

PART 2A OF FORM ADV - THE BROCHURE

Hiddenite Capital Partners, LP

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This Brochure provides information about the qualifications and business practices of Hiddenite Capital Partners, LP. If you have any questions about the contents of this Brochure, please contact us at (214) 468-0008. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about Hiddenite Capital Partners, LP is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

THIS BROCHURE DOES NOT CONSTITUTE AN OFFER, SOLICITATION OR RECOMMENDATION TO SELL OR AN OFFER TO BUY ANY SECURITIES, INVESTMENT PRODUCTS OR INVESTMENT ADVISORY SERVICES. SUCH AN OFFER MAY ONLY BE MADE TO ELIGIBLE PERSONS BY MEANS OF DELIVERY OF OFFERING, GOVERNING AND/OR ACCOUNT DOCUMENTS THAT CONTAIN THE MATERIAL TERMS RELATING TO SUCH INVESTMENTS, PRODUCTS OR SERVICES.

February 23, 2021

## **Item 2 – Material Changes**

The last update to the brochure was made on January 13, 2021. There have been no material changes since the last update.

The information set forth in this brochure is qualified in its entirety by the applicable offering, governing and/or account documents. In the event of a conflict between the information set forth in this brochure and the information in the applicable offering, governing and/or account documents, such documents shall control.

We encourage all investors and clients to carefully review this Brochure in its entirety.

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#### Item 4 – Advisory Business

Hiddenite Capital Partners, LP, a Delaware limited partnership and private investment management firm (“Hiddenite Capital” or the “Adviser” or the “Investment Manager”, “we”, “us” or “our”), was founded in January 2020 with a principal place of business in White Plains, New York. The general partner of Hiddenite Capital is Hiddenite Capital Holdings, LLC, a Delaware limited liability company. Ryan Packard is the Managing Member and owner of Hiddenite Capital Holdings, LLC.

Hiddenite Capital provides discretionary investment Advisory and various other services to (i) various private pooled investment vehicles, including Hiddenite Capital Fund, LP, Hiddenite Capital Offshore Fund Ltd, and Hiddenite Capital Master Fund, Ltd. The first being a Delaware limited partnership, and the others being Cayman Islands exempted companies. which invests substantially all of its assets in Hiddenite Capital GP, LLC (collectively, the “Fund Clients” or “Fund”).

The investment objectives, strategies, terms, conditions and restrictions applicable to (i) the Fund Clients are described in their respective confidential memoranda and governing documents (referred to collectively as the “Offering Documents”) and (ii) any potential Managed Account Clients are set forth in their respective investment management or sub-Advisory agreements between the Managed Account Clients and the Adviser (the “Advisory Agreements”). Hiddenite Capital generally seeks to achieve capital appreciation with respect to Clients primarily through investing in equities (both long and short), performing credit, stressed credit, and distressed credit. Information about each Fund Client is set forth in its applicable Offering Documents. *See Item 8 below.*

An investment in a Fund Client does not, in and of itself, create an Advisory or other relationship between an investor in such Fund Client and Hiddenite Capital. Investors generally are not permitted to impose restrictions or limitations on the management of the Fund Clients. Hiddenite Capital and the Fund Clients have not yet entered into, but may from time to time in the future enter into, side letter agreements and similar arrangements with certain investors in Fund Clients that have the effect of establishing rights and/or otherwise benefitting such investors in a manner that is more favorable in various material respects than the rights and benefits established in favor of the investors generally pursuant to the applicable governing documents. Such rights or benefits in a side letter or similar arrangement include, without limitation, (i) capacity rights, (ii) preferential information, reporting, transparency or special notice rights, (iii) most favored nations’ status, (iv) lower or different management fees and/or performance allocations, (v) preferential withdrawal or liquidity rights and (vi) various other preferential or favorable rights, terms and benefits.

Interests in the Fund Clients are privately offered only to eligible investors pursuant to exemptions under the Securities Act of 1933, as amended, and the regulations promulgated thereunder. Such Fund Clients are not registered with the SEC as investment companies based on specific exclusions from the definition of investment company under the Investment Company Act of 1940, as amended.

As of December 31, 2020, Hiddenite Capital had approximately \$159,374,643 in regulatory assets under management, all of which were managed on a discretionary basis.

For a further description of these and related items, see Item 7 (Types of Clients), Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) and Item 10 (Other Financial Industry Activities and Affiliations).

**All discussion regarding the Fund Clients in this Brochure, including but not limited to the investments, the strategies used in managing the Fund Clients, the fees, expenses, and risks associated with an investment in the Fund Clients, and conflicts of interest in connection with the management of the Fund Clients are qualified in their entirety by reference to their respective Offering Documents.**

## Item 5 – Fees and Compensation

In consideration of our Advisory services, Hiddenite Capital generally is entitled to receive management fees and performance-based compensation with respect to the Clients. The fees and expenses applicable to the Fund Clients are set forth in detail in their respective Offering Documents. However, a summary of Hiddenite Capital's basic fee schedule is set forth below.

### The Fund Clients

*Management Fee:* The Management Fee applicable to a Limited Partner's Founders' Capital Account for each quarter will be computed at a rate that is calculated as of the first Business Day of each year. The Management Fee rate applicable to a Limited Partner's Founders' Capital Account for a particular year will be determined based on the amount of subscriptions net of redemptions from the Master Fund other than subscriptions and redemptions attributable to Founders' Interests and any Founders' sub-class in the Offshore Fund ("Net Non-Founders Subscriptions").

The Management Fee rate applicable to a Limited Partner's Series A Capital Account, as well as to a Limited Partner's Founder's Capital Account, is 1.5% per annum. The Management Fee is computed based on the relevant offering documents and shall be paid quarterly in advance. The Investment Manager may waive or modify the Management Fee in its sole discretion.

*Incentive Allocation.* Subject to certain terms, limitations and conditions set forth in the applicable Offering Documents, at the end of each fiscal year, the General Partner, as the holder of certain allocation class shares in the Master Fund, will receive at the Master Fund level an annual incentive allocation equal to: (i) 12.5% of each Limited Partner's share of net profits (including net unrealized gains on investments) attributable to Founders' Interests for that fiscal year, and (ii) 17.5% of each Limited Partner's share of net profits (including net unrealized gains on investments) attributable to Series A Interests for that fiscal year (such allocations, the "Incentive Allocation"); in each case, the Incentive Allocation will be subject to a loss carryforward provision.

When calculating the Incentive Allocation, the Management Fee and all items of income, loss and expense incurred by the Fund Clients will be taken into account. The Incentive Allocation will be determined separately with respect to each capital contribution made by a Limited Partner. To the extent the Incentive Allocation is taken at the Master Fund level, no incentive allocation will be taken at the Fund Client level. The General Partner, in its sole discretion, may change the level at which it receives the Incentive Allocation. In the event that a Limited Partner withdraws capital (in whole or in part) or retires at any time other than at the end of a fiscal year, the deduction of the Incentive Allocation will be made with respect to such withdrawn capital as though it were being made at the end of a fiscal year.

The General Partner may waive or modify the Incentive Allocation for Limited Partners that are members, principals, employees or affiliates of the General Partner or the Investment Manager, and relatives of such persons and advisers to the General Partner or the Investment Manager.

Each investor in Hiddenite Capital Holdings, LLC generally is required to certify that it is, among other things, both an "accredited investor" (as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended) and a "qualified client" (as such term is defined in Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act")). Each investor in Hiddenite Capital GP, LLC generally is required to certify that it, among other things, both an "accredited investor" and a "qualified purchaser" (as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended (the "Company Act")).

Fees with respect to an investor in a Fund Client generally are not negotiable. However, Hiddenite Capital may enter into side letters or other similar arrangements with certain investors in the Fund Clients that waive, reduce or calculate differently the Management Fee and/or the Incentive Allocation with respect

to such investors.

*Other Fees and Expenses.* In addition to the Management Fee and the Incentive Allocation, each Fund Client generally is required to bear (and reimburse Hiddenite Capital and its affiliates for) all costs and expenses relating to its activities. A summary of certain costs and expenses that generally are required to be borne by the Fund Clients is set forth below.

- *Investment Manager Expenses.* The Investment Manager will be responsible for and will pay, or cause to be paid, all ordinary office overhead expenses, which include rent and supplies, secretarial expenses, stationery, charges for furniture and fixtures, employee insurance, employee benefits, payroll taxes, compensation of analysts and other personnel and its own compliance expenses. The Investment Manager will also bear all fees and costs attributable to research-related travel and attendance at trade shows, conferences and trade exhibitions.
- *Other Expenses.* All other expenses will be borne by the Fund Clients, including but not limited to, fees paid to the Investment Manager, Fund Client legal expenses, and other professional service fees and expenses, the administrator's fees and expenses (including, but not limited to, middle and back office services and software necessary for trade capture and portfolio or order management), audit and tax preparation (including third-party tax preparation) and accounting expenses (including third party accounting services and accounting software); Management Fees; Organizational Expenses (as defined below); execution, order and portfolio management system fees and expenses; fees and expenses associated with risk management services and any related software or systems; fees and expenses associated with market data (including Bloomberg and similar subscription and data services); investment expenses such as commissions; borrowing charges on securities sold short; research fees and expenses (including software licensing and technology-related fees and expenses; fees and expenses incurred in connection with the use of expert networks); interest on margin accounts and other indebtedness; custodial fees; bank service fees; Fund-related insurance costs (including D&O and E&O insurance for the Investment Manager and the General Partner); expenses of regulatory compliance (including compliance with AIFMD and AEOI and any other compliance regimes that the Fund Clients may become subject to in the future), including expenses related to various filings and reporting obligations that the Investment Manager is required to make as a result of managing the Fund's portfolio (including but not limited to Section 13, Section 16 and Form PF filings); a pro rata portion of any directors' or governance committee fees incurred at the Master Fund level; pricing service fees; portfolio valuation expenses (including third-party valuation agents); and any other expenses related to the purchase, sale, transmittal or preservation of Fund Client assets.

The Investment Manager may, in its sole discretion, pay any expenses that would otherwise be borne by the Fund Client.

The organizational expenses of the Fund Clients (including expenses of the initial offer and sale of Interests) (the "Organizational Expenses") will be paid by the Fund. Organizational Expenses, for net asset value purposes and in the sole discretion of the General Partner, may be amortized over a period of up to 60 months from the date the Fund commences operations, although, if the General Partner deems it appropriate, such amounts may be accelerated.

As noted above, the Fund will invest substantially all of its assets through a "master-feeder" fund structure in the Master Fund. Each investment vehicle, including the Fund, that invests in the Master Fund will indirectly share in the administrative and other expenses of the Master Fund pro rata based on its interest in the Master Fund (which expenses may include the direct expenses of the Fund and other private investment funds that invest in the Master Fund).

Such expenses may be subject to certain limitation that are more fully explained in each Fund(s)' applicable offering documents.

The Fund Clients generally are responsible for and pays all applicable brokerage and custodial expenses

and fees. *See Item 12 below.*

The fees and expenses listed above are not comprehensive and are qualified in their entirety by reference to the applicable Offering Documents. Each of the Fund Clients has entered into an administration agreement with a third-party administrator, which is paid customary fees by such Fund Client based on the net asset value thereof. The Adviser bears all of its own overhead expenses including, without limitation, salaries and wages, utility costs, office space, facilities, supplies and other similar expenses.

Compensation for the Sale of Securities or Other Investment Products

Neither Hiddenite Capital nor any of its supervised persons accept compensation for the sale of securities or other investment products.

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

As detailed previously in *Item 5* (Fees and Compensation), Hiddenite Capital generally is entitled to receive performance-based compensation with respect to each of the Clients. In addition, certain of the Adviser's investment personnel are compensated on a basis that includes a performance-based component and therefore face these same potential conflicts. Performance-based fee arrangements create an incentive for Hiddenite Capital to recommend investments which may be riskier or more speculative than if only asset-based management fees were charged. In addition, because performance-based compensation generally is calculated on a basis that includes both realized and unrealized appreciation in portfolios based upon values assigned by Hiddenite Capital, Hiddenite Capital faces a conflict of interest in valuing those portfolios. Hiddenite Capital attempts to address these conflicts through their investment allocation policy and full and fair disclosure in the applicable account and/or Offering Documents and/or this Brochure.

Certain Clients' accounts may have higher asset-based fees or more favorable performance-based compensation arrangements with us than other accounts. Because the Adviser and its investment personnel may manage more than one Client account, a potential conflict exists for one of the Clients to be favored over another and to provide preferential treatment in terms of time, resources, and investment opportunities to the Clients that pay the Adviser (and indirectly the portfolio manager) a higher fee. Hiddenite Capital is focused on monitoring the allocation of investment opportunities in such situations and endeavors to resolve in good faith any material conflict with respect to the allocation of investment opportunities. Hiddenite Capital has adopted and implemented policies and procedures intended to address these types of conflicts of interest and in an attempt to ensure that all the Clients are treated in a fair and equitable manner with respect to the allocation of investment opportunities. The general policy of Hiddenite Management is to allocate investment opportunities to and among all of the Clients in a fair and equitable manner under the circumstances and, in general, each Client participates in each investment opportunity (subject to the terms set forth in the applicable Offering Documents and/or Advisory Agreement). As between the Clients, Hiddenite Capital expects to allocate investment opportunities between the Clients *pro rata* (assuming Hiddenite Capital GP, LLC's. Under certain circumstances, Hiddenite Capital has discretion to utilize alternative allocation procedures, provided that all participating Clients are treated fairly and equitably. In addition, the performance of the Clients' accounts are regularly monitored for discrepancies. *See Item 12.*



## **Item 7 – Types of Clients**

As discussed in *Item 4* (Advisory Business), Hiddenite Capital provides investment Advisory, management, sub-Advisory and other services to the Fund Clients, which are affiliated pooled investment vehicles. Hiddenite Capital may in the future provide investment advice and other services to other clients or types of clients.

The minimum initial capital contribution required for an investor in the Fund Clients is set forth in the applicable Offering Documents.

To invest in the Fund Clients, each investor generally is required to certify that it is, among other things, an “accredited investor” (as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended), and either a “qualified client” (as such term is defined in Rule 205-3 under the Advisers Act), or a “qualified purchaser” (as such term is defined in Section 2(a)(51)(A) of the Company Act). Each prospective investor generally is required to complete and return various subscription documents to the Fund Clients, which are designed to provide the Fund Clients, Hiddenite Capital and their affiliates and agents with important information about the investor. Subscriptions may be accepted or rejected, in whole or in part, in the sole discretion of Hiddenite Capital.

For a further discussion of these and related items, see *Item 4* (Advisory Business) and *Item 10* (Other Financial Industry Activities and Affiliations).

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

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations with an objective to generate attractive risk adjusted returns in all market conditions by dynamically managing a portfolio of investments. Analysis is predominantly based on fundamental research of investments. Analysis may be augmented by cyclical analysis and other quantitative/qualitative tools. The Adviser's investment strategy focuses on a company's intrinsic value and ability to increase shareholder value over time as well as the company's ability to maintain a margin of safety during fluctuating market and business conditions. To achieve its investment objective, the Clients generally acquire long positions in companies that the Adviser believes will increase in value over time and short positions in companies the Adviser believes will decrease over time.

The underlying thesis for a position or idea is generally supported by at least one of many investment strategies that the Clients employ. These strategies include:

*Fundamental Value.* The Adviser engages in a fundamental value investment strategy wherein Hiddenite Capital attempts to invest in asset-oriented securities it believes are undervalued by the market.

*Buy and hold:* The Adviser engages in a buy and hold strategy where it purchases securities and holds them for a relatively longer period of time regardless of short-term market factors or volatility.

*Short Term Trading:* The Adviser engages in short term trading strategies wherein the Adviser buys securities and holds them for a relatively short period of time, taking advantage of temporary price anomalies, short term events and disconnects between the Adviser's opinion of the underlying value and market value.

*Hedging:* The Adviser may utilize a variety of financial instruments such as option contracts for risk management. There can be no assurance that such hedging strategies will be implemented, or if implemented, will be effective.

*Short Selling:* The Adviser engages in short selling strategies. In a short sell transaction, the seller sells securities that are not owned by the seller, generally when the seller anticipates a decline in the price of the securities or for hedging purposes.

*Options Trading:* The Adviser engages in options trading as an extension of the above-mentioned strategies. Options are investments whose ultimate value is determined from the value of the underlying investment.

**The investment strategies summarized above are not intended to be comprehensive and are qualified in their entirety by the information set forth in the applicable Offering Documents and/or the Advisory Agreements.**

For a further discussion of these and related items, see *Item 10* (Other Financial Industry Activities and Affiliations), *Item 11* (Code of Ethics and Personal Trading) and *Item 12* (Brokerage Practices).

### General Risks

*General Economic Conditions, Market Conditions and Force Majeure Events.* The success of the investment Advisory services provided to the Clients is affected by general economic and market conditions, such as changes in interest rates, availability of credit and debt-related issues, inflation rates, economic uncertainty, market volatility, changes in laws (including laws relating to taxation of the Clients investments), trade barriers, unemployment rates, release of economic data, currency exchange controls and national and international political circumstances (the European debt crisis or the U.S. budget or debt-ceiling negotiations). Certain Clients may be adversely affected by the law changes, political circumstances and economic circumstances of the foreign jurisdictions in which they are incorporated. Additionally, force majeure events (i.e. events beyond the control of the party claiming the event occurred including without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other

serious public health concern, war, terrorism, labor strikes, major plant breakdowns, pipeline or electricity line ruptures, failure of technology, defective design or construction, accidents, demographic changes, government macroeconomic policies, social instability) could have a broader negative impact on the world economy and international business activity. Force majeure events may adversely affect the ability of any such parties to perform their obligations until they are able to remedy the force majeure event or are too costly to cure and may have a permanent adverse effect on Client investments. The Adviser may not be able to predict the extent, severity or duration of the effect of changes in market conditions, economic conditions or force majeure events or quantify the impact that these may have on its Clients or their investments. These factors may affect the level and volatility of securities prices and the liquidity of the Clients' investments. Volatility and/or illiquidity could impair the Clients' profitability or result in losses. The Clients could incur material losses even if the Adviser reacts quickly to difficult market conditions, economic conditions or force majeure events. There can be no assurance that the Clients will not suffer material losses and other adverse effects from future broad and rapid changes in economic conditions, market conditions and from force majeure events in the future. Investors should realize that markets for the financial instruments in which the Adviser seeks to invest can correlate strongly with each other at times or in ways that are difficult for the Adviser to predict. Even a well-analyzed approach may not protect the Clients from significant losses caused by changes in market conditions, economic conditions or force majeure events.

*Outbreaks of Infectious or Contagious Diseases; COVID-19.* Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, Ebola and COVID-19, which the World Health Organization formally declared in March 2020 to constitute a global "pandemic," have and are resulting in market volatility and disruption, and future such emergencies have the potential to materially and adversely impact economic production and activity, all of which may result in significant losses to a Fund. In an effort to contain COVID-19, national, regional and local governments, as well as private businesses and other organizations, have taken severely restrictive measures, including instituting local and regional quarantines, restricting travel (including closing certain international borders), prohibiting public activity (including "stay-at-home" and similar orders), and ordering the closure of large numbers of offices, businesses, schools, and other public venues. As a result, COVID-19 significantly diminished global economic production and activity of all kinds and contributed to both volatility and declines in markets for financial assets as well as commodities and other assets. Among other things, these unprecedented developments resulted in material reductions in demand across some, many or all categories of consumers and businesses, dislocation (or in some cases a complete halt) in the credit and capital markets, labor force and operational disruptions, slowing or complete idling of certain supply chains and manufacturing activity, and strain and uncertainty for businesses and households. Certain industries are likely to feel such impacts particularly acutely, for instance industries dependent on travel and public accessibility, such as transportation, hospitality, tourism, retail, sports and entertainment and industries related to natural resources production and development. The COVID-19 crisis and any other public health emergency could result in significant adverse impacts on the Funds. The extent of the impact of any such emergency depends on many factors, all of which are highly uncertain and cannot be predicted, which may impact the Adviser's or the Funds' ability to source, diligence and execute new investments and to manage, finance and exit investments in the future, or cause significant changes or reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital (among a wide variety of other potential effects). In addition, the operations of the Funds, their investments, the applicable General Partner, the Adviser and their respective affiliates may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, restrictions on travel and movement, remote-working requirements and other social, political, financial, legal, regulatory and other factors related to an actual or threatened public health emergency (such as COVID-19), including its potential adverse impact on the health of any such entity's personnel. These measures may also hinder such entities' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

*Investment and Trading Risks Generally.* All investments risk the loss of capital. The Adviser's investment program involves, without limitation, risks associated with limited diversification, short-selling, equity risks, distressed issuers, interest rates, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in the Adviser's activities. Certain of the Adviser's investment techniques may, in certain circumstances, substantially increase the impact of adverse market movements to which the Clients' investments may be subject. In addition, the Clients' investments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where the Adviser invests. The Adviser's methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

*Limited Diversification and Risk Management Failures.* As described herein, at any given time, the Clients' portfolios may not be diversified to any material extent and, as a result, the Clients could experience significant losses if general economic conditions, and, in particular, those relevant to the issuers whose securities are owned by the Clients, decline. In addition, the Clients' portfolios could become significantly concentrated in a limited number of issuers, types of financial instruments, industries, strategies, countries or geographic regions, and any such concentration of risk may increase losses suffered by the Clients. This limited diversity could expose the Clients to losses disproportionate to market movements in general. Other investment funds pursue similar strategies, which creates the risk that many funds may be forced to liquidate positions at the same time, reducing liquidity, increasing volatility and exacerbating losses. Although the Adviser attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in our risk management efforts could result in material losses for the Clients.

*Investment in Small- and Medium-Capitalization Companies.* Utilizing fundamental research, the Adviser may invest across all market capitalizations, including on small- and mid-cap issuers. Smaller capitalization stocks involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of small-capitalization and even medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks may be highly illiquid. Some small companies have limited distribution channels and financial and managerial resources. Such companies may also be dependent on personnel (including key personnel) with limited experience.

*Market Volatility.* The profitability of the Clients substantially depends upon our ability to correctly assessing the future price movements of stocks, bonds, options on stocks, and other securities. We cannot guarantee that we will be successful in accurately predicting price and interest rate movements.

*Equity Risks.* The market prices of securities owned by the Clients may go up or down, sometimes rapidly or unpredictably. A risk of investing in the Clients is that the equity securities in its portfolio will decline in value due to factors affecting equity securities markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which the Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Adviser anticipates. As a result, the Clients may lose all or substantially all of their investment in any particular instance.

*Investments in Undervalued Equity and Equity-Related Securities.* The Clients may invest in undervalued equity and equity-related securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. The investments in undervalued securities involved a high degree of financial risk and can result in substantial losses. Returns generated from the Clients investments may not adequately compensate for the business and financial risks assumed. In addition, the Clients may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period. If long positions are taken in stocks that decline and short positions in stocks that increase in value, then the losses of the Clients may exceed those of other portfolios that hold long positions only.

*Fundamental Analysis.* Fundamental analysis is premised on the assumption that markets are not perfectly efficient, that informational advantages and mispricings do occur and that econometric analysis can identify trading opportunities. Fundamental analysis may incur substantial losses if such economic factors are not correctly analyzed, not all relevant factors are identified and/or market forces cause mispricings to continue despite the traders having correctly identified such mispricings. Fundamental analysis may also be more subject to human error and emotional factors than technical analysis.

*Off-Balance Sheet Risk.* In the normal course of business, we may invest in financial instruments with off-balance sheet risk. These instruments include forward contracts, swaps and securities and options contracts sold short. An off-balance sheet risk is associated with a financial instrument if such instrument exposes the Clients to an accounting and economic loss in excess of the Clients' recognized asset carrying value in such financial instrument, if any; or if the ultimate liability associated with the financial instrument has the potential to exceed the amount that the Clients recognize as a liability in the Clients' statement of assets and liabilities. Additionally, in the normal course of business, the Adviser may purchase long positions in option contracts that do not have off-balance sheet-risk. The risk that these financial instruments expose the Clients to is not in excess of the investor's recognized asset carrying value in the statement of assets and liabilities.

*Long/Short.* The identification of investment opportunities in the implementation of the Clients' long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Clients' positions were to fail to converge toward or were to diverge further from values we may expect, the Clients may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Clients to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with our long/short strategies may become outdated and inaccurate as market conditions change.

*Short Sales.* From time to time the Clients affects short sales. Short selling is the practice of selling securities that are not owned by the seller, generally when the seller anticipates a decline in the price of the securities or for hedging purposes. To complete a short sale, the Clients generally must borrow the securities from a third party in order to make delivery to the buyer. The Clients generally will be required to pay a brokerage commission that will increase the cost to the Clients of selling such securities. The proceeds of the short sale plus additional cash or securities must be deposited as collateral with the lender of the securities to the extent necessary to meet margin requirements. The amount of the required deposit will be adjusted periodically to reflect any change in the market price of the securities that the Clients are required to return to the lender. The Clients generally will be entitled to receive payments from the lender with respect to the short sale proceeds and additional cash on deposit with the lender at negotiated interest rates. The Clients will be obligated to return securities equivalent to those borrowed at any time on demand of the lender of the securities borrower by purchasing them at the market price at the time of replacement. Until the securities are replaced, the Clients will be required to pay to the lender amounts equal to any dividends or interest that accrue during the period of the loan of the securities. An increase in the value of any security that is the subject of short selling by the Clients may, as a result of the foregoing, have a material adverse effect on the assets of the Clients, and therefore, the return on investment of the Clients. From time to time, short selling may be subject to regulatory limitations or bans that can be difficult to predict and could result in a material adverse effect on the assets of the Clients, and therefore, the return on investment of the Clients.

*Call Options.* In certain circumstances, the Clients' investment portfolios may include call options. There are significant risks associated with the sale and purchase of call options. A call option is a financial contract that gives the buyer of the contract the right, but not the obligation, to buy a security or other financial instrument from the seller (or "writer") at a specified price within a specified time period. The buyer pays a non-refundable premium to the seller for the right to exercise the call option. 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. 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 securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

*Put Options.* In certain circumstances, the Clients' investment portfolios may include 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 if the market price falls below the exercise price of the option. 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.

*Relative Value and Directional Investments.* The Clients' investment strategies depend on the Adviser's ability to accurately predict future price movements or the convergence of market prices toward the theoretical values expected by the Adviser. Any such attempt to predict future price movements is inherently risky and inaccurate. Often, price movements will be determined by unanticipated factors, and the Adviser's analysis of known factors may prove incorrect, in each case potentially leading to substantial losses to the Clients.

*Less Liquid Instruments.* We generally invest the Clients' assets in publicly-traded equity securities that are relatively liquid. However, we may invest client assets in the securities of companies with micro- and small-capitalizations, specifically companies with market capitalizations of less than \$1 billion, which may be thinly traded and otherwise illiquid. In addition, we may from time to time hold large positions with respect to a specific type of instrument, which may further reduce liquidity. During such times, we may be unable to timely dispose of certain assets, which would adversely affect our ability to rebalance the Clients' portfolios or to meet withdrawal requests. In addition, such circumstances may force us to dispose of the Clients' assets at reduced prices, thereby adversely affecting the Clients' performance. If there are other market participants seeking to dispose of similar assets at the same time, we may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if the Clients incur substantial trading losses, the need for liquidity could rise sharply while their access to liquidity could be impaired. In conjunction with a market downturn, the Clients' counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Clients' credit risk to them.

*Corporate Debt.* The Clients may invest in bonds, notes and debentures issued by corporations. These instruments may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. The Client may invest in corporate debt instruments that have experienced or are contemplated to experience ratings downgrades. Other instruments may have the lowest quality rating or may be unrated. Credit ratings evaluate the safety of the principal and interest payments, not the market value risk of lower-rated instruments. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis and, as a result, outstanding ratings may not reflect the issuer's current credit standing. Conversely, rating agencies may re-rate an instrument which could cause substantial loss as the ratings are downgraded. The Clients' investments may experience significant credit rating volatility, which may result in significant market value volatility and the potential for substantial loss. In addition, the

Clients may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.*, the principal owed to the Clients in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Clients may experience substantial losses.

*Loans of Portfolio Securities.* The Clients may lend their portfolio securities. By doing so, the Clients will attempt to increase income through the receipt of interest on the loan. While a securities loan is outstanding, the Clients will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially. To the extent that the value of the securities the Clients lent increases, the Clients could experience a loss if such securities are not recovered.

*Investments in Distressed Issuers.* The Clients may invest in obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems and “below investment-grade” debt securities, including companies involved in covenant or payment default or in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies’ securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is high, and there is no assurance that the Adviser will analyze such investments correctly.

*Stressed Debt.* The Clients may invest in debt obligations of stressed issuers. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of distressed and stressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

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

*Stock Index Options.* In certain circumstances, the Adviser may cause the Clients to purchase and sell, call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing their investment objective or for the purpose of hedging its portfolio and managing its net exposure. A stock index or index option fluctuates with changes in the market values of the stocks

included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes depends upon the extent to which price movements in the Clients' portfolios correlates with price movements of the stock indices selected. Since the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Clients realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use of options on stock indices is subject to our ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

*Other Derivative Instruments.* The Adviser 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 the investment objective of the Clients and legally permissible. Special risks may apply to instruments that are invested in by the Adviser in the future that cannot be determined at this time or until such instruments are developed or invested in by the Adviser. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

*Convertible Securities.* The Adviser may invest the Clients' assets in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium will decrease as the convertible security approaches maturity. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held in the Clients' portfolios is called for redemption, we will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on our ability to achieve the Clients' investment objective.

*Fixed Income Securities.* The Adviser may invest the Clients assets in bonds or other fixed income securities of issuers including, without limitation, bonds, notes and debentures issued by corporations; debt securities and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Adviser may invest may change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).



*Litigation.* The Clients' investment activities may subject it and the Adviser to the risks of becoming involved in litigation with third parties. The expense of defending against claims against the Clients by third parties and the payment of any amounts pursuant to settlements or judgments would be borne by the Clients, reduce net assets and could require investors to return distributed capital and earnings to the Clients. The Adviser and its affiliates generally will be indemnified by the Clients in connection with any such litigation, subject to certain conditions.

*Trading Decisions.* The Adviser's trading decisions generally are based on fundamental and other analysis. Any factor that would lessen the prospect of major trends occurring in the future (such as increased governmental control of, or participation in, the financial markets) may reduce the prospect that a particular trading method or strategy will be profitable in the future. In the past, there have been periods without discernible trends and, presumably, such periods will continue to occur in the future. Moreover, any factor that would make it more difficult to execute trades at desired prices in accordance with the signals of the trading method or strategy (such as a significant lessening of liquidity in a particular market) would also be detrimental to profitability. Further, many Advisers' trading methods utilize similar analyses in making trading decisions. Therefore, bunching of buy and sell orders can occur, which makes it more difficult for a position to be taken or liquidated. No assurance can be given that the Adviser's strategies will be successful under all or any market conditions.

*Non-U.S. Investments.* The Clients may invest in financial instruments of non-U.S. corporations and governments. Investing in the financial instruments of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in financial instruments of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains or other income, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Clients investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Clients may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Clients' rights in such markets. For example, financial instruments traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the Commodity Futures Trading Commission (the "CFTC") or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Clients under such laws and regulations are unavailable for transactions on foreign exchanges and with foreign counterparties.

*Competition.* The markets in which the Adviser expects to participate are extremely competitive. There can be no assurance that the Adviser will be able to identify or successfully pursue attractive investment opportunities in this environment. Clients should expect that their investments will involve substantially more company-specific and market risk and associated volatility in the future than in the past. The Adviser competes with many firms, some of which may have substantially greater financial resources, more favorable financing arrangements, larger research staffs and more securities traders than are available to the Adviser.

*Default and Credit Risks.* The Clients assume the credit risk to their brokers, custodians and other counterparties in connection with brokerage arrangements, derivatives and other contractual relationships. In evaluating credit risk, the Adviser is often dependent upon information provided by the obligor, which may be materially inaccurate or fraudulent. Any actual default, or any circumstance that increases the possibility of such a default, could have a material adverse effect on the Clients.

*Interest Rate Risks.* The Adviser may also invest the Clients' assets in debt obligations of government issuers (e.g., U.S. treasury bills) as a part of an overall cash management strategy. These and various other assets, as well as the Clients' borrowings, may subject the Clients to risks associated with movements in interest rates. For example, the Adviser would be required to manage both curve risk, which is the risk that the slope of the yield curve will vary from the slope assumed in our strategy, and credit spread risk, which is the risk that the spreads between yields of differently rated issuers will change in a manner that adversely affects the Clients' portfolios.

*Hedging Strategies.* The Clients engage primarily in long purchases and short sales of securities. However, the Clients also engage from time to time in hedging, option trading and other strategies. Hedging strategies in general are usually intended to limit or reduce investment risk but can also be expected to limit or reduce the potential for profit. The success of hedging strategies depends, 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 is subject to the Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the 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 the Client from achieving the intended hedge or expose the Clients to risk of loss. The Clients will not be required to hedge any particular risk in connection with a particular transaction or its portfolios generally. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Clients' portfolio holdings. No assurances can be given that these hedging strategies will not adversely impact the overall return on investment realized by the Clients, and, ultimately, the investors of the Clients.

*Leverage and Liquidity Risks.* Consistent with the terms outlined in the applicable Offering Documents and/or Advisory Agreements, the Clients may borrow funds to utilize leverage when deemed appropriate by the Adviser, including to enhance the Clients returns and for cash management purposes (e.g., short-term borrowings to make investments in anticipation of additional subscriptions and to fund withdrawals). The Clients may borrow funds from brokers, banks and other lenders to finance its investing and trading operations, which borrowings may be secured by assets of the Clients. The use of such leverage can, in certain circumstances, maximize the losses to which the Clients investment portfolio may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that a particular asset or the Clients as a whole are leveraged. The cumulative effect of the use of leverage by the Clients in a market that moves adversely to the Clients' investments could result in a substantial loss, which would be greater than if the Clients were not leveraged. Leverage may be achieved through, among other methods, direct borrowing and purchases of securities on margin and the use of options and other derivatives. The use of margin and short-term borrowings creates several risks for the Clients. If the value of the Clients securities falls below the margin level required by a prime broker, additional margin deposits would be required. If the Clients are unable to satisfy any margin call by a prime broker, then the prime broker could liquidate the Clients position in some or all of the financial instruments that are in the Clients accounts at the prime broker and cause the Clients to incur significant losses. Furthermore, secured counterparties and lenders may have the right to sell, pledge, re-hypothecate, assign, use or otherwise dispose of collateral posted by the Clients. This could increase exposure to the risk of a counterparty default since, under such circumstances, the Clients may be unable to recover the posted collateral promptly or may be unable to recover all of the posted collateral. The occurrence of defaults may trigger cross-defaults under the Clients' agreements with other brokers, lenders, clearing firms or other counterparties, creating or increasing a material adverse effect on the performance of the Clients. The purchase of options and other derivative instruments generally involves little or no margin deposit and, therefore, will provide substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to the Clients. In addition, certain of the companies in which the Clients invest may have significant leverage. The leveraged capital structures of the Clients and companies in which it makes investments also increase exposure to adverse economic factors such as rising interest rates, downturns

in the economy and/or deterioration in the condition of the company or its industry. Such increased exposure to adverse economic factors may decrease the overall return on investment realized by the Clients, and ultimately the investors in the Clients, from the overall return on investment that may have been realized if leveraged capital structures had not been used by the Clients or the companies in which the Clients makes investments.

*Counterparty Risks.* The Adviser has established (and may in the future establish) relationships to obtain prime brokerage services and other services, all of which permit the Adviser to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Adviser will be able to maintain such relationships or establish such relationships in the future. An inability to establish or maintain such relationships would limit the Adviser's trading activities and could create losses, preclude the Adviser from engaging in certain transactions, financing and prime brokerage services and prevent the Adviser from trading at optimal rates and terms. Moreover, a disruption in the financing and prime brokerage services provided by any such relationships before the Adviser establishes additional relationships could have a significant impact on the Adviser's business due to our reliance on such counterparties. Some of the markets in which the Adviser may affect its transactions are "over-the-counter" or "inter-dealer" 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 the Clients to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing the Clients to suffer a loss. In addition, in the case of a default, the Clients could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement or where the Clients have concentrated their transactions with a single counterparty or small group of counterparties. Furthermore, there is a risk that any of the Adviser's counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Adviser's counterparties were to become insolvent or the subject of insolvency proceedings, there exists the risk that the recovery of the Clients' securities and other assets from the Clients' prime brokers or broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer. The Adviser may use counterparties located in jurisdictions outside the United States. Such counterparties are subject to the laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Clients' assets are subject to substantial limitations and uncertainties. Due to the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Clients and their assets. The Adviser is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Adviser's internal process for evaluating the creditworthiness of the Adviser's counterparties may prove insufficient. The Adviser's ability to transact business with any one or more counterparties, the lack of complete and "foolproof" evaluation of the financial capabilities of our counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients.

*Cybersecurity Risks.* The Adviser, the Clients and their respective affiliates and service providers depend on information technology systems and, notwithstanding the diligence that the Adviser or its affiliates may perform on such service providers, the Adviser may not be in a position to verify the risks or reliability of such information technology systems. The Adviser, the Clients and their respective affiliates and service providers are subject to risks associated with a breach in cybersecurity. "Cybersecurity" is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage and disruption to hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. The Adviser, its affiliates and its service providers' information and technology systems are vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Adviser and its affiliates have implemented various measures to manage risks relating to these

types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the Adviser and/or the Clients may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the Clients or any respective affiliates' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm the Adviser or its affiliates' reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect its business and financial performance. Such damage or interruptions to information technology systems may cause losses to the Clients or individual investors in the Clients by interfering with the operations of the Adviser and its affiliates (or service providers). The Clients may also incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage. Any such breach could expose the Clients, the Adviser and their respective affiliates to civil, legal or regulatory liability as well as regulatory inquiry and/or action, and the Clients may be required to indemnify the Advisers and its affiliates against any losses incurred in connection therewith. Cybersecurity issues and risks are currently a major focus area of the SEC and other regulatory authorities.

*Conflicts of Interest.* Conflicts of interest exist in the structure and operation of the Fund's business. The Partnership Agreement does not restrict the General Partner or the Investment Manager or their principals from entering into other investment advisory relationships or engaging in other business activities, even though those activities may be in competition with the Fund and/or may involve substantial amounts of the General Partner's or Investment Manager's time and resources, and the General Partner and Investment Manager may act as the general partner and/or investment manager of other investment funds. See General Partner – Other Funds and Outside Interests; Allocations of Investments among Accounts. Conflicts of interest could arise in connection with securities transactions for the accounts of the Fund, other investment vehicles in which the General Partner or Investment Manager or any of its principals is involved, any other advisory clients of the General Partner or Investment Manager, and the General Partner, Investment Manager or its principals themselves. These transactions could differ in substance, timing, and amount, due to, among other things, differences in investment objectives or other factors affecting the appropriateness or suitability of particular investment activities to the Fund or other Clients, or to limitations on the availability of particular investment or transactional opportunities. The General Partner and Investment Manager will allocate transactions and opportunities among its various accounts taking into account a variety of factors, but all accounts may not necessarily invest in the same securities. See General Partner – Other Funds and Outside Interests; Allocations of Investments among Accounts. If the Fund and any other investment portfolios the General Partner or Investment Manager or their affiliates manage to seek to buy or sell the same security at the same time, the General Partner or Investment Manager may combine purchase and sale orders on behalf of the Fund with orders for those other portfolios, and allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the various participants in the transactions. While the General Partner and the Investment Manager believe aggregating transaction orders in this way is, over time, advantageous to all participants, in particular cases the average price could be less advantageous to the Fund than if the Fund had been the only account effecting the transaction or had completed its transaction before the other participants. Because of the General Partner's interest in the Fund, there could be circumstances in which the Fund's transactions may not, under certain laws and regulations, be combined with those of some of the other accounts the General Partner or Investment Manager manages, and the Fund may obtain less advantageous execution than such other accounts. Except in connection with Capital Contributions made in-kind, the General Partner, the Investment Manager and their affiliates may not be acting as principal, purchase from or sell to the Fund any securities except in accordance with applicable regulatory requirements. On occasion, and subject to regulatory requirements, the Investment Manager may cause the Fund to purchase securities of issuers in which the General Partner and/or its affiliates, including the Investment Manager, have a financial interest. In selecting a broker or dealer for any transaction or series of transactions, the Investment Manager will attempt to obtain in its good faith judgment the best qualitative execution and competitive pricing. (See "Brokerage Practices.")

*Board Compensation.* Members, principals, officers and employees of the Adviser and its affiliates, including the General Partner, may hold positions on the boards of directors of certain private and/or public companies for compensation, including companies in which the Fund invests or may invest in the future. Such compensation may include cash, restricted stock and/or options of such company. Any compensation received in connection with such board positions is retained by the individual and/or assigned to the General Partner or the Adviser and will not be credited to the Fund or the Limited Partners. In addition, in their capacity as officers or directors of companies, such individuals may become subject to fiduciary or other duties which can adversely affect the Fund. For example, the Fund may be unable to sell or otherwise dispose of portfolio securities if a director of the portfolio company is an employee of the Adviser or General Partner and is in possession of material, non-public (i.e., “inside”) information relating to the issuer. Nevertheless, the Fund’s Partnership Agreement will not preclude members of the Adviser from serving as officers or directors of portfolio companies or otherwise acquiring material, non-public information regarding portfolio companies. In general, if there is a conflict between the fiduciary duties of the Adviser or a member thereof to a portfolio company and such person's fiduciary duties to the Fund or the Limited Partners, such person’s fiduciary duties to the portfolio company will prevail.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL OF THE RISKS THAT ARE OR MAY BE ASSOCIATED WITH HIDDENITE MANAGEMENT’S INVESTMENT STRATEGIES. PROSPECTIVE CLIENTS AND INVESTORS SHOULD READ THIS BROCHURE AND THE APPLICABLE OFFERING MATERIALS IN THEIR ENTIRETY BEFORE MAKING ANY INVESTMENT DECISIONS.**

**Item 9 – Disciplinary Information**

There are no legal or disciplinary events related to Hiddenite Capital or any of its employees that are material to the Clients or prospective client's evaluation of our Advisory business or the integrity of Hiddenite Capital.

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

- A. Hiddenite Capital is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no employees of Hiddenite Capital are registered representatives of a broker-dealer.
- B. Neither Hiddenite Capital nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading adviser, or an associated person of the foregoing entities.
- C. Other than as set forth below, Hiddenite Capital has no relationships or arrangements with any related person listed in the instructions to Item 10.C. or any other person that are material to its Advisory business or to its Clients.
- D. Hiddenite Capital does not recommend or select other investment advisers for its Clients.

## **Item 11 – Code of Ethics and Personal Trading**

Under the Advisers Act, an investment adviser owes a fiduciary duty to its clients. As a fiduciary, Hiddenite Capital has an affirmative duty to (i) act solely in the best interests of its Clients and (ii) make a full and fair disclosure of all material facts, particularly where Hiddenite Capital's interests may conflict with those of its Clients.

Hiddenite Capital has adopted and implemented a Code of Ethics in an effort to maintain a policy of compliance with high standards of ethical business conduct and the provisions of applicable laws. Our Code of Ethics is designed to, among other things, educate supervised persons about Hiddenite Capital's philosophy regarding ethics and professionalism, emphasize Hiddenite Capital's fiduciary duties to its Clients, encourage supervised persons to comply with applicable laws, prevent the misuse of material non-public information, the circulation of rumors and other forms of market abuse and address material conflicts of interest that arise from personal trading by access persons.

Subject to the terms of the Code of Ethics, Hiddenite Capital generally imposes restrictions on supervised persons relating to the purchase or sale of securities for their own personal accounts and the personal accounts of certain affiliated or related persons. Pursuant to the Code of Ethics, supervised persons generally (i) are permitted to trade in "exempt securities," which includes (among others) money-market funds, open-end mutual funds, exchange traded funds, bankers' acceptances, bank certificates of deposit, commercial paper and high-quality short-term debt instruments, unit investment trusts, brokerage certificated of deposit, treasury securities, transactions through an established Automatic Investment Plan, and other accounts managed by third-party advisers, without receiving pre-clearance from the Chief Compliance Officer or portfolio manager, (ii) are prohibited from executing any transaction in a single name equity in any "reportable brokerage account" (which includes any personal securities account over which a supervised person has control or discretionary trading authority), (iii) are prohibited from trading in any security or issuer that is currently on Hiddenite Capital's "Restricted List", and (iv) are required to report their personal securities holdings and transactions via initial and annual holdings reports and quarterly transaction reports. The Code of Ethics also contains policies and procedures designed to prevent supervised persons from misusing material non-public information (or trading the same security ahead of or behind a Client) and to address certain actual and potential conflicts of interest that may arise when supervised persons engage in outside business activities or accept, provide, offer or give gifts or entertainment events. We will furnish a copy of the Code of Ethics to Clients or prospective clients upon request.

Neither Hiddenite Capital nor any of its related persons recommends to Clients, or buys or sells for Clients' accounts, securities in which Hiddenite Capital or any of its related persons has a material financial interest.

Hiddenite Capital may cause its Clients to enter into transactions or arrangements involving actual or potential conflicts of interest. Hiddenite Capital will review any such transactions or arrangements and take such actions as it deems to be necessary or appropriate under the circumstances (including, without limitation, obtaining Client consent with respect to such transactions or arrangement, the consent of a majority in interest of investors in a Fund Client, the consent of an independent third party or the consent of an Advisory committee with respect to a Fund Client).

Hiddenite Capital and the Fund Clients may from time to time in the future engage in cross trades with other Fund Clients for purposes of portfolio rebalancing or for other reasons.

For a further discussion of these and related items, see *Item 8* (Methods of Analysis, Investment Strategies and Risk of Loss), *Item 10* (Other Financial Industry Activities and Affiliations) and *Item 12* (Brokerage Practices).



## Item 12 – Brokerage Practices

### General

In placing portfolio transactions, we seek to obtain the best execution under the circumstances for the Clients by taking into account various factors, including without limitation: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria. Accordingly, if we determine in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, Clients may pay commissions to such broker in an amount greater than the amount another broker might charge.

Our application and the importance of the specific criteria vary depending upon the nature of the transaction, the asset class, the market in which it is affected, and the extent to which it is possible to select from among multiple brokers or dealers capable of effecting the transaction. We allocate order flow in accordance with the trading protocol set forth in our policies and procedures. We have adopted policies and procedures that we believe are reasonably designed to ensure that Clients achieve best net execution and that brokers utilized have been selected based on the Clients best interests.

### Soft Dollars

Hiddenite Capital or its affiliates may receive from the Fund Client broker-dealer's products and services in addition to brokerage services, including "soft dollars" arrangements. The term "soft dollars" refers to arrangements under which products or services other than execution of securities transactions are obtained by an adviser from or through a broker-dealer in exchange for the direction by the adviser of client brokerage transactions to the broker-dealer. Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provides a safe harbor to investment advisers who use soft dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of investment decision-making responsibilities.

We may in the future enter into from time-to-time in our sole discretion, soft dollar arrangements with broker-dealers executing portfolio transactions for the Clients. Consistent with seeking best price and execution, we may place brokerage orders with brokers that may provide us and our affiliates with supplemental research, market and statistical information ("soft dollar items"), including advice as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities, and furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts. The Management Fee is not reduced as a result of the receipt of this supplemental information, which may be useful to us or our affiliates in providing services to clients other than the Clients and, likewise, research services provided by broker-dealers used for transactions of other accounts may be utilized by us in performing our services for the Clients. Notwithstanding the foregoing, in the event we elect to use soft dollars, we may use soft dollars only for payment of (i) soft dollar items within the safe harbor afforded by Section 28(e), or (ii) Fund Client expenses.

We are authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide us with such soft dollar items or to pay higher commissions to such firms if we determine such prices or commissions are reasonable in relation to the overall services provided. Since commission rates in the United States are negotiable, selecting brokers on the basis of considerations that are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

The use of brokerage commissions to obtain soft dollar items for us creates a conflict of interest between the Adviser and the Clients, because the Clients pay for such soft dollar items that are not exclusively for the benefit of such Clients. In certain cases, our use of soft dollars may tend to increase our profitability (where we are able to acquire them without expending our own resources) and may influence us to select one broker rather than another to perform services for the Clients.

From time to time, the Adviser may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to Clients or that recommend the Adviser or the Fund Clients. The Adviser may place portfolio transactions for Clients with firms who have made such recommendations or provided capital introduction opportunities, so long as the Adviser believes that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration or compensation for recommending the Adviser or any clients managed by the Adviser (or an affiliate) or affording the Adviser with the opportunity to participate in capital introduction programs.

#### Aggregation of Transactions

Hiddenite Capital often purchases or sells the same security for many Clients contemporaneously and using the same executing broker. Such aggregation generally enables the Adviser to obtain for Clients a more favorable price or a better commission rate based upon the volume of a particular transaction. However, in cases where the Client has negotiated the commission rate directly with the broker, the Adviser is not able to obtain more favorable commission rates based on an aggregated trade. In such cases, the Client will be precluded from receiving the benefit of any possible commission discounts that might otherwise be available as a result of the aggregated trade. In cases where trading or investment restrictions are placed on a Clients' account, the Adviser may be precluded from aggregating that Clients' transaction with others. In such a case, the Client may pay a higher commission rate and/or receive less favorable prices than Clients who are able to participate in an aggregated order.

When an aggregated order is completely filled, the Adviser generally allocates the securities purchased or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding and market practice. If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to the participating Clients. Depending on the investment strategy pursued and the type of security, this may result in a *pro rata* allocation to all participating Clients.

#### Allocation of Investment Opportunities

Hiddenite Capital's general policy is to allocate investment opportunities among applicable Clients in a fair and equitable manner under the circumstances based upon various factors deemed relevant by Hiddenite Capital including, without limitation, the investment objectives, guidelines and restrictions applicable to the Client, Client risk profiles, financial condition and tax status. In general, investment opportunities are allocated to and among all of the Clients in a manner determined by Hiddenite Capital to be fair and equitable and each Client generally participates to a certain extent in each investment opportunity (subject to the terms set forth in the applicable Offering Documents and/or Advisory Agreement). *See Item 6.*

We seek to detect and correct trading errors. Should a trading error occur and be detected before the trade has been settled in the Client account, we will reverse the trade or reallocate, as necessary or appropriate. In any event, the Client will be made whole (put in a position as if the error had not been made), with us absorbing any loss, in situations where our conduct does not meet the standard for exculpation set forth in the applicable account or governing documents for the relevant Client, and not in other cases.

### **Item 13 – Review of Accounts**

The Adviser generally monitors all Client accounts on a daily basis. The Adviser performs various levels of review, including, without limitation, considering short and long-term rates of return, investment diversification and risk allocations. The Adviser may conduct more frequent or additional reviews in various instances such as important market, economic or global events or circumstances. Each Client account generally is monitored by the portfolio manager.

#### Fund Clients

With respect to accounting matters, Ernst & Young LLP will be engaged to conduct annual audits of the financial statements of the Fund Clients. Investors in the Fund Clients receive audited annual reports and unaudited monthly reports on the performance of the Fund Clients. In addition, investors in the Fund Clients receive monthly individual account statements from our third-party administrator, as well as quarterly letters generally discussing Fund Client performance and events during the prior quarter. We may provide certain information and documentation to certain investors that are not distributed or otherwise made available to other investors. Such investors may make investment or withdrawal decisions based upon such information. All reports provided to investors in the Fund Clients are written.

**Clients are urged to compare any reports that they receive from us or our agents with the statements or reports provided by their custodians.**

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

Except as previously discussed in *Item 12*, no non-clients provide us with an economic benefit, including sales awards or prizes, for providing investment advice or other Advisory services to Clients.

The Adviser may enter into agreements or arrangements with placement agents or solicitors who refer potential investors in the Fund Clients to the Adviser. For their referral services, these persons may receive compensation from the Adviser in the form of a percentage of the Management Fee and/or Performance Allocation that the Adviser and its affiliates receive from the Fund Clients with respect to the referred investors. Investors do not bear any such fees and will not be charged any higher or additional fees as a result of such arrangements.

For a discussion of these and related items, see *Item 10* (Other Financial Industry Activities and Affiliations) and *Item 12* (Brokerage Practices).

## **Item 15 – Custody**

### Fund Clients

Hiddenite Capital is deemed to have custody of the Fund Clients' cash and securities for purposes of Rule 206(4)-2 under the Advisers Act. To the extent required by Rule 206(4)-2 under the Advisers Act, the Fund Clients' cash and securities are held with one or more qualified custodians selected by us from time to time. The current qualified custodians that hold cash and securities for each of the Fund Clients are disclosed in Section 7.B(1) of Schedule D of Form ADV Part 1A. An independent public accountant has been engaged to conduct annual audits of the Fund Clients, and annual audited financial statements (prepared in accordance with U.S. generally accepted accounting principles) are generally distributed to limited partners in the Fund Clients within 120 days after the end of each fiscal year. Qualified custodians do not provide statements directly to investors in the Fund Clients.

## **Item 16 – Investment Discretion**

### Discretionary Authority

We generally have discretionary power and authority over the types of financial instruments to be bought or sold, as well as the amount to be bought or sold on behalf of each Client in accordance with the applicable governing, offering and/or account documents. In addition, we generally have authority to determine the broker-dealer or other counterparty to be used for Client transactions and the negotiation of commission rates and other consideration to be paid by the Clients (except as otherwise provided in the applicable Advisory Agreement).

### Limited Power of Attorney

Each applicable investor in the Fund Clients grants Hiddenite Capital, as general partner of the Fund Clients, a limited power of attorney to enable Hiddenite Capital to execute the governing documents and take various other actions on its behalf (including to operate the Fund Client). Hiddenite Capital also has the authority to conduct authorized trading on behalf of all Clients pursuant to a limited power of attorney included in the applicable account and governing documents.

For a further discussion of these and related items, see *Item 4* (Advisory Business).

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

We vote proxies on behalf of the Clients. Such proxies are voted in accordance with the procedures set forth in our proxy voting policy and in a manner that seeks to serve the best interests of each Client (as determined in our discretion). Generally, we consider each proxy issue on a case-by-case basis; however, our proxy voting policy contains specific guidelines addressing how to vote proxies with regard to routine matters (which generally means that such matter will not measurably change the structure, management, control or operation of the company and are consistent with customary industry standards and practices, as well as the laws of the state of incorporation applicable to the company).

Depending on the applicable circumstances, we may vote one Clients' securities differently than we vote those of another Client, or may vote differently on various proposals, even though the securities or proposals are similar (or identical). In some instances, we may determine that it is in the Clients' best interest for us to "abstain" from voting or not to vote at all and will do so accordingly.

At times, conflicts may arise between the interest of a Client, on the one hand, and the interest of either another Client, us or their respective affiliates on the other hand in consideration of a proxy vote. For example, a vote could arise in relation to a single company that (i) has issued stock to a Client with a buyout investment mandate, and (ii) has issued bonds or other debt instruments that are owned, in part, by a Client that is permitted to invest in debt instruments. To address such potential conflicts, we follow the procedures outlined in our proxy voting policy. Our proxy voting policy requires that in all situations involving a potential conflict between two Clients, the vote will be made without regard to our actual or anticipated compensation. We or a Client may utilize a third-party service provider to assist us with the processing of proxy votes.

Proxy voting records, identifying how proxies were voted where we have been delegated proxy voting authority, and our proxy voting policy, are available upon written request to Hiddenite Capital, LP, 777 Westchester Avenue, Suite 101, White Plains, New York, 10604.

**Item 18 – Financial Information**

- A. Hiddenite Capital does not require or solicit prepayment of more than \$1,200, six months or more in advance.
- B. Hiddenite Capital does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Clients.
- C. Hiddenite Capital has not been the subject of a bankruptcy petition at any time during the past ten years.