolios will have a disproportionately large effect in relation to its capital and the possibilities for profit and the risk of loss will therefore be increased. Any gains made with the additional monies borrowed will generally cause the value of a Client's assets to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the additional monies fails to cover their cost to the Clients, the value of the Clients' assets will generally decline faster than would otherwise be the case. The amount of any borrowing may also be limited by regulations imposed by the Federal Reserve Board or by the availability and cost of credit, as well as due to overall market conditions. If, due to market fluctuations or other reasons, the value of the Clients' assets should fall below required regulatory or counterparty imposed levels, Clients will be required to reduce their debt by selling securities in their long portfolio. Clients may also be unable to carry-out their investment programs if they are not able to obtain leverage on reasonable terms.

In the case of derivative instruments, because many derivatives are "leveraged," such instruments provide significantly more market exposure than the money paid or deposited when the transaction is entered into and, thus, a relatively small adverse market movement can not only result in the loss of

the entire investment, but may also expose Clients to the possibility of a loss exceeding the original amount invested.

In addition, in transactions involving derivative instruments, counterparties and lenders will likely require Clients to post collateral to support their obligations. Should the securities and other assets pledged as collateral decline in value, or should brokers increase their maintenance margin requirements (*i.e.*, reduce the percentage of a position that can be financed), Clients could be subject to a “margin call” pursuant to which they must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged assets to compensate for the decline in value. In the event of a precipitous drop in the value of pledged securities, Clients might not be able to liquidate assets quickly enough to pay off the margin debt or provide additional collateral and may suffer mandatory liquidation of positions in a declining market at relatively low prices, thereby incurring substantial losses. Furthermore, secured counterparties and lenders will generally have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of collateral posted by Clients. This could increase exposure to the risk of a counterparty default since, under such circumstances, Clients may be unable to recover the posted collateral promptly or may be unable to recover all of the posted collateral.

The Adviser may engage in the trading of options on futures for Client accounts, typically for hedging purposes. If the Adviser, on behalf of a Client, buys an option (either to sell or buy a futures contract or commodity), the Client will be required to pay a “premium” representing the market value of the option. Unless the price of the futures contract or commodity underlying the option changes and it becomes profitable to exercise or offset the option before it expires, the Client may lose the entire amount of the premium.

*Hedging Transactions.* Clients may utilize financial instruments, both for investment purposes and for risk management purposes in order (i) to protect against possible changes in the market value of Clients’ portfolios resulting from fluctuations in the securities markets and changes in interest rates, (ii) to protect Clients’ unrealized gains in the value of their portfolios, (iii) to facilitate the sale of any such investments, (iv) to enhance or preserve returns, spreads or gains on any investment in Clients’ portfolios, (v) to hedge the interest rate or currency exchange rate on any of the Clients’ liabilities or assets, (vi) to protect against any increase in the price of any securities Clients anticipate purchasing at a later date, or (vii) for any other reason that the Adviser deems appropriate.

The success of the Clients’ hedging strategy will depend, in part, upon the Adviser’s ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Clients’ hedging strategy will also be subject to the Adviser’s ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for Clients than if it had not engaged in such hedging transactions. For a variety of reasons, the Adviser may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent Clients from achieving the intended hedge or expose Clients to risk of loss. The Adviser may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging

and risk management transactions requires skills complementary to those needed in the selection of Clients' portfolio holdings.

*Short Sales.* A short sale involves the sale of a security that Clients do not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, Clients must borrow the security and Clients are obligated to return the security to the lender, which is accomplished by a later purchase of the security by the Clients. When Clients make a short sale in the United States, they must leave the proceeds thereof with the broker and must also deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security that would result in a theoretically unlimited loss to Clients. The extent to which Clients will engage in short sales will depend upon the Adviser's investment strategy and perception of market direction and the value of individual securities. The Adviser may engage in short sales on behalf of Clients as a hedge against potential market declines and/or based on its fundamental analysis of the subject issuers.

*Call Options.* There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

*Put Options.* There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

*Foreign Investments.* Clients may trade non-U.S. securities and other instruments denominated in non-U.S. currencies and/or traded outside of the U.S. Such transactions require consideration of certain risks not typically associated with trading in U.S. securities or other instruments. Such risks include unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation by the U.S. or foreign governments,

confiscatory taxation and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the U.S., and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies.

Transaction costs of investing in non-U.S. securities markets are generally higher than in the United States. There is generally less government supervision and regulation of exchanges, brokers and issuers outside the United States than there is in the United States. Clients might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which, in some markets, could at times fail to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect Client performance.

*Derivatives Generally.* Derivative instruments, or “derivatives,” include options, futures, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, financial assets, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark, financial asset, currency or index at a fraction of the cost of investing in the underlying asset. Clients may seek to acquire derivatives for these or other reasons, however, there is no assurance that derivatives that Clients wish to acquire will be available at any particular times upon satisfactory terms or at all.

The value of a derivative is frequently difficult to determine and depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose Clients to the possibility of a loss exceeding the original amount invested. Over-the-counter (“OTC”) derivatives generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The OTC market for derivatives is relatively illiquid. In the case of OTC derivatives contracts, Clients are subject to the credit risk of the counterparty.

Clients may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with Clients investment objectives and legally permissible. Special risks may apply to instruments that are invested in by Clients in the future that cannot be determined at this time or until such instruments are developed or invested in by Clients.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) enables the U.S. Commodity Futures Trading Commission (the “CFTC”) and the SEC to enact new regulations on certain OTC derivatives. Under the Dodd-Frank Act and rules promulgated thereunder, certain OTC derivatives contracts are required to be traded on regulated trading platforms and cleared through registered clearing organizations subject to regulation by the SEC and the CFTC. Such

contracts are traded more like futures and options contracts and parties to such transactions will trade standardized contracts and will face clearing organizations as contractual counterparties, rather than facing the credit risk of counterparties under individually negotiated bilateral OTC agreements.

In addition, swap dealers and major swap participants (entities that are not swap dealers, but are subject to rules governing dealers due to their levels of activity and exposure) are subject to regulatory oversight and requirements with respect to OTC derivatives, which will include business conduct requirements, such as know-your-customer rules, increased risk disclosure and rules requiring trades to be documented and confirmed within certain timeframes. Derivative contracts, whether cleared or uncleared, will have to be reported to trade data repositories registered with the CFTC and/or the SEC.

While the CFTC has finalized the majority of its required rulemakings under the Dodd-Frank Act, there are still a number of rules that have not been finalized by the SEC. As a result, the effect that the foregoing regulatory changes will have on the price of derivative contracts, liquidity and administrative costs, among other things, remains unclear.

*Risk of Default or Bankruptcy of Third Parties.* Clients intend to engage in transactions in securities and financial instruments that involve counterparties. Under certain conditions, Clients could suffer losses if a counterparty to a transaction were to default or if the market for certain securities and/or financial instruments were to become illiquid. In addition, Clients could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which Clients do business, or to which securities have been entrusted for custodial purposes. For example, if one of the Client's prime brokers or custodians were to become insolvent or file for bankruptcy, the Client could suffer significant losses with respect to any securities held by such firm.

*Counterparty Risk.* Some of the markets in which Clients may effect their transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing Clients to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where Clients have concentrated their transactions with a single or small group of counterparties. The Adviser is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. The ability of the Adviser to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by Clients.

Clients' investment strategies require use of transactions that expose Clients to the credit of their counterparties, and vice versa. For example, Clients will seek to borrow securities intending to sell them short and may enter into long and short derivative positions. All of these transactions, and transactions similar to them, are governed by documents, industry standards, market customs and practices, the parties' prior course of dealing and by the covenant of good faith and fair dealing. At times, and especially in times of market stress, these credit exposures may come under stress, normal business conduct may be interrupted and normal legal protections may prove inadequate or may fail

to provide timely relief. Should it become necessary to remove or reduce exposure to a particular counterparty, there can be no guarantee that a satisfactory alternative will be available, or even if one is available, that Clients will be able to avail themselves of that alternative. As a consequence, it is possible that any unwinding of the credit exposure may prove costly and thereby damage Clients.

*Currency Risks.* Clients may invest in securities and other instruments denominated or quoted in currencies other than the U.S. Dollar. In connection therewith, the Adviser may hedge against the resulting currency exposure wherever economically prudent. However, changes in currency exchange rates will affect the value of a Client's portfolio and the unrealized appreciation or depreciation of investments. Additionally, such hedging transactions may include a credit component pursuant to which Clients may be required to grant to its hedging counterparty a security interest in certain of its assets. Accordingly, in such a case, if a Client defaults with respect to a currency hedging transaction, then the hedging counterparty could lay claim to an interest in such assets.

Further, Clients may incur costs in connection with conversions between various currencies. Foreign currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to Clients at one rate, while offering a lesser rate of exchange should Clients desire immediately to resell that currency to the dealer. Clients will conduct their currency exchange transactions on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market. Clients may also take speculative positions in currencies, which will be subject to the same risks discussed above.

*Purchasing Securities of Initial Public Offerings.* Clients may purchase securities of companies during their initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the companies and limited operating histories. These factors may contribute to substantial price volatility for the shares of these companies. The limited number of shares available for trading in some initial public offerings may make it more difficult for Clients to buy or sell significant amounts of shares without an unfavorable impact on prevailing market prices. In addition, some companies engaged in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them.

*Price Risk.* For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which Clients invest may decline or rise substantially. In particular, purchasing assets at prices that may appear to be "undervalued" is no guarantee that such assets will not be trading at even more "undervalued" levels at the time of valuation or at the time of sale. Similarly, shorting assets at prices that may appear to be "overvalued" is no guarantee that such assets will not be trading at even more "overvalued" levels at the time of valuation or at the time of sale.

*Exchange Traded Funds ("ETFs").* Clients may trade in ETFs. ETFs are generally structured to invest in all or a representative sample of the securities that generally replicate the price and yield performance of an underlying market index or sector such as a broad stock market, industry sector, domestic or international equity or fixed income, or U.S. or foreign government bond. ETF shares are



traded on stock exchanges and markets at open market prices that generally track the net asset value per share of the ETF. Direct issuances and redemption of ETF shares at the ETF's net asset value per share only occur in large blocks (or creation units) transacted between the ETF and authorized institutional purchasers on an in-kind basis. An exchange traded sector fund may be adversely affected by the performance of that specific sector or group of industries on which it is based. International investments may involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, or economic and/or political instability in other nations and/or other factors. Although index-based ETFs are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indices, ETFs may not be able to replicate exactly the performance of the indices because of their expenses and other factors. ETF shares may trade at either a discount or premium to their underlying net asset value. The purchase or sale of ETF shares on the secondary market involves the payment of brokerage commissions, and the purchase and redemption of creation units involves other transaction costs and brokerage commissions. Investors in ETFs also directly bear the ETF's costs associated with its payment of investment management fees and fees for administrative, custodial or other services and thus the investors will indirectly incur an additional layer of fees and expenses.

*Loans of Securities; Pledge of Assets.* Pursuant to master securities lending agreements or similar agreements, a Client may lend securities from its portfolio to brokers, dealers and financial institutions and receive collateral in the form of cash and securities in an amount equal to or greater than the current market value of the loaned securities, including any accrued interest or dividend receivable. During the term of such loan, a Client will not retain all incidents of beneficial ownership as to the loaned portfolio securities, including voting rights. It will, however, generally retain the rights to interest or other distributions, and will have the right to regain record ownership of the loaned securities to exercise such beneficial rights. Such loans will be terminable at any time upon sufficient notice to the other party.

It should be noted that, pursuant to Client account agreements with prime brokers, the prime brokers may, under certain circumstances, lend Client securities to third parties without notice to Clients and without providing any collateral to Clients. If a prime broker makes such loans of securities from Client accounts, Clients may not be able to vote such securities. In addition, if a prime broker were to become insolvent in the United States, Clients would not have a claim against any specific assets of such prime broker, but would have a claim against the pool of assets held for the benefit of such prime broker's customers. Jurisdictions outside of the United States may not provide any similar rights to Clients.

*Herding Risk.* The substantial growth of the hedge fund industry and funds trading large highly-leveraged positions of the same nature as those held by other funds have augmented herding risks. While the Adviser typically strives not to invest, on behalf of Clients, in securities and/or other instruments that are broadly followed by other funds, such funds may later discover opportunities in the same securities and/or other instruments in which Clients have already invested. Whatever the "fair price" of a security, instrument or a relationship, its trading price is sometimes radically altered or influenced by the market activity of traders executing parallel trading programs. This factor may provide surprising and sudden losses at unpredictable times, even after long periods of calm. The negative impact of herding is greatest when markets are under stress and traders holding large leveraged positions seek to liquidate or cover positions simultaneously.

*Business Dependent Upon Key Individual.* Clients will not have authority to make decisions or to exercise business discretion on behalf of their accounts. The authority for all such decisions is made by the Adviser. Client success, therefore, is expected to be significantly dependent upon the expertise and efforts of the Adviser and, more particularly, of Richard Walters II.

*Operational and Information Security Risk from Cyberattacks; Cyber-Fraud; Disaster Recovery.* Service providers utilized by Clients may be subject to operational and information security risks resulting from cyberattacks. Cyberattacks include, among other behaviors, stealing or corrupting data maintained online or digitally, denial of service attacks on websites, the unauthorized release of confidential information or various other forms of cybersecurity breaches. Cyberattacks affecting Clients or their service providers may adversely impact the Clients. For instance, cyberattacks may interfere with the processing of investor transactions, impact the ability to calculate the net asset values, cause the release of private investor information or other confidential information, impede trading, subject Clients and their service providers to regulatory fines or financial losses and cause reputational damage. Similar types of cybersecurity risks are also present for other market participants, which may have material adverse consequences for Clients, and may cause Clients' investments to lose value. Clients may also be the target of cyber-fraud that could result in the theft of Clients' assets, especially as computer malware, viruses and computer hacking, fraudulent use attempts and phishing and spoofing attacks have become more prevalent. In the hedge fund industry, these attacks have included third party actors submitting fraudulent withdrawal and transfer requests, resulting in the theft of the rightful investor's assets. Clients and their service providers may incur additional costs relating to cybersecurity preparations, and such preparations, though taken in good faith, may be inadequate. Cyberattacks are viewed as an emerging risk and the scope of the risk and related mitigation techniques are not yet fully understood and are subject to continuing change.

While the Adviser has put in place certain safeguards in case of disruption of information technology, including transmission failures, there can be no guarantee that such measures will be effective against all situations or will be implemented in time and Clients may be adversely affected thereby.

*Public Health Risks.* Countries have been susceptible to epidemics, such as severe acute respiratory syndrome, avian flu, H1N1/09 flu, ebola and most recently, the COVID-19 coronavirus pandemic. The outbreak of COVID-19 has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity, debt, derivative and commodity markets. For these reasons, among others, as COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, remain uncertain and difficult to assess. Any public health emergency, including any outbreak of COVID-19, SARS, H1N1/09 flu, avian flu, other coronavirus, Ebola or other existing or new epidemic diseases, or the threat thereof, could have a significant adverse impact on Clients and could adversely affect the Clients' ability to fulfill their investment objectives.

## **Item 9 – Disciplinary Information**

The Adviser, its affiliates and its related persons have no reportable material legal or disciplinary events.

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

There are no material limitations on our ability to conduct any other business, including any business within the financial or securities industry, whether or not that business is in competition with the Funds, or on the ability of our personnel to serve as officers, directors, consultants, partners or security holders of one or more other investment funds, partnerships, securities firms or advisory firms.

Our affiliate, YP Management L.L.C., which is under common ownership and control with the Adviser, serves as general partner for the Yakira Partners, L.P. YP Management L.L.C. receives the incentive allocation described in Item 6 above in respect of the Fund.

As the managing member and controlling person of the General Partner of the Yakira Partners, L.P., a director of Yakira Enhanced Offshore Fund Ltd, and the Investment Manager to both Funds, Bruce M. Kallins controls all of the operations and activities of the Funds.

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

The Adviser and its Principal or related entities will generally have a material investment in the Funds. Therefore, the Adviser may be considered to participate, indirectly, in transactions effected for the Funds. The foregoing relationships, fees and any other actual or potential conflicts of interest are disclosed in the Funds' offering documents.

The Adviser, its employees, and family members of employees and entities sponsored by such persons may co-invest in the Funds. The terms of any such transactions by and among the Adviser, the Funds, their employees, family members of employees, and entities sponsored by such persons must be approved by the general partner or Adviser as reflective of market terms and arm's length negotiations.

The Adviser may act on behalf of a number of clients, accounts, funds and collective investment vehicles, including other private investment funds pursuing similar or varied investment strategies. The Adviser allocates investment opportunities among its clients in a manner that it considers fair, reasonable and equitable. However, the Adviser may give advice and take action, with respect to any of those clients, accounts, funds and collective investment vehicles that may differ from or be identical to the advice given, or the timing or nature of action taken, with respect to other clients. The Adviser, its respective affiliates, and the principal, officers, partners, managers, employees and agents of the Adviser and its respective affiliates may engage in transactions or investments, or cause or advise other clients to engage in transactions or investments, that may differ from or be identical to the transactions or investments engaged in by the Adviser for a client's account. There can be no assurance that an investment opportunity which comes to the attention of the Adviser and its affiliates will not be allocated wholly or primarily to one or more of the Adviser's clients, with other clients being unable to participate in this investment opportunity or participating only on a limited basis, or with other clients not sharing the risks of the investment. The Funds could be disadvantaged because of activities conducted by the Adviser for other clients as a result of, among other things: legal restrictions on the combined size of positions which may be taken for all accounts managed by the Adviser, thereby limiting the size of any one client's position; and the difficulty of liquidating an investment for more than one account where the market cannot absorb the sale of the combined positions as such transactions are pre-cleared by the Firm's CCO.

To avoid any potential conflicts of interest resulting from the personal trading of the Adviser's Principal and employees, and to avoid the misuse of material, non-public information, the Adviser has adopted a written Code of Ethics (the "Code") designed to address and avoid potential conflicts of interest, as required under Rule 204A-1 of the Advisers Act.

The Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading

procedures, among other things. All supervised persons of the Adviser must acknowledge the terms of the Code annually, or as amended. The Code also requires the Principal and employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide the Adviser with a detailed summary of personal securities holdings (both initially upon commencement of employment and annually thereafter), in each case subject to certain exceptions described in the Code.

Clients or prospective clients may request a copy of the firm's Code by contacting its Chief Compliance Officer, Mr. Nicholas Sabatini.

Employees of the Adviser may serve as directors or in a similar capacity for companies (each, a "Portfolio Company") whose securities are purchased or held by the Funds. In the event that the Adviser or its employees obtain material non-public information with respect to any Portfolio Company of whose board of directors he or she serves or is subject to trading restrictions pursuant to the internal trading policy of such a Portfolio Company, the Adviser may be prohibited from engaging in transactions in the securities of such Portfolio Company for a period of time. Employees of the Adviser who serve on a board of directors may also face conflicts of interest since they may receive compensation, including fees, options, or discounted securities for serving as a director, or have other financial interests in the company. A conflict may arise in situations where the director's duties conflict with the interests of the Fund.

## Item 12 – Brokerage Practices

The Adviser is authorized to make the following determinations in accordance with the Funds' and other clients' objectives and restrictions without obtaining prior consent from the Funds, any of its investors or other clients (with the exception of one client): (1) which securities or instruments to buy or sell; (2) the total amount of securities or instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions.

In making its decisions regarding the allocation of brokerage transactions for the Funds and other clients, the Adviser seeks to obtain the best execution, taking 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 (such as prompt and accurate confirmation and delivery), taking into account the size of the order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer; (iv) the quality, comprehensiveness and frequency of available research services considered to be of value to the Adviser and its clients; (v) the value of brokerage services over and above trade execution provided to the Adviser and its clients including market, industry, or company specific research and analysis; and (vi) the competitiveness of commission rates in comparison with other broker-dealers satisfying the Adviser's other selection criteria.

Although the Adviser generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve, among other things, specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services.

In selecting a broker for any transaction or series of transactions, the Adviser may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, the availability of stocks to borrow for short trades and other matters involved in the receipt of brokerage services generally.

Where best execution may be obtained from more than one broker, the Adviser may purchase and sell securities through brokers who provide research, statistical and other information, although the Funds may in every instance be the direct beneficiaries of the research services provided. Research furnished by brokers may include, but is not limited to both internally generated items (such as research reports prepared by employees of the broker), as well as items acquired by the broker from third parties (such as quotation services). The Adviser utilizes trade rebates for costs and expenses otherwise payable by the Funds.

Some of the brokerage and research services obtained by the Adviser may be used for both research and non-research purposes (“mixed use items”). In such cases, the Adviser will make a reasonable allocation of the cost of the product or service according to its use.

Except as described below, the Adviser will use trade rebates to pay the portion of the product or service that provides assistance in the investment decision-making process while the portion not related to the investment decision-making process (i.e., the portion not afforded under the ‘safe harbor’ protection of Section 28(e)) will be paid directly by the Adviser.

In selecting a broker, the Adviser makes a good faith determination that the amount of such transaction fee charges are reasonable in comparison to the value of the research services provided and that such research benefits (either alone or together with other funds managed by the Adviser) the Fund for which securities transactions are placed.

While the Adviser generally intends to accept research and related services falling within the safe harbor for fiduciaries’ use of commissions arising from clients’ portfolio transactions established by Section 28(e), the Adviser may make use of certain research and related services that fall outside the safe harbor. The Adviser may use soft dollars generated from the Funds’ transactions to obtain non-research products and services, including without limitation, software and hardware for the Adviser’s risk management, portfolio management, compliance, accounting, trade allocation and other internal systems that may be used by the Adviser’s trading and non-trading professionals, consulting services, including consultant’s travel and related expenses, data services, non-research publications and subscriptions, legal, audit and other professional consulting bills of the Funds or for other accounts managed by the Adviser.

The Adviser may select a broker-dealer who is an employee or an affiliate of an investor in the Funds. The Funds may also engage third party selling agents to assist in introducing capital to the Funds which is disclosed in the Funds’ documents.



### **Item 13 – Review of Accounts**

We provide continuous advisory services to the Funds. Generally, the Principal is actively engaged with the Adviser's investment professionals in monitoring current and potential future investments as well as periodic risk management of the investment portfolios. The risk management process also includes frequent informal dialogue and active monitoring of the Funds' investments.

The Adviser provides investors with annual reports which include audited financial statements prepared in accordance with U.S. generally accepted accounting principles and at least quarterly reports which includes general information on the Funds' investments and unaudited performance data. In addition, the Funds' administrator provides monthly reports to investors containing performance information and a statement of the value of the investor's interest in the Funds.

In addition, the Adviser may agree to provide certain investors with more frequent or more detailed reports of the Funds' or client's portfolio holdings or performance.

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

The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Fund.

Neither the Adviser nor a related person of the Adviser directly or indirectly compensates any person who is not a supervised person for client referrals.

As disclosed in the applicable offering documents, the Adviser is permitted to engage and compensate persons or entities (whether or not affiliated with us) that are instrumental in the sale of interests in the Funds.

## Item 15 – Custody

The Adviser does not generally maintain physical custody of any client assets. All client assets are held in custody by qualified custodians which are unaffiliated broker-dealers or banks. However, the Adviser may be deemed to have custody or access to those assets held in certain client accounts under certain circumstances, such as when an affiliate of the Adviser serves as the general partner or sponsor of the Funds. In these cases, the Adviser is authorized to transfer assets, for example, pay bills or process investor withdrawals, out of the accounts in the name of the Funds, but generally only when the Funds' administrator has also approved of the transaction. The investors in the Funds generally do not receive statements directly from their custodians. Instead, the Funds' financial statements are audited on an annual basis in accordance with generally accepted accounting principles (GAAP) and the financial statements are distributed to each investor within 120 days after the Funds' fiscal year-end or as otherwise permitted under Rule 206(4)-2 under the Advisers Act (the "Custody Rule").

## **Item 16 – Investment Discretion**

The Adviser is given investment discretion and is authorized to make the following determinations in accordance with the Funds' and other clients' objectives and restrictions without obtaining prior consent from the Funds, any of its investors or other clients: (1) which securities or instruments to buy or sell; (2) the total amount of securities or instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions. The Adviser's discretionary authority regarding investments may be subject to certain limitations as stated in the Funds' offering documents.

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

The Adviser exercises proxy voting authority and has adopted a proxy voting policy for the Funds and believes that proxies should be voted in the best interest of the Funds. It is the policy of the Adviser in voting proxies to consider and vote each proposal with the objective of maximizing long-term investment returns for our investors and clients.

The Adviser's proxy voting policy and procedures are available upon request. In addition, the Adviser maintains a record of all of the proxy votes cast on behalf of the Funds, which is available upon request.

## **Item 18 – Financial Information**

Item 18 is not applicable to us.