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This brochure ("Brochure") provides information about the qualification and business practices of Courage Capital Management, LLC ("Courage" or "Adviser"). If you have any questions about the contents of this Brochure, please contact us at (615) 369-0110, or by email at [rhorton@couragecap.com](mailto:rhorton@couragecap.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC"), or by any state securities authority.

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

Courage is an investment adviser registered with the SEC. Registration with the SEC as an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information with which you determine to hire or retain an adviser.

## Item 2: Material Changes

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There have been no material changes made to this brochure since Courage's last annual update, which was filed on March 26, 2020.

# Item 3: Table of Contents

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Item 1: Cover Page .....	1
Item 2: Material Changes .....	2
Item 3: Table of Contents .....	3
Item 4: Advisory Business .....	4
Item 5: Fees and Compensation .....	6
Item 6: Performance-Based Fees & Side-by-Side Management.....	8
Item 7: Types of Clients.....	10
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	11
Item 9: Disciplinary Information .....	20
Item 10: Other Financial Industry Activities and Affiliations .....	21
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	22
Item 12: Brokerage Practices .....	24
Item 13: Review of Accounts.....	27
Item 14: Client Referrals and Other Compensation.....	28
Item 15: Custody .....	29
Item 16: Investment Discretion .....	30
Item 17: Voting Client Securities .....	32
Item 18: Financial Information .....	33

# Item 4: Advisory Business

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Founded in 1998, Courage is a privately held, SEC-registered investment adviser offering alternative investments to institutional investors and private clients.

The owner is Richard Connell Patton - Chief Manager, Member and Director.

Courage provides discretionary investment advisory services to various private investment funds structured as limited partnerships or offshore investment entities (individually or collectively referred to as the “Fund” or “Funds”) in which investors are solicited to invest. The Funds are primarily intended for high net worth, financially sophisticated individuals, foundations, endowments, trusts, funds of funds and institutional investors. Courage is the sole investment manager of each of the following Funds:

## Special Situations Funds

Courage Special Situations Fund, L.P., a Delaware limited partnership, and Courage Special Situations Offshore Fund, Ltd., a Cayman Islands exempted company, operate in a “master-feeder” fund structure and invest substantially all of their assets in Courage Special Situations Master Fund, L.P., a Cayman Islands exempted limited partnership (each a “Special Situations Fund” and collectively the “Special Situations Funds”).

## Credit Opportunities Funds

Courage Credit Opportunities Offshore Fund III, L.P., a Cayman Islands exempted limited partnership, operates in a “master-feeder” fund structure and invests substantially all of its assets in Courage Credit Opportunities Offshore Master Fund III, L.P., a Cayman Islands exempted limited partnership, which serves as the master fund.

Courage Credit Opportunities Onshore Fund III, L.P., a Delaware limited partnership, operates on a stand alone basis, but on an equal footing manner with Courage Credit Opportunities Offshore Master Fund III, L.P.

Courage Credit Opportunities Fund IV, L.P., a Delaware limited partnership, and Courage Credit Opportunities Offshore Fund IV, L.P., a Cayman Islands exempted limited partnership, operate in a modified “master-feeder” fund structure whereby Courage Credit Opportunities Offshore Fund IV, L.P. invests substantially all of its assets in Courage Credit Opportunities Fund IV, L.P., which serves as the master fund.

## Music Funds

Courage Music Royalty Fund, L.P., is a Delaware limited partnership.

Courage Music Partners II, L.P. is a Delaware limited partnership.

Courage manages an account for a charitable organization and accounts for family members of its principals for which it does not receive compensation (the “Other Accounts”). Other Accounts and Funds sometimes are referred to in this Brochure collectively as “Client Accounts”.

Courage provides advice to Client Accounts based on the specific objectives and restrictions of each client. The Adviser tailors advisory needs of individual clients under certain circumstances. The Adviser agrees to restrict the securities purchased for a Client Account for many reasons, including social responsibility, or for purposes of diversification with other holdings if the client has a managed account or dedicated fund.

At times business matters conducted by Courage relating to Courage Music Royalty Fund, L.P. and/or Courage Music Partners II, L.P. are referred to as Courage Music.

Courage provides investment advice to Client Accounts totaling \$951,470,643 in discretionary regulatory assets under management as of December 31, 2020. Courage has no non-discretionary accounts.

## Item 5: Fees and Compensation

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Currently, the Adviser charges fees comprised of two components: one based on a percentage of assets under management (the “Management Fee”) and the other based on performance or capital appreciation (the “Performance Compensation”).

The Management Fees are generally charged in advance on a quarterly basis at the annual rate of between 1.00% and 2.00% of the relevant Fund’s net assets. In certain circumstances, the Management Fee is negotiated. If a Fund is established during a quarter or a client makes an addition to its account, the Management Fee will be charged as of the effective date of the investment advisory agreement or the date of the contribution and will be prorated for the number of days remaining in the quarter. In certain circumstances, the Management Fee is based on capital commitments, or upon the cost of investments at the measurement date. The general partners share in the Management Fee and/or Performance Compensation based upon agreements with the Fund and Adviser.

The Performance Compensation is charged or reallocated between 15% and 20% of the net profit attributable to each Fund investor, subject to a loss carry-forward adjustment. The Performance Compensation is generally payable either (i) at the end of each calendar year but is payable more frequently if provided for in the investment advisory agreement, or (ii) for closed-end private equity funds, following the return to investors of all capital contributions plus a preferred return. To the extent the Adviser is entitled to Performance Compensation upon the sale or deemed realization of illiquid investments, the Adviser has an incentive to delay or accelerate the realization of an illiquid investment. In addition, depending on the particular private investment fund, Courage receives performance based compensation on unrealized appreciation as well as realized gains in assets. Performance Compensation is charged or reallocated in compliance with Rule 205-3 under the Investment Advisers Act of 1940, as amended.

Upon proper instruction by the Fund or its representative, the Management Fee and/or Performance Compensation are deducted from the Funds and the Adviser and, in certain situations, the Fund’s general partner, are paid.

Upon termination of investment advisory services, any unpaid portion of Management Fees or Performance Compensation will be determined and due on a pro rata basis. Any unearned portion of a fee paid in advance will be refunded on a pro rata basis.

The Management Fee and/or Performance Compensation described above may be waived or reduced with regard to Fund investors that are members, principals, employees or affiliates of Courage, relatives of such persons, charitable organizations and for certain strategic or initial investors. In certain circumstances, fees may be individually negotiated by Fund investors.

In addition to Management Fees and Performance Compensation, clients pay trading costs and other Fund operating expenses, to the Funds' service providers, including but not limited to, auditing and tax fees, administrator fees, insurance, consultants, legal, finder fees, custodial fees, mutual fund expenses (if investments are made in mutual funds), brokerage, commission, other transaction costs, software costs, research (including reimbursement to the Adviser for out of pocket expenses) and organizational/offering costs (such as legal, accounting, printing, marketing and travel costs). Such costs and expenses are paid directly to the Funds' service providers or reimbursed to the Adviser for out of pocket payments incurred on or for the Funds' behalf. The Funds do not bear or pay any placement agent or solicitation fees, or any of the Adviser's operating costs. Certain client assets are invested in a master-feeder structure. Feeder funds bear a pro rata share of the expenses associated with the related Master Fund.

The allocation of expenses by the Adviser between it and any client and among clients represents a conflict of interest for the Adviser. The Adviser has adopted an expense allocation policy that is designed to address this conflict. The Adviser allocates expenses to each client in accordance with the client's arrangements with the Adviser (including applicable client disclosures). The Adviser seeks to allocate shared expenses for products and services benefitting the Adviser and the client and not covered in the client's arrangements in a fair and reasonable manner. The Adviser allocates common client expenses among multiple clients pro rata based on net assets under management, or in certain instances capital commitments, as of the beginning of each period in which the expenses are paid or some other date as reasonably determined by the Adviser. The Adviser may deviate from this standard allocation method if it determines that an expense disproportionately benefits or harms a particular client or group of clients.

Please refer to Item 12 for more information on Courage's Brokerage Practices.

The Funds do not receive compensation for the sale of securities or other investment products.

Mark Bourgeois, a Senior Managing Director and Vice Chairman of the Board of Courage, also serves as a registered representative of Palladium Capital Group, LLC, a broker-dealer. As a Registered Representative of a broker-dealer, he is entitled to receive commissions for the sale of securities or other investment products based on securities transactions he places for Palladium Capital Group, LLC. At this time, he has not received any commission payments from Palladium Capital Group, LLC. In order to mitigate any potential conflicts of interest, Courage will not use that particular broker-dealer for firm trading. See item 10. No other Courage employee is eligible to receive compensation for the sale of securities or other investment products.

## Item 6: Performance-Based Fees & Side-by-Side Management

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Because the Adviser is compensated, in part, based on capital appreciation, an incentive exists for the Adviser to make investments that are riskier or more speculative than would be the case in the absence of such a compensation framework.

The Adviser provides investment management services to multiple portfolios for multiple clients. The Adviser (or an affiliate of the Adviser) is paid performance-based compensation by its private pooled investment vehicle clients. In addition, the Adviser's investment personnel are compensated on a basis that includes a performance-based component.

Some Client Accounts have higher based fees or more favorable performance-based compensation arrangements than other Client Accounts. Performance based compensation arrangements create an incentive for the Adviser to take risks in managing assets that would not otherwise be taken in the absence of such arrangements. Similarly, larger or higher fee-paying Client Accounts could be favored because they generate more revenue for the Adviser.

The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. In addition, the Adviser's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities pro rata based on percentage allocation calculations in effect at the time a trade occurs and certain factors, including but not limited to, investment restrictions or guidelines, account requirements for liquidity and timing of cash flows.

Since different Funds have different investment objectives and strategies conflicts are possible. For example, it is possible to be long a security in one Fund and short the same security in another Fund. In addition, in specific instances, differing strategies may result in buying and selling different securities and instruments within an issuer's capital structure for different Funds. Accordingly, in rare instances, it is possible that a Fund may acquire an instrument that is senior in the capital structure of an issuer relative to an instrument owned by another Fund that is more junior on the capital structure (including common stock). In certain circumstances, such as if the credit quality of the issuer deteriorates, the Adviser will owe conflicting fiduciary duties to multiple Funds, in that action taken to protect the interest of one set of holders would be detrimental to, or conflict with the interests of, other holders of the same issuer's securities or instruments.

When orders are aggregated, the client orders are price-averaged.



The Adviser's procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair and equitable allocation among accounts. These areas are monitored by the Adviser's Chief Compliance Officer.

## Item 7: Types of Clients

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The types of clients to whom the Adviser generally provides investment advice are private pooled investment funds and a charitable organization. Investors in the Funds may include, but are not limited to, individuals, public and private pension plans, charitable foundations, endowments, trusts, funds of funds and other institutional investors.

Any client that is a pooled investment fund will have a minimum investment level as stated in a Funds' offering memorandum, however, such minimums may be waived for certain investors.

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

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The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods include fundamental research, technical analysis and cyclical analysis. The sources of information used when selecting and analyzing securities typically includes, but are not limited to, financial newspapers and magazines, inspections of corporate activities, research material and information prepared by others, annual reports, prospectuses, filings with the SEC, company inquiries, press releases, industry due diligence and attending industry conferences.

The Adviser employs the following investment strategies:

*Arbitrage Transactions.* The Adviser engages in one or more types of arbitrage strategies. Arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in other forms. The Adviser engages in the following arbitrage strategies: event-driven arbitrage, capital structure arbitrage and convertible arbitrage.

*Buy and Hold.* The Adviser engages in a buy and hold investment strategy wherein the Adviser buys securities and holds them for a relatively longer period of time, regardless of short-term factors such as fluctuations in the market or volatility of the stock price.

*Credit.* The Adviser engages in a long/short credit strategy. This strategy generally invests in credit-related assets across all levels of the capital structure, including, investments in distressed debt securities and other financial instruments, high yield and investment grade loans and bonds and special situations.

*Distressed.* The Adviser engages in opportunistic investments in distressed and stressed securities generally in companies in the lower middle market. These opportunities seek to provide appreciation by capitalizing on mispriced or misunderstood securities and through securities exchanged or obtained through restructurings and reorganizations.

*Equity.* The Adviser's equity strategy focuses on value and event equity investment styles, including various ranges on the capitalization scale, from small-cap, mid-cap and large-cap, to mega-cap. In addition, the Adviser's geographic focus is generally in the U.S.

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

*Growth.* The Adviser engages in a capital growth investment strategy wherein the Adviser attempts to select securities of a company whose earnings the Adviser expects to grow

at an above-average rate compared to the company's specific industry or the overall market.

*Hedging.* The Adviser generally utilizes financial instruments such as derivatives, options and Exchange Traded Funds for risk management purposes.

*Music Rights.* The Adviser engages in strategies relating to the acquisition and aggregation of selected music rights or copyrights seeking to generate stable and/or growing annuity-like cash flows.

*Leverage.* The Adviser's investment program for the Credit Opportunities Funds at times use leverage which includes the borrowing of funds from banks in order to be able to purchase investments prior to a capital commitment being called. Generally, the Special Situations Funds do not use leverage. The Music Funds do not use leverage.

*Option Trading.* The Adviser engages in various option trading investment strategies. Options are investments whose ultimate value is determined from the value of the underlying investment. The Adviser engages in put and call types of option trading strategies.

*Relative Value.* The Adviser pursues relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued.

*Short Selling.* The Adviser engages in short selling strategies. In a short sale transaction, the Adviser sells a security it does not own in anticipation that the market price of that security will decline. The Adviser makes short sales as a form of hedging to offset potential declines in long positions in similar securities and for profit.

This Brochure provides an overview of the risks that exist when employing the strategies described here. A full list and description of the risks involved in each Fund strategy can be found in the offering documents for each Fund. Although Courage makes every effort to preserve each client's capital and achieve real growth of wealth, investing in securities involves risk of loss that each client and investor should be prepared to bear.

*Arbitrage Transaction Risk.* If the requisite elements of an arbitrage strategy are not properly analyzed or unexpected events or price movements intervene, losses can occur. Moreover, arbitrage strategies often depend upon identifying favorable "spreads", which can also be identified, reduced or eliminated by other market participants.

*Distressed Situation Risk.* Investment in distressed situations exposes the client to significant risks, including: the difficulty in obtaining information as to the issuer's true condition; regulatory risk, including laws relating to fraudulent conveyances, voidable preferences, lender liability bankruptcy; litigation risk; liquidity risk; and collection risk.

*Hedging Risk.* There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while the Adviser will periodically enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall

performance and increased (rather than reduced) risk for the Adviser's investment portfolios than if the Adviser did not engage in any such hedging transactions.

*International Investing Risk.* Investing outside the United States may involve greater risks than investing in the United States. These risks include: (i) less publicly available information; (ii) potential lack of uniform accounting, auditing and financial reporting standards; (iii) varying levels of governmental regulation and supervision; and (iv) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws. The transaction costs of buying and selling non-U.S. securities, including brokerage, tax and custody costs, may be higher than those involved in U.S. transactions. Furthermore, many non-U.S. financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many non-U.S. companies are historically less liquid and their prices historically more volatile than securities of comparable U.S. companies. The economies of individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy.

*Interest Rate Risk.* Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities.

*Issuer-Specific Risk.* Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

*Lack of Diversification Risk.* Client Accounts are generally not diversified among a significantly wide range of types of securities, countries or industry sectors. Accordingly, client portfolios are subject to more rapid change in value than would be the case if the Adviser were required to maintain a wider diversification among types of securities and other instruments.

*Music Rights Market Risks.* Although the Adviser believes the historical performance of music rights has generally been uncorrelated with the financial markets, no assurance can be made that the performance of music rights will remain uncorrelated with the financial markets in the future. The value of the investments managed by the Adviser may decline more or less than the market averages in a generally declining market. On the other hand, investments managed by the Adviser may not participate in a rising market or increase as much as the market averages.

*Relative Value Risk.* In the event that the perceived mispricings underlying the Adviser's relative value trading positions were to fail to converge toward, or were to diverge further from, relationships expected by the Adviser, Client Accounts incur a loss.

*Short Selling Risk.* The Adviser's investment strategy includes a significant amount of short selling. Short selling transactions expose the Adviser to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Adviser in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

*Commodity Futures and Options Risk.* Commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage may be typical of a pooled investment vehicle engaging in significant levels of commodity futures trading. As a result, a relatively small unfavorable price movement in a commodity futures contract may result in substantial losses to such a pooled investment vehicle. Commodity options, like commodity futures contracts, are speculative, and their use involves risk. Specific market movements of the cash commodity or futures contract underlying an option cannot be predicted and no assurance can be given that a liquid offset market will exist for any particular futures option at any particular time.

*Derivatives Risk.* Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or the Adviser. Further, transactions in derivative instruments are not undertaken on recognized exchanges and will expose the Client's Account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

*Distressed Securities Risk.* Investments in unrated or low grade debt securities of distressed companies are subject to greater risk of loss of principal and interest than higher-rated debt securities. Also, securities of distressed companies are generally more likely to become worthless than the securities of more financially stable companies.

*Emerging Markets Risk.* The risks of foreign investments typically are greater in less developed countries, sometimes referred to as emerging markets. For example, political and economic structures in these countries may be less established and may change rapidly. These countries also are more likely to experience high levels of inflation, deflation, or currency devaluation, which can harm their economies and securities markets and increase volatility. Restrictions on currency trading that may be imposed by emerging market countries will have an adverse effect on the value of the securities of companies that trade or operate in such countries.

*Equity Securities Risk.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

*Exchange Traded Funds ("ETFs") Risks.* ETFs represent shares of ownership in either funds or unit investment trusts that hold portfolios of common stocks, bonds or other instruments, which are designed to generally correspond to the price and yield performance of an underlying index. A primary risk factor relating to ETFs is that the general level of stock or bond prices may decline, thus affecting the value of an equity or fixed income ETF, respectively. An ETF may also be adversely affected by the performance of the specific sector or group of industries on which it is based. Moreover, although ETFs are designed to provide investment results that generally correspond to the price and yield performance of their underlying indices, ETFs may not be able to exactly replicate the performance of the indices because of various sources of tracking error, including their expenses and a number of other factors.

*Fixed-Income and Debt Securities Risk.* Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject a client's portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

***Illiquid Instruments Risk.*** Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and the Adviser's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for the Adviser to obtain market quotations based on actual trades for the purpose of valuing a fund's portfolio.

***Non-U.S. Securities Risk.*** Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

***REITs Risk.*** REITs are affected by underlying real estate values, which may have an exaggerated effect to the extent that REITs in which the Adviser invests concentrate investments in particular geographic regions or property types. Investments in REITs are also subject to the risk of interest rate volatility. Further, rising interest rates will cause investors in REITs to demand a higher annual yield from future distributions, which will in turn decrease market prices for equity securities issued by REITs. REITs are subject to risks inherent in operating and financing a limited number of projects because they are dependent upon specialized management skills and have limited diversification. REITs depend generally on their ability to generate cash flow to make distributions to investors.

***Security Futures and Options Risk.*** In connection with the use of futures contracts and options, there may be an imperfect correlation between the change in market value of a security and the prices of the futures contracts and options in Client Accounts. In addition, the Adviser's investments in security futures and options may encounter a lack of a liquid secondary market and any resulting inability to close such a position prior to its maturity date may impact a Client Account.

***LIBOR Affected Instruments.*** Investment in fixed-income and debt securities, derivatives and other financial instruments, and employs investment strategies, that utilize the London Interbank Offered Rate ("LIBOR") as a "benchmark" or "reference rate" for various interest rate calculations. The United Kingdom Financial Conduct Authority, which regulates LIBOR, has announced a desire to phase out the use of LIBOR by the end of 2021. The elimination of LIBOR or changes to other reference rates or any other changes or reforms to the determination or supervision of reference rates could have an adverse impact on the market for, or value of, any securities or payments linked to those reference rates, which may have an adverse impact on the value of client accounts. Uncertainty and risk also remain regarding the willingness and ability of issuers and lenders to include revised provisions in new and existing contracts or instruments. Consequently, the transition away from LIBOR to other reference rates may lead to increased volatility and illiquidity in markets that are tied to LIBOR, fluctuations in values of LIBOR-related



investments or investments in issuers that utilize LIBOR, increased difficulty in borrowing or refinancing and diminished effectiveness of hedging strategies, adversely impacting the performance of Client Accounts.

*Regulatory and Tax Risk.* Legal, tax and regulatory changes are continuing to occur and likely to continue in the future. Such changes may adversely affect the investment strategies. The effect of any such changes could be materially adverse to the Funds and Client Accounts.

*Reorganization, Restructuring and Bankruptcy Risk.* Distressed, stressed and other opportunistic investments involve significant risks when involved in reorganizations or restructurings, which include, but are not limited to, contested and adversary proceedings, loss of the company's key employees, reduced market share, potential liquidation of the company, associated legal and administrative costs and uncertainty of the final outcome. The ultimate effect of these outcomes could be materially adverse to the Client Accounts.

*Institutional Risk.* Institutions, including brokerage firms and banks that provide services to Client Accounts, such as transactional, custodial, prime brokerage and other services, may encounter financial or other difficulties that prevent them from meeting these services and obligations. Additionally, these institutions may become subject to legal, regulatory or other difficulties that could be materially adverse to the Client Accounts.

*Valuation Risk.* The valuation of a Client Account may include securities that are not readily available from exchanges or reliable market sources. In such instances the value is determined using Courage's valuation procedures. Since Courage will determine this value there will be a conflict of interest in that the value determination will impact performance with respect to a Client Account that pays fees to Courage. The Adviser has developed policies and procedures to address this conflict.

Additional risks related to the Adviser include:

*Cybersecurity Risk.* The information and technology systems of the Adviser and of key service providers to the Adviser and its clients are vulnerable to potential 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 has implemented various measures designed 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, it may be necessary for the Adviser to make a significant investment to fix or replace them and to seek to remedy the effect of these issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Adviser or its Client Accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

*Risk Management Failures.* 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. Moreover, many risk management techniques, including those employed by the Adviser, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of clients may be incomplete or altogether ineffective. Similarly, the Adviser may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to clients.

*Systems and Operational Risk.* The Adviser relies on certain financial, accounting, data processing and other operational systems and services that are employed by the Adviser and/or by third party service providers, including prime brokers, the third party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, the Adviser and its clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the clients' operations. In addition, despite certain measures established by the Adviser and third party service providers to safeguard information in these systems, the Adviser, clients and their third party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, liability under applicable law, regulatory intervention or reputational damage. In preparation for a potential disruption the Adviser maintains a business continuity and disaster recovery plan.

*Effects of Health Crises and Other Catastrophic Events.* Health crises, such as pandemic and epidemic diseases, as well as other catastrophes that interrupt the expected course of events, such as natural disasters, war or civil disturbance, acts of terrorism, power outages and other unforeseeable and external events, and the public response to or fear of such diseases or events, have and may in the future have an adverse effect on clients' investments and the Adviser's operations. For example, any preventative or protective actions that governments may take in respect of such diseases or events may result in periods of business disruption, inability to obtain raw materials, supplies and component parts, and reduced or disrupted operations for client portfolio companies. In addition, under such circumstances the operations, including functions such as trading and valuation, of the Adviser and other service providers could be reduced, delayed, suspended or otherwise disrupted. Further, the occurrence and pendency of such diseases or events could adversely affect the economies and financial markets either in specific countries or worldwide.

*Remote Work Environment.* The Adviser's employees at times work remotely which adds additional cybersecurity and information risks, such as increased vulnerability to computer breaches and failures. The Adviser has implemented measures to manage these risks. Should an interruption to the remote work environment occur it could cause serious operational problems including a failure to maintain daily processes, and/or the security, confidentiality or privacy of sensitive data, including personal information.

## Item 9: Disciplinary Information

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This Item is not applicable.

# Item 10: Other Financial Industry Activities and Affiliations

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Neither Courage nor its supervised personnel are involved in any industry activities other than those described herein. Courage Investments Inc. acts as the general partner for certain of the Funds and is owned by 4 irrevocable trusts for the benefit of Richard C. Patton's children and heirs and has directors and officers that are independent from Courage.

Courage, along with Courage Investments Inc., enters into agreements, or "side letters," with certain prospective or existing limited partners or shareholders whereby such limited partners or shareholders, including such persons that may be affiliated with the Adviser or its related persons, may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for the Funds. For example, such terms and conditions may provide for a waiver or reduction in fees, limitations on investment purchases and such other rights as may be negotiated by the Fund and such limited partners or shareholders. The modifications are solely at the discretion of the Fund and may, among other things, be based on the size of the limited partner's or shareholder's investment in the partnership or other circumstance.

Mark Bourgeois, a Senior Managing Director and Vice Chairman of the Board of Courage, also serves as a registered representative of Palladium Capital Group, LLC, a broker-dealer. As a Registered Representative of a broker-dealer, he is entitled to receive commissions for the sale of securities or other investment products based on securities transactions he places for Palladium Capital Group, LLC. At this time, he has not received any commission payments from Palladium Capital Group, LLC. In order to mitigate any potential conflicts of interest, Courage will not use that particular broker-dealer for firm trading. He also serves as Vice Chairman of Prophet Equity and as a Senior Advisor to White Oak Global Advisors. Courage does not place trades through Palladium Capital Group, LLC nor does it utilize services provided by Prophet Equity or White Oak Global Advisors.

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

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Courage has adopted a Code of Ethics (the “Code”) that obligates Courage and its related persons to put the interests of Courage’s clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of Courage’s personnel are also required to comply with applicable federal securities laws.

The Code sets forth standards of conduct expected of employees and addresses potential conflicts that can arise from personal trading by employees. Courage has designated every employee as an access person for purposes of its Personal Trading Policy. As such, all employees of Courage and their immediate family members are covered by the Personal Trading Policy. Under the Personal Trading Policy, employees must periodically report their personal securities transactions and holdings to Courage’s Chief Compliance Officer, who reviews, or delegates such review of these reports. To this end, every employee must arrange for Courage to receive the employee’s investment account statements, which contain information regarding securities transactions in the accounts of the employee. In addition, employees must obtain written approval from the Chief Compliance Officer, or delegate, before making certain types of personal trades.

Courage’s Personal Trading Policy and procedures are contained in the Code of Ethics and generally provide (with certain exceptions such as transactions regarding bank CDs, government securities, money market funds, state and local municipal bonds and registered open-end funds for which Courage is not the adviser or related to the adviser) that all personal trading is subject to pre-clearance by the Chief Compliance Officer or designee. Courage’s personnel are allowed to trade in a security held by a Client Account as long as the Fund is not intending to trade in that security for 5 days and the trade is approved by both the Chief Manager and Chief Compliance Officer, or delegate. The pre-clearance and review of trades is designed to ensure that no activity interfere with Courage’s ability to place the client’s interest first.

Family members of the principals may, and currently do, invest in Funds managed by Courage and, in certain cases, may, in the aggregate, hold a substantial portion of a Fund’s assets. Such investments pose a risk that Courage or individuals who are in a position to control the allocation of investment opportunities to Client Accounts will favor those Funds in which the family members invest, particularly in the case of limited opportunities (such as initial public offerings and private placements) or other investments that are otherwise subject to limited capacity. Courage’s procedures require the objective allocation for limited opportunities to ensure fair allocation among Client Accounts.

From time to time Courage enters into confidentiality agreements with broker-dealers or other organizations and individuals pursuant to which the Adviser receives confidential

information about a company in connection with the Adviser's review and analysis of a potential purchase or sale of an interest in such company's term loans or other privately traded debt and equity instruments for one or more Funds. Companies for which Courage receives confidential information are usually privately held, but also include companies whose debt or equity securities are publicly traded. To the extent Courage comes into possession of material non-public information about a company whose debt or equity securities are publicly traded, Courage will be prohibited from trading such designated securities for all Client Accounts.

Clients or prospective clients can obtain a copy of Courage's Code of Ethics by contacting Richard Horton by email at [rhorton@couragecap.com](mailto:rhorton@couragecap.com) or telephone at (615) 369-0107.

# Item 12: Brokerage Practices

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Courage's clients generally authorize Courage to select brokers to effect transactions on their behalf. Courage has established general criteria to determine which brokers are qualified to provide brokerage services to its clients, and considers the following relevant factors:

- financial stability of the broker;
- the actual executed price of the security and the broker's commission rates;
- research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis), custodial and other services provided by such brokers and/or dealers that are expected to enhance the Adviser's general portfolio management capabilities;
- the size and type of the transaction;
- the difficulty of execution and the ability to handle difficult trades;
- the operational facilities of the brokers and/or dealers involved (including back office efficiency); and
- the ability to handle a block order for securities and distribution capabilities.

At least semi-annually, selected employees of Courage evaluate systematically the execution performance of its brokers. The review of brokers will consist of various factors discussed above on various forms. Courage's employees engaged in the selection, analysis, trading and processing of investment securities for Client Accounts will discuss the reviews. During these discussions, any other factors that the reviewers think necessary for Courage to make a reasonable decision about its best execution determinations will be analyzed and the Chief Compliance Officer will prepare notes or a report discussing the findings of the analysis.

In selecting brokers or dealers to execute transactions, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates; therefore, the Client Accounts will be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate, referred to as "soft dollars". This presents a potential conflict because Courage does not have to pay for those products and services.

Section 28(e) of the Securities Exchange Act of 1934, as amended, is a "safe harbor" that permits an investment manager to use commissions or "soft dollars" to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. Courage will limit the use of "soft dollars" to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e). Research services within Section 28(e) will include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate



governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

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

Research and brokerage services obtained by the use of commissions arising from the Client Accounts' portfolio transactions are used by Courage in its other investment activities and thus, the Client Accounts are not necessarily, in any particular instance, the direct or indirect beneficiary of the research or brokerage services provided.

Although Courage will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker, commission rates are generally negotiable and thus, selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable. The receipt of such products or services and the determination of the appropriate allocation in the case of "mixed use" products or services create a potential conflict of interest between Courage and its clients. However, Courage considers all factors as discussed above and reviews each broker regularly to ensure the products and services received are related to the use of such broker.

Research and brokerage obtained by a Client Account can be used by the Adviser for other Clients Accounts and therefore would not be allocated proportionately.

During the Adviser's last fiscal year, as a result of client brokerage commissions (or markups or markdowns), the Adviser and/or its related persons acquired research.

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

Where possible, if a particular investment is suitable for more than one Client Account whose investment strategy and portfolio characteristics are substantially similar *and* the timing of the purchase of such security is the same for all such Client Accounts, the orders for such investment will be aggregated for execution as a single transaction. Then such investment will be allocated pro rata based on percentage allocation calculations in effect at the time of the aggregated order. Such aggregation may enable the Adviser to obtain more favorable commission rates. In cases where trading or investment restrictions are placed on Client Accounts, the Adviser may be precluded from aggregating that client's transaction with others. In such a case, the client may pay a higher commission rate and/or receive less favorable prices than the aggregated order.

## Item 13: Review of Accounts

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The portfolio manager typically reviews holdings of the Funds on a daily basis. In his absence the Adviser's president or other investment personnel performs this function. Additionally, the investment team generally reviews the holdings of the Funds during portfolio meetings. The Funds are additionally monitored in light of trading activity, significant corporate developments and other activities that may dictate a change in portfolio positions. In addition, the Funds are either reviewed periodically from the standpoint of the Fund's specific investment objectives or as particular situations dictate. The Other Accounts are reviewed as needed.

A Fund's investor receives written reports from the Fund pursuant to the term of each Fund's offering memorandum. Depending upon the Fund's reporting period, such reports generally include monthly estimated performance, monthly or quarterly investor capital statements and Fund financial statements, quarterly investor letters and annual audited financial statements with a report thereon by the independent auditors. Investors in U.S. Funds receive annual Schedule K-1s.

The accounting and performance reports for Other Accounts managed by Courage are performed by the applicable client or a third party selected by such client as determined by the client. Additionally, Other Accounts receive transaction confirmations and monthly statements from brokers/custodians.

## Item 14: Client Referrals and Other Compensation

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Courage has entered into arrangements with third parties whereby such third parties receive fees for client referrals. The fees paid to third parties do not increase the portion of management fees and/or performance based compensation paid to Courage or the general partners. Courage undertakes this arrangement only if the client is aware of the fee arrangement and the arrangement is in compliance with applicable rules and regulations. Courage or the third party will furnish the potential client with a written disclosure statement and Courage will receive from any such client or Fund investor a written receipt of such documents.

In addition, Courage's executing and prime brokers may refer to Courage potential clients or Fund investors or arrange for meetings with potential clients or Fund investors who are also often clients of the broker. While the meetings may be arranged by the brokers, there is no guarantee that the potential clients or Fund investors will invest with Courage or any Fund. Other than the standard commission rates paid by the Client Accounts, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for the meetings or the subsequent investments, if any.

## Item 15: Custody

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The Adviser does not have custody of client assets, however if deemed to have custody the Adviser intends to comply with Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended, by meeting the conditions of the pooled vehicle annual audit provision.

## Item 16: Investment Discretion

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The Adviser provides investment advisory services on a discretionary basis to clients. Please see Item 4 for a description of any limitations clients may place on the Adviser's discretionary authority.

Prior to assuming discretion in managing a client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the Client Account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines); (ii) the amount of securities to be purchased or sold for the Client Account and (iii) the selection of the broker or dealer used to purchase or sale securities including the related commission rate. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there will be differences among clients in invested positions and securities held. The Adviser provides allocation information to the Adviser's operations personnel describing the allocation of securities to or from Client Accounts for each executed trade. The Adviser will consider the following factors, among others, in allocating securities among clients: (i) client investment objectives and strategies; (ii) tax status and restrictions placed on a client's portfolio by the client or by applicable law; (iii) size of the client account; (iv) nature and liquidity of the security to be allocated; and (v) account liquidity, account requirements for liquidity and timing of cash flows. Although it is the Adviser's policy to allocate investment opportunities to eligible Client Accounts on a pro rata basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead the Adviser to allocate securities to Client Accounts in varying amounts. Even Client Accounts that are typically managed on an equal footing manner may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment.

Allocations will be made among Client Accounts eligible to participate in initial public offerings (IPOs) except when the Adviser determines in its discretion that a pro rata allocation is not appropriate, which would include a client's status as a "restricted person" under applicable regulations.

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action within the trade error policy. Trade errors may be caused by human errors (such as keystroke mistakes), failure of oral instructions between parties or other inadvertent or unintended actions. To the extent that trade errors and breaches of investment guidelines and restrictions occur, the Adviser's error correction procedure provides the Adviser with discretion to resolve a

particular error in any appropriate manner which may result in Client Accounts absorbing trade errors or breaches absent willful misconduct or gross negligence by Courage.

From time to time, Courage may propose that one Client Account sell/buy a security to/from another Client Account. Courage also recognizes the conflict of interest such transactions may create. To mitigate such conflicts of interest, Courage will provide the Client Account with the name(s) of the security/securities to be crossed for review and pre-approval by the Client Account before executing the trade. Publicly traded securities will typically be crossed at the mid-point between the bid and ask. Non-publicly traded securities will be valued by Courage, based on its valuation procedures, and such valuation will be reviewed and approved by the Client Account.

# Item 17: Voting Client Securities

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Courage has adopted Proxy Voting Policies and Procedures (the "Proxy Voting Policy") that are designed to ensure Courage votes proxies with respect to client securities in the best interests of its clients.

Courage generally votes in favor of routine corporate housekeeping proposals, including ratification of company auditors and election of directors, unless (especially in the case of election of directors) Courage determines that corporate governance issues are implicated or Courage has an unfavorable opinion of management. Generally, Courage will vote against proposals that make it more difficult to replace members of a board of directors or would otherwise limit shareholder rights or privileges. For all other proposals, Courage will determine whether a proposal is in the best interests of its clients and will take into account the following factors, among others: (i) whether the proposal was recommended by management and Courage's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

The Proxy Voting Policy requires that Courage identify and address conflicts of interest between Courage and its clients. If a material conflict of interest exists, Courage will determine whether voting in accordance with the guidelines set forth in the Proxy Voting Policy is in the best interests of the client or take some other appropriate action. This will include, among other steps, (a) engaging a non-interested party to independently review its vote recommendation if the vote recommendation would be in favor of Courage's interest to confirm that the vote recommendation is in the client's best interest under the circumstances, (b) casting its vote as recommended if the vote recommendation would fall against Courage's interest and such vote recommendation is in the client's best interest under the circumstances, or (c) abstaining from voting if Courage determines that such is in the client's best interest under the circumstances.

Clients can obtain a copy of the Proxy Voting Policy and information about how Courage voted a client's proxies by contacting Richard Horton by email at [rhorton@couragecap.com](mailto:rhorton@couragecap.com) or telephone at (615) 369-0107.

Unless otherwise specifically prohibited in a client's investment advisory contract with Courage, Courage, may at its sole discretion, file proofs of claims or cause to be filed by a third party in relation to class actions. Courage will generally participate and file the necessary claim forms related to class actions on behalf of its clients if the potential known claim would involve more than a *de minimis* amount of compensation. Courage will periodically review this process to determine if the costs associated with such filings exceed the benefits.



## Item 18: Financial Information

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This Item is not applicable.