

**Southpaw Asset Management LP  
Part 2A of Form ADV  
The Firm Brochure**

March 2022

Juno Beach, FL 33408  
Telephone: (914) 450-4781  
[www.southpawassetmanagement.com](http://www.southpawassetmanagement.com)

Southpaw Asset Management LP is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Southpaw Asset Management LP. If you have any questions about the contents of this brochure, please contact us at (914) 450-4781. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Southpaw Asset Management LP is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Material Changes

There have been no material changes made to this Form ADV 2A (“Brochure”) since it was last amended in January 2022. Certain non-material changes have been made. We encourage you to read this Brochure in its entirety.

## Table of Contents

Material Changes .....	2
Table of Contents .....	2
Advisory Business .....	2
Fees and Compensation .....	3
Performance Based Fees and Side-by-Side Management .....	5
Types of Clients .....	5
Methods of Analysis, Investment Strategies and Risk of Loss.....	6
Disciplinary Information.....	17
Other Financial Industry Activities and Affiliations .....	17
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	17
Brokerage Practices .....	19
Review of Accounts .....	21
Client Referrals and Other Compensation .....	21
Custody .....	21
Investment Discretion .....	22
Voting Client Securities .....	22
Financial Information.....	22

## Advisory Business

Southpaw Asset Management LP (“Southpaw”), a Delaware limited partnership, provides discretionary investment advice to privately offered pooled investment vehicles. Clients’ investment mandates generally give our firm broad discretion to invest across asset classes and industry sectors. We seek to preserve capital while generating attractive risk-adjusted returns by dynamically allocating capital across investment strategies, sectors, and asset classes in accordance with the investment mandate. On behalf of our clients, we invest across capital structures and invest in a broad variety of securities and other financial instruments, including, among others, bank debt, mezzanine debt, corporate bonds (high yield and investment grade), convertible bonds, municipal bonds, asset backed securities, trade receivables, trade claims,

swaps, options, promissory notes, private placements, judgment rights, preferred stock and common stock.

The privately offered pooled investment vehicles that we manage (our “private fund clients”) have a master-feeder structure, and we do not tailor investments by our private fund clients to meet the individual needs of investors in the pools. We may, from time to time, manage separate accounts (which may be structured as single investor vehicles) on behalf of institutional investor clients, and our investment advisory services for those accounts will be tailored extensively to suit each client’s investment mandate.

Southpaw Asset Management LP was founded in 2005 and is wholly owned by Howard Golden and Kevin Wyman (collectively, the “Principals”). As of December 31, 2021, our firm had discretionary regulatory assets under management of approximately \$ 80,500,000 and we did not manage any client assets on a non-discretionary basis. An affiliate of our firm, Southpaw GP LLC, serves as the general partner to two of our private fund clients.

## **Fees and Compensation**

For our private fund clients, management fees and performance-based compensation that we, or an affiliate of ours, collect equal 1.5% per year and 20% of gains, respectively. We deduct management fees from investors’ capital account balances at the beginning of each quarter. For our private fund clients that are partnerships, our performance-based compensation is typically structured as a profit-sharing allocation through a general partner interest held by one of our affiliates. Each investor in our private fund clients is subject to a performance allocation at the end of each year or upon a withdrawal, but only with respect to the withdrawn amount. Our performance-based compensation is subject to a cumulative loss carryforward restriction, or “high water mark,” which means we only receive a performance allocation when an investor’s account value for the year has recovered any losses since the last performance allocation.

Certain investors in our private fund clients pay discounted management fees and/or performance-based compensation pursuant to supplemental agreements or “side letters.” Also, investors in our private fund clients who are associated with our firm, such as our officers or employees, or their family members, generally do not pay management fees or incur performance fees.

In addition to the management fees and any performance-based compensation, clients generally also bear various other fees and expenses, either directly or by reimbursing Southpaw or an affiliate, including, among others, all costs and expenses related to portfolio investments or prospective investments (whether or not consummated) such as brokerage commissions, interest on debit balances or borrowings, fees and profit-sharing payments due to unaffiliated advisors, sub-advisors and consultants, specific expenses incurred in obtaining systems, research (including research-related travel and meal expenses) and other information utilized with respect to a client’s investment program (including the costs of statistics and pricing services, service

contracts for quotation equipment and related hardware and software), membership dues in connection with investment and sourcing opportunities, expenses of money market and mutual funds in which a client invests and any withholding, transfer taxes or other taxes, and penalties and interest with respect thereto, imposed on a client (and any taxes imposed on clients under the Bipartisan Budget Act of 2015 (or any similar subsequent regime)). Clients generally also bear all costs of administration (including all costs and expenses associated with the offering of interests) and accounting, audit, administration and legal expenses (including legal expenses incurred in negotiating side letters with current or prospective investors); the expenses of any appraisers or other experts engaged on behalf of a client; if formed, the costs and expenses of any advisory committee; costs associated with governmental regulatory compliance (including governmental, regulatory, licensing, filing or registration fees and costs incurred in compliance the rules of any self-regulatory organization); costs of any litigation or investigation involving client activities (including settlement costs); the costs of any liability insurance obtained on behalf of a client, Southpaw, the Principals or any of their respective affiliates; and costs associated with reporting and providing information. Investors in our private fund clients indirectly bear their *pro rata* share of these costs, as well as other expenses that are described in our private fund clients' offering documents. We describe trading costs in greater detail in the subsequent "Brokerage Practices" section of this Brochure. At times, it may be appropriate to allocate costs and expenses among Southpaw clients and certain non-client proprietary accounts of Southpaw and its affiliates that benefit from the expenditure of such cost or expense. In these instances, Southpaw will seek to allocate the cost or expense among such clients and proprietary accounts in its discretion in a fair and equitable manner. Subject to certain agreed caps, clients generally bear all organizational costs, either directly or by reimbursing Southpaw or an affiliate. These costs may be amortized over a certain time period as described in the relevant governing documents. Although investors in our private fund clients who are affiliated with our firm do not pay management fees or performance-based compensation, they do pay their *pro rata* share of our private fund clients' operating costs.

We generally do not permit investors in our private fund clients to withdraw capital other than at the end of a quarter, so refunds of prepaid fees for partial quarters are not applicable to investors in our private fund clients. We assess investors that contribute capital on a date other than the beginning of a quarter a pro-rated management fee based on the amount of time that the capital will be invested during the quarter. Withdrawals of capital from a private fund may be subject to a 3% redemption fee, payable to the affected private fund, for redemptions made in less than 12 months after capital is contributed, as well as for redemptions made as of the first and third quarter-ends of each year. The private funds maintain the discretion to waive or modify the 3% redemption fee. Clients and investors are encouraged to review the applicable governing documents for a detailed description of fees and expenses applicable to the specific Southpaw client.

## **Performance Based Fees and Side-by-Side Management**

Our firm, or our affiliate, receives performance-based compensation, in the form of an incentive allocation/fee, from clients. To the extent that any accounts did not pay performance-based compensation, we could have an incentive to favor our performance-based compensation clients when allocating our time and services, as well as investment opportunities. Similarly, if different clients have investors with different high water marks for purposes of calculating incentive allocations, we could have an interest in favoring the fund with investors that are most likely to pay performance-based compensation. The potential to earn performance-based compensation could also give us an incentive to invest client assets in an aggressive or speculative manner. Finally, performance-based compensation at times is based in part on unrealized gains and losses, so we may have an incentive to inflate the value of client assets through fair valuation determinations. Despite the presence of these conflicts of interest, we seek to act fairly when we allocate investment opportunities and value client assets. Our firm has adopted written policies and procedures that are designed to ensure fair allocations and valuations over time. Current and prospective clients and investors are invited to discuss our allocation and valuation policies and procedures with us.

As noted above, our firm has entered into side letter arrangements with certain investors in our private fund clients. These arrangements often grant the investors discounted fees. The side letters also clarify or modify certain redemption terms, enhance certain notice and reporting requirements and address other issues as agreed with those investors. Some of the existing side letter agreements also include a “most favored nation” provision, which generally permits those side letter investors to elect to receive the benefit of certain terms granted to other shareholders.

## **Types of Clients**

Our firm provides investment advisory services to our private fund clients, which generally require a minimum initial investment of \$1 million per investor. This Brochure is not an offer to invest in our private funds. Any offer to invest in our private funds will only be made through the provision of their confidential offering documents. Our private funds are not registered under the Securities Act of 1933 or the Investment Company Act of 1940.

We could manage separate accounts in the future, particularly when an institutional investor is seeking management of a sufficiently large pool of assets. Requirements for opening or maintaining such accounts are individually negotiated on a case-by-case basis and will vary depending upon the capital invested, liquidity, investment strategy and agreed upon fees, among other things. We may manage separate accounts in ways that are similar to our private fund clients, in ways that are substantially different, or in other ways.

## Methods of Analysis, Investment Strategies and Risk of Loss

On behalf of our private fund clients, we generally employ a long-short credit strategy by creating diversified portfolios of public and private securities and other financial instruments including, but not limited to, bank debt, mezzanine debt, corporate bonds (high yield and investment grade), convertible bonds, municipal bonds, asset backed securities, trade receivables, trade claims, swaps, options, promissory notes, private placements, judgment rights, preferred stock and common stock (for simplicity, we refer to all such instruments herein as “securities”). We primarily have invested in North American issuers but have also invested in securities of issuers based in other regions. We have historically targeted investments that we believe exhibit a meaningful disparity between their intrinsic value and their market value.

Our firm has historically sourced investment ideas internally, as well as from our officers’ and employees’ network of industry professionals. Our investment personnel typically conduct qualitative and quantitative research, which can include reviews of an issuer’s financial statements, capital structure, industry comparables, industry trends, evaluations of management, and discussions with competitors, suppliers and distributors. However, our investment professionals’ review of a particular investment opportunity may be limited, and may not include the processes described above, particularly in connection with certain event-driven and capital structure arbitrage investments.

While we seek to preserve clients’ capital, all investing involves a risk of loss. Certain risks associated with the types of investments we make on behalf of our clients include:

*Financial Risk.* The companies in which we may invest may involve a high degree of business and financial risk. These companies, in some cases, may have significant variations in operating results, may be engaged in a rapidly changing business environment with products subject to a substantial risk of obsolescence, may require significant additional capital to support their operations, or may otherwise have a weak or unstable financial condition.

*Event-Driven Investments.* We often select investments based on an anticipated catalyst (industry-wide or company-specific). The underlying business generally plays little or no role in the objective and perceived risks associated with the investment. Catalysts can include liquidations, litigation, mergers, tender and exchange offers, restructurings, regulatory events, legislative actions, and asset sales, among other things.

Event-driven investing requires making predictions about the likelihood that an event will occur and the impact such event will have on the value of a company’s securities. If the event fails to occur or its effect was not foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to investors. In liquidations and other forms of corporate reorganizations, the

risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than what we paid for it. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the target company's management or shareholders, which will often result in litigation to force the proposed transaction; (ii) intervention of a governmental or other regulatory agency; (iii) efforts by the target company to prevent the impending transaction, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary shareholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; and (vii) inability to obtain adequate financing.

Because of the inherently speculative nature of event-driven investing, our client's results may fluctuate from period to period. Accordingly, clients should understand that the results of a particular period will not necessarily be indicative of results that we expect to obtain in future periods.

*Opportunistic Investing.* We engage in opportunistic investing, which entails utilizing capital where it is needed most, mostly in complex, deep value situations. For example, it might be opportunistic to invest in companies that are in distress, selling assets, leaving or entering new businesses or changing their capital structures. Similar to event-driven investing, opportunistic investing is highly speculative and results can fluctuate significantly over time.

*Capital Structure Arbitrage.* We seek to engage in capital structure arbitrage, which entails making investments that seek to capitalize on situations where the pricing of different types of securities within the capital structure of the same company become dislocated due to overreactions to specific credit or industry news, or macro factors such as capital flows or world events, among other things. In effecting a capital arbitrage strategy, we will typically buy a company's senior debt and sell short a structurally subordinated debt instrument of the same company. The primary benefit of making long investments in a company's senior debt is that, if the company goes into bankruptcy or liquidation, it is legally required to pay its senior debt prior to most other claims on assets, such as structurally subordinated debt. Our ultimate goal is for the senior debt to increase in value, while the structurally subordinated debt decreases in value. However, if instead these securities move in opposite directions than we anticipated, clients may incur substantial losses.

*Leverage of Portfolio Companies.* Our investments include securities of companies with leveraged capital structures. Such investments will be subject to increased exposure to adverse economic factors such as an increase in interest rates, a downturn in the economy or further deterioration in the economic conditions of such company or its industry. Similarly, we invest in entities that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of a client's investment in such an entity could be significantly reduced or even eliminated due to further credit deterioration.

*Debt Securities.* Debt securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). With bonds and other fixed-income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. Debt securities generally involve less market risk than stocks. However, the risk of debt securities can vary significantly depending upon factors such as the issuer and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise become unable to honor a financial obligation. The debt securities of some companies may be riskier than the stocks of others.

*Distressed Securities.* We purchase, directly or indirectly, securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such purchases may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these securities and investments ordinarily remain unpaid unless and until the company reorganizes and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. A wide variety of considerations, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others may affect the value of these securities and investments. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit our access to reliable and timely information concerning material developments affecting a company, or which cause lengthy delays in the completion of the liquidation or reorganization proceedings. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial distress is unusually high. There is no assurance that we will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to the company in which a client invests, the client may lose its entire investment or may be required to accept cash or securities with a value less than the client's original investment.

*Convertible Securities.* We invest in bonds, debentures, notes, preferred stocks or other securities that can be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. The holder of a convertible security typically receives interest or a dividend until the security matures or is converted or exchanged. Convertible securities are unique in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities; (ii) are less subject to fluctuation in value than the underlying security due to their fixed-income characteristics; and (iii) provide potential for capital appreciation if the market price of the underlying security increases.



The value of a convertible security is a function of its “investment value” and its “conversion” value. A convertible security’s investment value is determined by its yield in comparison to yields of other securities of comparable maturity and quality that do not have a conversion privilege. Changes in interest rates influence a convertible security’s investment value, as investment value declines as interest rates increase and vice versa. The issuer’s credit standing and other factors may also affect the convertible security’s investment value. A convertible security’s conversion value is determined by the market price of the underlying security. If the conversion value is low relative to the investment value, then the investment value principally governs the price of the convertible security. As the market price of the underlying security approaches or exceeds the conversion price, the conversion value will increasingly influence the price of the convertible security.

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 security while holding a fixed-income security. Typically, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the issuer’s option. If a client holds a convertible security that its issuer redeems, this could adversely affect the client’s ability to achieve its investment objective.

*High Yield, Low or Unrated Securities.* We invest in “high yield” bonds and preferred securities or low or unrated debt securities which are unrated or rated in the lower categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration or general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those of higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

*Defaulted Securities.* We invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and often have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject a client to litigation risks or prevent a client from disposing of securities. In a bankruptcy or other proceeding, a client, as a creditor, may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While we attempt to avoid taking the types of actions that would lead

to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that a client will be able to successfully defend against them. Because other investors may purchase the securities of these companies for the purpose of exercising control or management, a client may be at a disadvantage to the extent that the client's interests differ from the interests of these other investors.

*Loan Participations and Assignments.* We invest in fixed- and floating-rate loans, which investments generally will be in the form of loan participations and assignments of portions of such loans. Participations and assignments involve special types of risk, including credit risk, interest rate risk, liquidity risk, and the risks of being a lender. Participations in commercial loans may be secured or unsecured. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. When purchasing loan participations, a client assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary, and may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the borrower. The participation interests in which a client invests may not be rated by any nationally recognized rating service.

Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks. For example, if a loan is foreclosed, a client could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, a client could be held liable as a co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, clients rely on our research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the client. Due to the unique tax, valuation and liquidity characteristics presented by certain direct loans and by other investments that may have certain lending or financing characteristics that are generally analogous to those found in direct loan transactions, we generally will not engage in such transactions to the extent that (i) we were a primary party involved in the negotiation of the relevant transaction, or (ii) we reasonably believe that the relevant transaction may present a heightened degree of risk that a non-U.S. client could be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes.

*Mortgage-Backed and Asset-Backed Securities.* We may invest in mortgage-backed and asset-backed securities. Mortgage-backed securities represent an interest in a pool of mortgages. When market interest rates decline, more mortgages are refinanced and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. When market interest rates increase, the market values of mortgage-backed securities decline. At the same time, however, mortgage refinancings and prepayments slow, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of mortgage-backed securities is usually more pronounced than it is for other types

of fixed-income securities. Asset-backed securities are structured like mortgage-backed securities, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include, but are not limited to, such items as motor vehicle installment sales or installment loan contracts, leases of various types of real and personal property, and receivables from credit card agreements. The ability of an issuer of asset-backed securities to enforce its security interest in the underlying assets may be limited. Asset-backed securities are subject to many of the same risks as mortgage-backed securities.

*Risks Associated with Bankruptcy Cases.* Our clients' investment and lending activities, particularly involving companies in distressed situations, have resulted, and may continue to result, in our clients becoming involved as creditors in bankruptcy cases. In addition, we purchase securities or assets of, or claims against, companies in bankruptcy. There are a number of risks associated with bankruptcy cases, including the following:

- Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of a client.
- Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and a client; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to reorganize and may be required to liquidate assets.
- The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during the reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.
- U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purposes of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that our influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority over the claims of certain creditors (for example, claims for taxes) may be quite high.
- There are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where a client, by virtue of such action, is found to exercise "domination and

control” of a debtor, that client may lose its priority if the debtor can demonstrate that it was adversely impacted or other creditors and equity holders were harmed by the client.

We purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchases may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

*Investments in Undervalued Assets.* We attempt to invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from investments may not adequately compensate a client for the business and financial risks assumed.

We may be forced to sell, at a substantial loss, assets that are not, in fact, undervalued. In addition, a client may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of a client’s funds would be committed to the assets purchased, possibly preventing the client from investing in other opportunities. In addition, a client may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

*Trade Claims.* We have invested, and may continue to invest, in trade claims. Trade claims are unsecured rights of payment arising from obligations other than borrowed funds. The performance of trade claims depends in part on the obligor’s current financial condition, competitive position in its industry and strategic direction. By participating in trade claims, a client may be exposed to the risk of dilution, which occurs when the amounts invoiced by the obligor are reduced for reasons other than payment or default (for example, the return of goods, invoice errors, product disputes over quantity, quality or delivery). Finally, as with all debt investments, a client is subject to the risk that the obligor may default on its payments.

*Credit Default Swap Agreements.* We invest in credit default swap agreements. The “buyer” in a credit default contract is obligated to pay the “seller” a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay, obligation acceleration or modified restructuring. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the “par value” (full notional value) of the reference obligation. The contingent payment may be a cash settlement or by physical delivery of the reference obligation in return for payment of the face amount of the obligation. A client may be either the buyer or seller in the transaction. If a client is a buyer and no credit event occurs, the client may lose its investment and recover nothing. However, if a

credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, a client receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligation.

Credit default swaps involve greater risks than if we had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk. A buyer also may lose its investment and recover nothing should a credit event not occur. If a credit event did occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value.

*Leverage.* When a client borrows funds in order to make additional investments, the client thereby increases both the possibility of gain and risk of loss. Consequently, the level of interest rates generally and the rates at which the client can borrow in particular will affect the operating results of the client. In general, a client's use of short-term margin borrowings will result in certain additional risks. For example, should the securities pledged to brokers to secure the client's margin accounts decline in value, the client could be subject to "margin calls," pursuant to which the client must either deposit additional funds with such brokers, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the client's assets, the client might not be able to liquidate assets quickly enough to pay off its margin debt.

*Short Sales.* We may enter into transactions, known as "short sales," in which a client sells a security it does not own in anticipation of a decline in the market value of the security. Short sales by a client that are not made "against the box" theoretically involve unlimited loss potential, as the market price of securities sold short may continuously increase. A client may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions a client might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales. Short sales may be used with the intent of hedging against the risk of declines in the market value of a client's long portfolio, but there can be no assurance that such hedging operations will be successful.

*Financial Fraud at a Portfolio Company.* Instances of fraud and other deceptive practices committed by senior management of certain companies in which a client invests may undermine our due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of a client's investments. In addition, when discovered, financial fraud may contribute to overall market volatility which can negatively impact a client's investment program.

*Derivative Instruments.* We may use various derivative instruments. Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading, including the following:

- *Tracking* — When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent us from achieving the intended hedging effect or expose a client to the risk of loss.
- *Liquidity* — Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets we may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative positions limits on exchanges on which we may conduct transactions in certain derivative instruments may prevent prompt liquidation of positions, subjecting a client to the potential of greater losses.
- *Leverage* — Trading in derivative instruments can result in large amounts of synthetic leverage. Thus, the leverage offered by trading in derivative instruments may magnify the gains and losses experienced by a client and could cause a client’s net asset value to be subject to wider fluctuations than would be the case if we did not use derivative instruments that provide leverage.
- *Over-the-Counter-Trading* — Derivative instruments include instruments not traded on an exchange. Over-the-counter options, unlike exchanged-traded options, are bilateral contracts with price and other terms negotiated by the buyer and seller. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which we can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between “bid” and “asked” prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.

Options. Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.

The successful use of options depends on our ability to forecast interest rate and market movements correctly. Although a client will take an option position only if we believe there is a liquid secondary market for the option, there is no assurance that the client will be able to affect closing transactions at any particular time or at any acceptable price. In the event of the bankruptcy of a broker through which a client engages in transactions in options, the client could experience delays and/or losses in liquidating open positions purchased or sold through that broker.

Potential Involvement in Litigation. Our clients may become involved in litigation as a result of investments in distressed securities and participation in restructuring activities. Litigation entails expense and the possibility of counterclaims against a client and ultimately judgments may be rendered against the client for which the client does not carry insurance.

Private Placements. We invest in certain securities that are subject to restrictions on resale because such securities have not been registered under the applicable securities laws, or that are otherwise not readily marketable. Limitations on the resale of these securities may have an adverse effect on their marketability, and may prevent a client from being able to dispose of them promptly at reasonable prices. A client may be responsible for bearing the expense of registering the securities for resale and the risk of substantial delays in effecting the registration.

Foreign Securities. Investments in foreign securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which a client's portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of foreign income, withholding or other taxes; and (v) the extension of credit, especially in the case of sovereign debt.

*Interest Rate Fluctuations.* The prices of portfolio investments, especially debt instruments, tend to be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding prices of the long and short portions of a position to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs to a client of borrowed securities and leveraged investments.

*LIBOR Transition.* The London Interbank Offered Rate (“LIBOR”), of different durations, has long been the standard “benchmark” rate used to determine the interest rates for a wide range of credit instruments as well as derivatives. However, in July 2017 the Financial Conduct Authority announced that after 2021 it would no longer recommend or compel the LIBOR panel banks to provide the quotes used to calculate LIBOR. The Financial Conduct Authority determination was based, among other factors, on unexpected illiquidity which developed during certain periods in the interbank lending markets resulting in LIBOR becoming unusually volatile.

During the period when new benchmarks are proposed but not yet widely accepted, the likelihood of such benchmarks themselves being subject to periods of illiquidity, contributing to their also being excessively volatile will increase.

Not only are there currently many outstanding LIBOR-based instruments which will remain outstanding past 2021, but also new LIBOR-based instruments will continue to be issued, and reference rate fallback language in such instruments ultimately may not provide clear answers as to what to do in the event of the discontinuance of LIBOR. The uncertainty as to what replacement benchmark rates will emerge may result in increasing uncertainty and illiquidity in the debt markets in which a client trades, as well as having adverse effects on the broader financial markets and the instruments held by a client. The consequences to the client cannot be predicted but could be material and adverse.

*Epidemics and Pandemics.* The outbreak of COVID-19 and the current recovery underway has caused disruption to consumer demand, economic output and supply chains. Any continued or future travel restrictions, quarantines and disparate global vaccine distributions, which could materially and adversely impact Southpaw’s business activities, including travel by our personnel in connection with potential or existing investments, in turn negatively affecting our ability to effectively identify, monitor, operate and dispose of client investments and operate the clients in general. As with other serious economic disruptions, governmental authorities and regulators have responded to this crisis with significant fiscal and monetary policy changes. These include providing direct capital infusions into companies, introducing new monetary programs and considerably lowering interest rates. In some cases, these responses resulted in interest rate fluctuations and higher inflation. These actions, including their possible unexpected or sudden reversal or potential ineffectiveness, could further increase volatility in securities and other financial markets, reduce market liquidity, continue to cause higher inflation, heighten investor uncertainty and adversely affect the value of the clients’ investments. The duration and extent of COVID-19 over the long term and the extent to which it may impact the clients is highly uncertain and cannot be reasonably estimated at this time. Southpaw continues to monitor



and evaluate this situation. Epidemics and/or pandemics, such as COVID-19, have resulted in, and may further result in, among other things, travel restrictions, closure of international borders, certain businesses and securities markets, restrictions on securities trading activities, prolonged quarantines, supply chain disruptions and lower consumer demand. The impact of COVID-19, and other epidemics and/or pandemics that may arise in the future, are uncertain and could adversely affect the global economy, national economies, individual issuers and capital markets in unforeseeable ways and result in a substantial and extended economic downturn. In addition, public health crises caused by COVID-19 may exacerbate other pre-existing political, social and economic risks in certain countries.

The risk factors described above do not purport to be a complete enumeration or explanation of the risks involved in an investment with Southpaw. Please refer to the private fund offering documents for a more detailed description of such risks.

### **Disciplinary Information**

Neither our firm nor any of our employees has been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of our firm or our personnel.

### **Other Financial Industry Activities and Affiliations**

Southpaw Asset Management LP and Southpaw GP LLC are controlled by the same owners. As noted previously, Southpaw GP LLC serves as the general partner to two of our private fund clients. Our private fund clients do not have independent management, and while one of our offshore private fund clients has a majority of independent directors, we hire and retain those directors. Although this arrangement may give us heightened control and discretion over our private fund clients, we manage any potential conflicts of interest by strictly adhering to the investment strategy and investment allocation policy discussed in their offering documents. Pursuant to an exemption from the Commodity Futures Trading Commission, Southpaw is not required to register with the CFTC as a commodity pool operator or as a commodity trading advisor. Southpaw recently engaged a third-party service provider to provide middle and back office services. Neither our firm, nor any of our officers or employees, have any other industry affiliations or outside business activities that would be material to a prospective client or investor's evaluation of our firm.

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

Our firm has adopted and implemented a written Code of Ethics that is designed to ensure that our firm and our employees understand the need to abide by all applicable securities laws and regulations, put the interests of clients ahead of their own interests, report any perceived violations to our Chief Compliance Officer, and avoid any practice that creates, or gives the appearance of, a material conflict of interest. Our Code of Ethics requires employees to obtain

pre clearance for any personal trading activity involving securities other than mutual funds and exchange traded funds (ETFs). Under certain circumstances, employees may hold personal investments in the same securities that our clients hold. Employees' personal investments may either be held directly or through a legal entity, such as investments for the benefit of the principals that are held in a proprietary Southpaw prime brokerage account. These personal investments could be in the same or different portions of an issuer's capital structure as a client's investment. If such an investment poses a conflict of interest, we will seek to act in a way that favors the interests of our clients. Furthermore, our Chief Compliance Officer will not approve any requests for personal trading authorization that are expected to give rise to a material conflict of interest. Upon request, we will provide any current or prospective client or investor with a copy of our Code of Ethics.

Among other things, employees may seek to invest personally in trade claims. Based on our determination that investments in trade claims will generally be unsuitable for clients if they are below a certain size ("Small Trade Claims"), the Principals and other affiliates may, and often do, invest in such trade claims in accordance with a trade claim allocation policy adopted by Southpaw, which policy is available upon request. This includes investments by the Principals through Southpaw Koufax LLC ("Southpaw Koufax"), an entity formed and operated for the purpose of facilitating the personal trading of the Principals, including investing in Small Trade Claims. Southpaw Koufax is wholly owned by the Principals and is not considered a client of Southpaw. Small Trade Claims consist of trade claims that settle by a negotiated assignment or participation agreement and are purchased at a cost of less than \$500,000 (such threshold is measured on a claim-by-claim basis (unless purchased from the same seller on the same trade date)). Trade claims above the \$500,000 threshold are generally made available to clients and will generally not be purchased personally by the Principals or other Southpaw affiliates. From time to time, the private funds, the Principals and other Southpaw affiliates may hold differently-sized trade claims associated with the same debtor, which may result in a conflict of interest. Expenses, if any, related to specific trade claims are borne by the account(s) participating therein; however, Southpaw allocates general research expenses relating to trade claims among the private funds, the Principals (through Southpaw Koufax) and other Southpaw affiliates or clients based on the asset value of such accounts. The Chief Compliance Officer, who is a Principal, monitors employee investments in trade claims for potential conflicts of interest.

Our firm and our officers and employees are strictly prohibited from engaging in insider trading. Under certain circumstances, we may determine that we, or one of our employees, have obtained, or may have obtained, material non-public information. Our firm maintains a "restricted list" that is designed to prevent our clients, officers, and employees from engaging in insider trading. Our firm's use of a restricted list and caution in connection with potential exposure to material non-public information may limit clients' investment opportunities.

Although we do not currently engage in cross trades, our clients generally give us the ability to engage in cross trades, which occur when one client purchases a security from another client that is selling the same security. Should we decide to effect cross trades between clients in the future,

our firm has adopted policies and procedures to ensure that each client is treated in a fair and equitable manner.

Our firm's officers and employees invest personally in our private fund clients. These investments could pose a conflict of interest with other clients because officers and employees may be motivated to allocate time, attention, and/or investment opportunities to our private fund clients at the expense of other clients. We have adopted written policies and procedures governing the allocation of investment opportunities, and will seek to treat all clients fairly over time.

## **Brokerage Practices**

### Selecting and Compensating Trading Counterparties

Our firm has discretion to select the counterparties used to trade clients' accounts. However, many of our clients' investments involve securities with limited liquidity, so there are often few trading counterparties available to execute our intended trades.

We seek to obtain best execution on behalf of our clients based on a variety of factors, including:

- Net transaction prices, which may include implicit or explicit transaction costs;
- A counterparty's ability to execute the intended trade in a timely manner;
- A counterparty's ability to execute large or difficult orders;
- The perceived quality of a counterparty's back office operations and the frequency of errors; and
- A counterparty's ability to preserve the confidentiality of our trading activities.

We do not consider client or investor referrals when selecting trading counterparties.

Our investment professionals meet periodically to evaluate the execution quality we have obtained on behalf of clients.

In certain instances, we may execute over-the-counter securities transactions through an agency broker, which may cause clients to incur commissions and/or mark-ups or mark-downs.

From time to time, Southpaw receives proprietary research from trading counterparties, but the receipt of this research is not a factor in Southpaw's best execution analyses. Southpaw believes that the proprietary research that it may receive is widely distributed among financial services firms, is not provided contingent upon any specific volume of trading, and does not impact the trading costs borne by clients.

### Aggregating Transactions

If more than one client is trading the same security on the same day, we generally seek to aggregate the orders so that all participating clients receive the same average price and pay their pro rata share of any transaction costs. Whether or not client trades are aggregated, we will seek to allocate trades in a manner that is fair to all clients over time, taking into account all relevant factors, including, without limitation, each client's account size, diversification, cash availability, investment objectives, guidelines and restrictions, risk profile, pending subscriptions and redemptions, and eligibility to participate in the investment. We typically allocate partially filled orders pro rata based on the size of each participating client's initial order. However, we may deviate from our general allocation policy to avoid de minimus position sizes, or in other circumstances if our Chief Compliance Officer determines that a deviation is fair to all affected clients.

### Directed Brokerage Arrangements

Our clients generally do not direct us to trade through any particular counterparty. A client's insistence on the use of one or more particular counterparties in connection with the trading of its account can have a materially adverse effect on the quality of execution that is available to the client. Among other things, clients that direct our use of trading counterparties may pay higher transaction costs, be excluded from aggregated orders, and trade after our other clients have traded.

### Trade Errors

A "trade error" is generally considered to include an error that (i) prevents portfolio trading instructions given by a portfolio manager on behalf of a client from being effectuated in substantially the manner intended by the portfolio manager; (ii) results in the execution of a trade on behalf of a client that was not intended for that client; or (iii) causes a violation of any applicable investment restrictions mandated by the client or by law. Depending on the relevant facts and circumstances, other events might also be considered trade errors. Southpaw seeks to detect trade errors prior to settlement and to correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a third party, such as a broker, Southpaw will seek to recover any losses associated with the error from that third party. However, there is no guarantee that Southpaw will be able to do so. In the event that a private fund client incurs a trade error solely as a result of Southpaw's bad faith, gross negligence, or willful misconduct, such error will be corrected by Southpaw as soon as practicable and in a manner such that the private fund client incurs no loss. Trade errors that result from reasons other than by breach of the standard of care stated in the previous sentence will be borne by the relevant private fund client. Southpaw has a conflict of interest in determining whether an error has occurred or was caused as a result of bad faith, gross negligence, or willful misconduct though Southpaw will seek to resolve such conflict consistent with the fiduciary duty it has to applicable clients. Southpaw will generally not net gains and losses associated with multiple errors related to separate investment decisions,

but gains and losses stemming from an interrelated set of errors may generally be netted. Southpaw will not use soft dollars or commitments of future brokerage business to compensate any broker-dealer for absorbing the cost of a trade error.

## **Review of Accounts**

Our firm's portfolio managers, Kevin Wyman and Howard Golden, review our client accounts on an ongoing basis. Our portfolio managers set price targets and risk parameters, such as maximum position sizes, expected holding periods, sector exposure, geographic exposure, and liquidity. Our portfolio managers review reports on a daily basis that show clients' investments, associated risk measurements, and position-level profits and losses.

Investors in our private fund clients receive monthly capital account statements, a monthly portfolio review containing portfolio attribution, composition and performance information, a quarterly letter containing portfolio performance and commentary, as well as annual audited financial statements and tax information. The quarterly letters often include information about the applicable fund's performance, key drivers of returns, macroeconomic analysis, and various measures of the fund's exposures. Upon request, we may provide investors with current or lagged information about our private funds' portfolio characteristics, such as holdings, measures of concentration, return, and volatility.

## **Client Referrals and Other Compensation**

We pay various private banks a portion of the management fees we receive with respect to investors that the private bank referred to us. Placement agents that solicit or refer potential investors to our private fund clients are subject to a conflict of interest because they will be compensated in connection with their solicitation activities. All placement agent fees are fully disclosed to investors. Investor referrals from an entity or affiliate that serves as an executing or prime broker may also create a conflict of interest in that it may create an incentive for Southpaw to direct additional brokerage to these entities or an affiliate. As mentioned in the *Brokerage Practices* section above, Southpaw does not consider client or investor referrals when selecting trading counterparties. Southpaw also has policies and procedures designed to seek best execution on all transactions and periodically monitors and evaluates service providers.

## **Custody**

We are deemed to have custody of our private fund clients' assets because of the authority that we and our affiliates have over our private fund clients' assets. We will also be deemed to have custody of other clients' assets to the extent that we can automatically debit fees. Our private fund clients' cash and securities are generally held by banks and broker/dealers that meet the definition of a "qualified custodian" under the SEC's "custody rule." Certain client assets, such as bank debt, trade claims, some investment contracts and other assets, are not reflected on the books and records of our clients' qualified custodians. However, our private funds' auditor

reviews all of their assets on an annual basis. All investors in our private funds receive audited financial statements on an annual basis.

## **Investment Discretion**

Our firm has discretion to invest our private fund clients' assets as we believe is appropriate and in the funds' best interests. Before accepting their subscriptions for interests, we provide all private fund investors with offering documents that set forth, in detail, the relevant private fund's investment strategy and program. By completing subscription documents to acquire an interest in one of our private funds, investors give us complete authority to manage their investments in accordance with the offering documents they each received.

## **Voting Client Securities**

We typically have the authority to vote proxies on behalf of the client accounts that we manage. Pursuant to Rule 206(4)-6 under the Investment Advisers Act of 1940, our firm has adopted written policies and procedures governing our proxy voting practices. We will generally seek to vote proxies in a way that we believe will maximize the value of our clients' assets. We may elect not to vote in certain instances if we believe such decision is in the best interest of our clients.

If a conflict of interest arises between our firm and our clients in connection with a proxy vote, we will seek to vote the proxy in the way that favors the interests of our clients. Such conflicts of interest shall be reviewed by our Chief Compliance Officer prior to the submission of the proxy vote.

Current and prospective clients and investors can receive information about our proxy voting policies and procedures by contacting our Chief Compliance Officer at (914) 450-4781. Current clients and investors may also obtain information about the manner in which we voted their respective proxies by contacting our Chief Compliance Officer.

From time to time Southpaw's clients may be eligible to participate in class actions in connection with their securities holdings. In such a circumstance, we will determine whether it is in clients' best interests to participate in a recovery achieved through a class action or opt out of the class action.

## **Financial Information**

Not Applicable