



**SILTSTONE CAPITAL**

**Form ADV Part 2A: FIRM BROCHURE**

**SILTSTONE CAPITAL, LLC**

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This Brochure provides information about the qualifications and business practices of Siltstone Capital, LLC (“SC”). If you have any questions about the contents of this Brochure, please contact us at (713) 375-9200 or [mani.walia@siltstone.com](mailto:mani.walia@siltstone.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

SC is a registered investment adviser. Registration of an investment adviser with the SEC does not imply a certain level of skill or training.

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

## **Item 2 – Material Changes**

Since SC’s last filing of the brochure (the “Brochure”) dated March 31, 2021, SC has launched a new fund, SC Litigation SPV, LP.

Additionally, SC routinely makes changes throughout its Brochure to improve and clarify the descriptions of its business practices and compliance policies and procedures or in response to evolving industry and Firm practices. In this year’s filing, the following Items have been updated, in addition to certain immaterial changes and/or conforming changes related to the following:

- Item 4: updated to reflect regulatory assets under management as of December 31, 2020;
- Item 5: updated to reflect current fees and expenses;
- Item 8: updated to reflect additional risk factors and potential conflicts of interest, including with respect to SC Litigation SPV, LP.

### Item 3 – Table of Contents

|  |     |
|--|-----|
| Item 1 – Cover Page .....  | i   |
| Item 2 – Material Changes.....   | ii  |
| Item 3 – Table of Contents .....   | iii |
| Item 4 – Advisory Business.....  | 1   |
| Item 5 – Fees and Compensation.....  | 3   |
| Item 6 – Performance-Based Fees and Side-By-Side Management.....                                     | 10  |
| Item 7 – Types of Clients.....   | 12  |
| Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....                           | 13  |
| Item 9 – Disciplinary Information .....  | 36  |
| Item 10 – Other Financial Industry Activities and Affiliations.....                                  | 37  |
| Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading...39 |     |
| Item 12 – Brokerage Practices.....   | 41  |
| Item 13 – Review of Accounts .....   | 42  |
| Item 14 – Client Referrals and Other Compensation.....   | 43  |
| Item 15 – Custody .....  | 44  |
| Item 16 – Investment Discretion.....   | 44  |
| Item 17 – Voting Client Securities.....  | 45  |
| Item 18 – Financial Information .....  | 46  |

#### Item 4 – Advisory Business

**A. Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).**

Siltstone Capital, LLC (together with its fund general partners (unless otherwise specified), and affiliates, “SC” or the “Firm”), a Texas limited liability company, is an energy focused private equity firm based in Houston, Texas with administrative offices in Cambridge, Ohio and Parkersburg, West Virginia. Siltstone Capital, LLC was founded in 2011 by Joshua Sanger and Robert Le, and through the years, has partnered with additional individuals and created additional affiliated entities (including Siltstone Resources, LLC in 2013) as they looked to refine their investment focus and enhance their technical expertise.

SC historically has focused on niche investments in the energy industry, which includes acquiring mineral and royalty interests, leasing oil and gas rights, and participating in drilling. These physical assets are held through various affiliated corporate entities (including Siltstone Services, Siltstone Resources, Silverhawk Resources and Golden Eagle Resources entities) (collectively, any such directly or indirectly held assets as well as the corporate vehicles through which they are held, “portfolio investments”) and services by either SC or an affiliate of SC, typically Siltstone Administration, LLC (“Siltstone Administration”). Siltstone Administration provide services to portfolio investments, the Funds, the Firm and their respective affiliates, including operator, non-operator, sourcing, identification, due diligence, acquisition, holding, improvement and/or disposition of such portfolio investments, operational, drilling and completion, construction, geological, environmental, engineering and technical assistance, portfolio investment management and/or other customary services in the upstream energy sector (collectively, “Administration Services”).

Beginning in 2020, the Firm initiated a litigation finance strategy primarily focused on the energy and patent sectors, although the Litigation Funds (as defined below) preserved flexibility to engage in other litigation matters.

SC serves as the investment adviser for, and provides discretionary investment advisory services to, pooled investment vehicles all exempt from registration under the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder (“Investment Company Act”) including: Siltstone Capital Fund, LP (“Fund I”), Siltstone Capital Fund II, LP, Siltstone Capital Fund II-B, LP, Siltstone Capital Fund II-C, LP. (together, “Fund II” and each a “Main Fund”), Siltstone Capital Litigation Fund, LP. and SC Litigation Fund SPV, LP (together, the “Litigation Funds” and collectively with the Main Funds, the “Funds” unless the context otherwise requires). The Main Funds rely on an exemption from registration under Section 3(c)(9) of the Investment Company Act whereas the Litigation Funds rely on exemptions under Section 3(c)(1) and 3(c)(7) of the Investment Company Act.

Each Fund is affiliated with the following general partners (each a “General Partner,” or collectively, the “General Partners”) with authority to make investment decisions on behalf of the Funds: Siltstone Capital GP, LLC; Siltstone Capital GP II, LP; Siltstone Capital GP II-B, LP; Siltstone Capital GP II-C; and Siltstone Capital Litigation GP, LP. These General Partners are deemed registered under the Investment Advisers Act of 1940, as amended, and the rules and regulations promulgated thereunder (“Advisers Act”), pursuant to SC’s registration in accordance with SEC guidance. While the General Partners maintain ultimate authority over the respective Funds, SC has been designated the role of investment adviser.

### **Principal Owners/Ownership Structure**

SC is owned by Messrs. Sanger and Le. For more information about SC’s owners and executive officers, see SC’s Form ADV Part 1, Schedule A and Schedule B.

**B. Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.**

SC provides investment advisory services as a manager to its Funds. The Main Funds invest through privately negotiated transactions in the energy industry, most notably, mineral and royalty interests, leasing oil and gas rights, participating in drilling and generating midstream investment opportunities. The Litigation Funds invest in privately negotiated interests in the outcome of certain litigation matters.

SC’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of investments, managing and monitoring investments and achieving dispositions of such investments. Investments for the Main Funds are made predominantly in the energy sector which can include physical assets or rights, such as mineral and royalty interests, leasing oil and gas rights. Investments for the Litigation Funds are also focused on litigation claims in the energy sector but also in other business litigation matters.

**C. Explain whether (and, if so, how) you tailor your advisory services to the individual needs of clients. Explain whether clients may impose restrictions on investing in certain securities or types of securities.**

The Firm’s investment advice and authority for each Fund is tailored to the investment objectives of that Fund; SC does not tailor its advisory services to the individual needs of investors in its Funds. Each Fund’s investment objectives are described, as applicable, in the private placement memorandum, limited partnership agreement, subscription agreement, investment management

agreements, side letter agreements and other governing documents of the relevant Fund (collectively, “Governing Documents”). The Firm does not seek or require investor approval regarding each investment decision.

Fund investors generally cannot impose restrictions on investing in certain securities or types of securities, other than through side letter agreements. Investors in the Funds participate in the overall investment program for the applicable Fund and generally cannot be excused from a particular investment except pursuant to the terms of the applicable Governing Documents. SC has entered into side letters or similar agreements with certain investors including those who make substantial commitments of capital or were early-stage investors in the Funds, or for other reasons in the sole discretion of SC in each case that have the effect of establishing rights under, or altering or supplementing, a Fund’s Governing Documents. Examples of side letter rights include certain fee arrangements, notification provisions, reporting requirements and “most favored nations” provisions, among others. Side letters are negotiated at the time of the relevant investor’s capital commitment, and once invested in a Fund, investors generally cannot impose additional investment guidelines or restrictions on such Fund.

**D. If you participate in wrap fee programs by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.**

SC does not participate in wrap fee programs.

**E. If you manage client assets, disclose the amount of client assets you manage on a discretionary basis and the amount of client assets you manage on a non-discretionary basis. Disclose the date “as of” which you calculated the amounts.**

As of December 31, 2021, SC managed approximately \$293,907,651 in Fund regulatory assets, all managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

**A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.**

The following is a general description of fees and compensation of the Funds. Investors in the Funds also bear certain expenses, as described in Item 5.C below. Investors should refer to the Governing Documents of the applicable Fund for a complete understanding of how SC is compensated for its advisory services; the information contained herein is a summary only and is qualified in its entirety by such documents.

## **Management Fees**

SC charges each Fund a management fee (the “Management Fee”), generally 2% per annum assessed quarterly in advance. The Management Fee charged to each Fund is specified in the Governing Documents of that Fund. All Management Fees are negotiated with the Fund’s investors during the fundraising period of the applicable Fund and are not subject to negotiation thereafter. Generally, Management Fees are initially calculated based upon each investor’s committed capital for the period of time during which each Fund is making investments; thereafter, the Management Fee will be equal to a percentage of each investor’s invested capital, subject to various other factors.

The General Partners are permitted, in their sole discretion, to reduce or waive all or a portion of the Management Fee. Management Fees can differ from one Fund to another, as well as among investors in the same Fund. Such differences can arise from the size of an investor’s commitment to a Fund, different investor classes, provisions of side letter agreements or other negotiated terms. Fees are generally waived for SC employees, affiliates and Siltstone Administration employees investing in a Fund.

The Governing Documents permit a reduction to Management Fees by (i) the amount of fees paid by such Fund to entities or persons acting as a placement agent in connection with the offer and sale of interests in such Fund; (ii) costs incurred by SC in connection with the organization of such Fund that exceed a limit as specified in such Fund’s Governing Documents; and (iii) if applicable, certain supplemental fees and compensation with respect to portfolio investments, including closing fees, investment banking fees, placement fees, commitment fees, breakup fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees, directors’ fees and other similar fees (whether in the form of cash, securities or otherwise), the amount of which are paid by the Funds (directly, or indirectly by the portfolio investments) and are determined by SC on a transaction-by-transaction basis, subject to the terms set forth in each Fund’s Governing Documents. All such supplemental fees received will offset in whole against the Management Fee, net of any expenses incurred in connection with such portfolio investment; however, to the extent any such fees are received by non-SC employees such as Siltstone Administration employees, such fees will not be subject to an offset against Management Fees. For the avoidance of doubt, to date SC has not received any such supplemental fees.

## **Carried Interest**

Each Fund’s General Partner is entitled to be allocated carried interest (“Carried Interest”) with respect to the Funds, which is generally equal to 20% of all realized profits net of all expenses in excess of a compounded preferred return (equal to 8% for Fund II and the Litigation Funds and 10% for Fund I) and catch-up provisions. As described above, and as will potentially be true with respect to future Funds, each Fund’s Carried Interest arrangement can differ, and each calculation as well as any clawback provisions are further described (i) in full detail in the relevant Fund’s Governing Documents and (ii) more briefly in Item 6, below.

**B. Describe whether you deduct fees from clients' assets or bill clients for fees incurred. If clients may select either method, disclose this fact. Explain how often you bill clients or deduct your fees.**

Management Fees are deducted from the applicable Fund's account quarterly, in advance, as of the first business day of each calendar quarter.

**C. Describe any other types of fees or expenses clients may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that clients will incur brokerage and other transaction costs, and direct clients to the section(s) of your brochure that discuss brokerage.**

### **Manager Expenses**

SC and its affiliates are responsible for: (i) ordinary expenses of the Firm, (ii) lease or other payments for SC's office space, utilities and office equipment, and (iii) the compensation of officers and employees and the operating and overhead costs of SC, including salaries and expenses related to providing investment management by SC, except for any such costs or expenses that constitute Administration Fees (as defined below) paid by the Fund or an affiliate thereof.

### **Fund Expenses**

#### *Main Funds*

Each of the Main Funds (and for purposes of this subsection a "Fund") is governed by its own Governing Documents, which details a complete description of expenses for such Fund. While differences exist among Funds, the following is a description of expenses generally charged to each Fund. The Funds will pay all out-of-pocket operating expenses incurred by a Fund or by SC or any other person advancing such amounts on a Fund's behalf (except those reimbursed by a portfolio investment), including, but not limited to: (i) all fees, costs and expenses necessary to register or qualify a Fund under any applicable federal, state or foreign laws, or to maintain such registrations or qualifications, or to obtain or maintain exemptions under such laws; (ii) expenses incidental to the operation of Fund investments paid pursuant to an operating or services agreement with any operator or service provider, including Administration Fees (as defined below); (iii) all broker, dealer and finder fees, including commissions, discounts, spreads and other fees, development fees, commissions, bank charges, transfer fees, registration fees, financing, commitment, origination and similar fees and expenses; (iv) indebtedness of, or guarantees made by, a Fund, its General Partner or any "affiliated partner" on behalf of a Fund (including any credit facility, letter of credit or similar credit support) or seeking to put in place any such indebtedness or guarantee; (v) expenses related to proxies, underwriting and private placements; (vi) the fees and expenses of risk and portfolio management systems, commitment fees, custody fees, leasing and servicing fees; (vii) all expenses and costs of lawyers, accountants, advisors, administrators, agents, appraisers, consultants, investment bankers, tax



preparers, geologists, landmen, engineers (including petroleum engineers), lenders, third-party diligence software (including any subscriptions to any periodicals or databases) and service providers, experts and other professional fees and costs; (viii) reasonable out-of-pocket costs of officers and employees of SC that relate to transactions that are considered for a Fund, including travel expenses, whether or not consummated; (ix) research expenses and any other expenses, charges, liabilities, obligations or fees incurred or payable in connection with the identifying, evaluating, acquiring, holding, structuring, organizing, studying (including any site, reservoir or market studies), negotiating, consummating, financing, refinancing, diligencing, bidding on, owning, managing, monitoring, operating, hedging, restructuring, trading, taking public or private, selling, proposing to sell, winding up, liquidating or otherwise disposing of, as applicable, any Fund investments or seeking to do any of the foregoing, and any fees and expenses related to transactions that have been offered to co-investors, whether or not such contemplated investments are consummated or successful; (x) all expenses incurred in the collection of amounts due to a Fund from any person or entity; (xi) all accounting and other costs of preparing and maintaining records and books of account in relation to the business of a Fund; (xii) the remuneration and expenses of a Fund's independent accountants, reserve engineers and appraisers, and all other costs incurred in connection with the preparation of the financial statements, appraisals, valuations and other statements and reports for a Fund and its investors; (xiii) all costs and expenses of, or incidental to, the preparation of amendments to the relevant limited partnership agreement, and waivers, consents or approvals pursuant to, the relevant limited partnership agreement or other constituent documents of a Fund, its General Partner and related entities, including the preparation, distribution and implementation thereof; (xiv) all costs and expenses of, or incidental to, the preparation and dispatch to investors of all checks, reports, circulars, forms and notices (including web portal, extranet tools, computer software), and any other documents which in the opinion of SC are necessary or desirable in connection with the business and administration of a Fund; (xv) all costs and expenses incurred as a result of dissolution, winding-up and termination of a Fund and the realization of Fund investments and other Fund assets pursuant thereto; (xvi) any costs and expenses of any actual, threatened or otherwise anticipated litigation, governmental inquiry, investigation, mediation, arbitration or other dispute resolution process involving a Fund, including the costs and expenses of any discovery related thereto, involving a Fund and the amount of any judgment, other award or settlement paid in connection therewith, excluding, however, the costs and expenses of any litigation, judgment or settlement in which the conduct of an indemnified person is found to have violated the standard of conduct required by a Fund's limited partnership agreement; (xvii) all costs and expenses for indemnity or contribution payable by a Fund to any person and any directors and officers liability, fidelity bond, cybersecurity, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses; (xviii) all Management Fees; (xix) any taxes, fees and other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of such Fund (except to the extent that a Fund is reimbursed therefor by an investor or such tax, fee or charge is treated as having been distributed to investors pursuant to the limited partnership agreement); (xx) the costs and expenses associated with meetings of investors, including annual or other periodic meetings, if any; (xxi) expenses related to reverse breakup, termination and other similar

fees; (xxii) costs and expenses related to any activities with respect to protecting the confidential or non-public nature of any information or data; (xxiii) to the extent approved by SC in its sole discretion, costs and expenses of activities or proceedings of a Fund's advisory board (including any out-of-pocket costs and expenses incurred by representatives of a General Partner and advisory board members, permitted observers and other persons in attending or otherwise participating in meetings of a Fund's advisory board); (xxiv) except as otherwise determined by a General Partner in its sole discretion, any fee, cost, expense, liability or obligation relating to any special purpose vehicle formed pursuant to a Fund's limited partnership agreement that would be an operating expense or organizational expense if it were incurred in connection with such Fund; (xxv) costs and expenses of defaults by investors in the payment of any capital contributions; (xxvi) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer by an investor; (xxvii) any organizational expenses; (xxviii) any placement fees (which, as described above, are subsequently offset against Management Fees); (xix) expenses related to attending industry meetings, conferences or similar events in connection with the evaluation of investment opportunities or business sector opportunities (including the evaluation of potential investments, regardless of whether such investment is ultimately consummated); and (xxx) any other reasonable costs and expenses in connection with the administration of a Fund or that are otherwise authorized by the relevant limited partnership agreement (collectively, "Main Fund Expenses"). Costs and expenses noted above generally also include travel, private premium hired cars, premium lodging (including temporary housing), ground transportation and meals.

### *Litigation Funds*

The Litigation Funds are responsible for all out-of-pocket expenses incurred by it or advanced by it or by the General Partner, SC, Litigo Financial or any of their respective affiliates or agents on its behalf, including: (i) all fees, costs, and expenses necessary to register or qualify the Litigation Funds under any applicable federal, state or foreign laws, or to maintain such registrations or qualifications, or to obtain or maintain exemptions under such laws; (ii) subject to relevant provisions of the Litigation Funds Governing Documents, all brokerage commissions, spreads and other fees, development fees, commissions, bank charges, transfer fees, registration fees, financing fees, interest on debit balances or borrowings, expenses related to proxies, underwriting and private placements, the fees and expenses of risk and portfolio management systems, commitment fees, custody fees, leasing and servicing fees, all expenses and costs of the advisory board, lawyers', accountants', advisors', agents', appraisers', consultants', experts', valuers', engineers' and other professional fees and costs, travel expenses, research expenses and any other expenses, charges or fees incurred or payable in connection with the identification, evaluation, acquisition, holding, negotiation, litigation, settlement, sale or proposed sale, financing or refinancing of Litigation Funds investments, whether or not consummated (including any costs relating to the advance or administration of any loan made by the Litigation Funds being advanced by any lender) and reimbursable expenses incidental to the operation of Litigation Funds investments paid pursuant to a services agreement with any service provider (which will include affiliates of the Firm or General Partner provided that any such expenses,

including expenses related to employees of such affiliated operators or service providers, are billed at cost); (iii) all expenses incurred in the collection of amounts due to or on behalf of the Litigation Funds from any person; (iv) indebtedness of, or guarantees made by, the Litigation Funds, its General Partner or any affiliate of the General Partner on behalf of the Litigation Funds (including any credit facility, letter of credit or similar credit support) or seeking to put in place any such indebtedness or guarantee; (v) all accounting and other costs of preparing and maintaining records and books of account in relation to the business of the Litigation Funds; (vi) the remuneration and expenses of the Litigation Funds' independent accountants and the Litigation Funds representative, and all other costs incurred in connection with the preparation of the financial statements, appraisals, valuations, tax returns and other statements and reports referred to in the Litigation Funds limited partnership agreement; (vii) all costs and expenses of, or incidental to, the preparation of amendments to the Litigation Funds' limited partnership agreement, and waivers, consents or approvals pursuant to, such limited partnership agreement or other constituent documents of the Litigation Funds, its General Partner and related entities, including the preparation, distribution and implementation thereof; (viii) all costs and expenses incurred in connection with any diligence, review, investigation or evaluation of potential or current investors; (ix) all costs and expenses of, or incidental to, the preparation and dispatch to investors of all checks, reports, circulars, forms and notices, and any other documents which in the opinion of the General Partner are necessary or desirable in connection with the business and administration of the Litigation Funds; (x) all costs and expenses incurred as a result of dissolution, winding-up and termination of the Litigation Funds and the realization of Litigation Funds investments and any other Litigation Funds assets pursuant thereto; (xi) any costs and expenses of any actual, threatened or otherwise anticipated litigation, governmental inquiry, investigation, mediation, arbitration or other dispute resolution process involving the Litigation Funds or any of its affiliates acting on behalf of the Litigation Funds or in respect of any Litigation Funds investment (other than litigation undertaken by the Litigation Funds in accordance with its investment objectives, as set forth in subsection (ii) above), including the costs and expenses of any discovery related thereto and the amount of any judgment, other award, or settlement paid in connection therewith, excluding, however, the costs and expenses of any litigation, judgment, or settlement in which the conduct of an indemnified person is found to have violated the standard of conduct required by the relevant limited partnership agreement; (xii) all costs and expenses for indemnity or contribution payable by the Litigation Funds to any person, whether payable pursuant to the limited partnership agreement or otherwise and whether payable in connection with any litigation involving the Litigation Funds or otherwise, and all costs of any liability insurance maintained with respect to liabilities arising in connection with the activities of any indemnified person conducted on behalf of the Litigation Funds, the General Partner or Litigo Financial; (xiii) all Management Fees payable pursuant to the relevant Governing Documents; (xiv) any withholding or other taxes, together with any interest and penalties, to the extent such amounts are paid by the Litigation Funds, or the General Partner on behalf of the Litigation Funds or any other investor, and are not reimbursed by or collected from any investor, and all governmental charges, registrations, fees and duties payable by the Litigation Funds, including those expenses incurred in connection with the qualification or exemption of the Litigation Funds under any applicable laws; (xv) all travel and reasonable out-of-pocket costs of officers and employees of the

General Partner, the Firm or Litigo Financial that relate to transactions that are considered for the Litigation Funds, whether or not consummated; (xvi) the costs and expenses associated with meetings of investors, including annual meetings, if any; (xvii) costs and expenses related to any activities with respect to protecting the confidential or non-public nature of any information or data; (xviii) costs and expenses of defaults by investors in the payment of any capital contributions; (xix) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer by an investor; and (xx) any other reasonable costs and expenses in connection with the administration of the Litigation Funds or otherwise that may be authorized by this Agreement.

### **Organizational Expenses**

Each investor will bear its pro rata share of a Fund's organizational expenses as specified in each Fund's Governing Documents, provided that organization expenses do not include (i) costs or expenses incurred in connection with the most-favored-nations process or (ii) placement fees. The amount of organizational expenses varies by Fund.

### **Affiliated Service Provider Fees and Expenses**

Siltstone Administration receives "Administration Fees" for the Administration Services it performs on behalf of the portfolio investments, including fees, costs and expenses, and any direct or indirect fees, costs, expenses or charges outside of any such rates, including any amounts associated with salaries and wages, incentive compensation, vacation and other customary allowances, insurance, office rent, utilities and maintenance, office furniture, supplies and technology, network connectivity, lease rentals and royalties, equipment rentals and repairs, any legal, transaction or other fees payable to attorneys, accountants or other professionals, environmental studies, land broker fees, complying with ecological, environmental and safety laws or standards, complying with existing or future governmental regulations, establishing, organizing, maintaining and removing equipment and facilities, abandoning a well, assessments, permits and certifications, training personnel and maintaining applicable licenses and memberships and/or transporting personnel, material or property.

The Administration Fees received by Siltstone Administration can be paid and/or reimbursed by a portfolio investment, prospective portfolio investment, a Main Fund, the Firm or an affiliate thereof, and such amounts will not offset or otherwise reduce the Management Fee. Administration Fees will not be shared with employees of the Firm.

### **Fee Receipt Allocation**

From time to time, SC, a Fund or a portfolio investment may agree to pay a transaction fee, portion of the Management Fee, Carried Interest, equity grant or other fee to a third party, such as a consultant, advisor, finder, placement agent, joint venture partner, broker and/or investment banker.

## **Allocation of Fees and Expenses**

In good faith and in its fair and reasonable discretion, SC determines on a case-by-case basis whether an expense should be borne by the Firm, a Fund, multiple Funds or a portfolio investment. To the extent that the Governing Documents do not expressly provide for a method of allocation or to the extent that an invoice does not relate to a specific Fund, SC will typically allocate common expenses among multiple Funds on a pro rata basis and in accordance with its policies and procedures on expense allocation.

**D. If your clients either may or must pay your fees in advance, disclose this fact. Explain how a client may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.**

SC Funds pays Management Fees quarterly, in advance as of the first day of each quarter. In the unlikely event that a Fund terminates its advisory contract with SC in accordance with such Fund's Governing Documents, any pre-paid Management Fees will generally be prorated for the period during which the Firm has served as investment adviser to such Fund and, if necessary, a refund will be issued for any remaining days in such period. The Funds are closed-ended investment vehicles intended for a long-term investment. Accordingly, Management Fees are expected to be paid, except as otherwise described in the relevant Governing Documents, and investors generally are not permitted to withdraw or redeem interests in the Funds.

**E. If you or any of your supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds, disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.**

Neither SC nor any supervised person accepts compensation for the sale of securities or other products, other than as described in this Item 5 and in Item 6 below and throughout this Brochure.

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

**If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a Client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons face by managing these accounts at the same time, including that you or your supervised persons have an incentive to favor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts.**

A Carried Interest allocation represents an investment adviser's compensation based on a percentage of net profits of the funds it manages. As described above in Item 5, each Fund's General Partner

receives a Carried Interest allocation on certain realized profits in the Funds equal to 20% of all realized profits (although some Funds charge a lower Carried Interest allocation) subject to an annually compounded preferred return (or hurdle) (equal to 8% for Fund II and the Litigation Funds and 10% for Fund I) and subject to reimbursement of all relevant Fund Expenses, including Management Fees. The Carried Interest allocated to a General Partner is subject to a potential giveback if the respective General Partner has received excess cumulative distributions. Each Fund's Carried Interest calculation, as well as the clawback provisions of each Fund, is further described in the relevant Fund's Governing Documents.

These performance fee arrangements have been structured subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. The General Partner of each Fund, in its sole discretion, is permitted to waive or reduce the amount of Carried Interest for certain Fund investors. Specifically, if principals and employees and their respective family are Fund investors, they will generally pay reduced Carried Interest or none at all.

The fact that a General Partner's Carried Interest allocations are based on the performance of each Fund can create an incentive for SC to make investments that are more speculative than would be the case in the absence of such distributions. The Firm believes this incentive is sufficiently mitigated, however, due to the fact that: (i) the applicable Governing Documents create limitations on the ability of SC to establish new investment funds; (ii) the Funds are subject to certain contractual provisions requiring certain parallel Funds to purchase and sell investments contemporaneously; (iii) any losses the Funds sustain will reduce the General Partner's Carried Interest distribution and (iv) Carried Interest is generally calculated only after investors have received as distribution 100% of their capital contributions plus a preferred return; (v) a General Partner often makes a substantial commitment to a Fund to invest its own capital alongside the investors; and (vi) SC's ability to attract future investors is tied to the performance of its investments.

SC manages multiple Funds or other investment vehicles with similar investment strategies on a side-by-side basis. Management of multiple vehicles on a side-by-side basis has the potential to create conflicts of interest with regard to SC's allocation of investment opportunities, expenses, time and attention of advisory personnel and consideration for certain transactions. Although SC generally makes new investments for a Fund with the same investment objectives only after a predecessor Fund is substantially invested or committed as more fully described in the applicable Fund's Governing Documents, management of side-by-side Funds can create an incentive for the Firm or its personnel to favor a Fund or other investment vehicles in which SC or an affiliate has a greater financial interest. To help minimize such conflicts of interest, SC allocates investment opportunities which satisfy the investment parameters of more than one Fund in accordance with SC's policies and procedures, applicable Governing Documents and taking into consideration certain factors, as determined in the Firm's sole discretion, which can include, but are not limited to: the amount of available capital commitments of the applicable Fund(s); anticipated future capital requirements of an investment

opportunity; life-cycle of the applicable Fund(s); expected time to obtain liquidity; legal, tax and regulatory considerations; and any other factors deemed relevant by SC. SC's procedures are designed to ensure that all investment decisions are made in accordance with SC's fiduciary duties to its Funds and without consideration of SC's (or its affiliates' or employees') pecuniary interest. SC will not allocate investment opportunities based in whole or in part on (i) the relative fee structure or amount of fees paid by any Fund or (ii) the profitability of any Fund. SC's policies and procedures for the allocation of investments are determined by the relevant investment committee of each Fund.

## **Item 7 – Types of Clients**

**Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.**

SC provides investment advice to its Funds. The Funds limit their respective investors to: (i) “accredited investors” as defined in the U.S Securities Act of 1933, as amended (the “Securities Act”), and (ii) “qualified clients,” as defined in the Advisers Act. Investors in the Funds must also meet certain other suitability qualifications prior to making an investment in the Funds. The Main Funds are not registered or required to be registered under the Investment Company Act in reliance upon an exception from the definition of “investment company” provided by Section 3(c)(9) of the Investment Company Act because substantially all of its business consists of owning or holding oil, gas or other mineral royalties or leases, or fractional interests therein, or certificates of interest or participation in or investment contracts relative to such royalties, leases or fractional interests; the Litigation Funds are not registered or required to be registered under the Investment Company Act in reliance upon an exemption under Section 3(c)(1) and 3(c)(7) of the Investment Company Act; the Funds' securities are not registered or required to be registered under the Securities Act and are privately placed to qualified investors. Qualified investors include individuals or entities to which Fund interests are allowed to be sold, which generally includes (i) in the United States, people or organizations who meet certain net worth, income and/or financial sophistication requirements as described above or (ii) in other countries as permitted by the relevant securities laws in such jurisdiction and in compliance with any foreign offering provisions applicable to SC and/or the Funds. The Funds typically require capital commitments from each investor of at least \$500,000, depending on the Fund, although the applicable Fund's General Partner has, in its sole discretion, accepted lesser amounts.

The investors participating in the Funds include individuals, other investment entities, university endowments, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations, corporations, limited partnerships, limited liability companies or other business entities, and typically include, directly or indirectly, principals or other employees of SC and its affiliates and members of their families.

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

**A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that clients should be prepared to bear.**

### Energy and Mineral Strategy

The objective of the Funds is to preserve capital while delivering positive, long-term returns. The Funds aim to do this by making private equity investments in selected energy sub-sectors which SC believes is a niche area which provides the Funds with the opportunity to have returns with minimal correlation to the broader markets.

The Firm believes that the Funds will have distinct competitive advantages due to the principals' industry experience, insights into the energy industry and extensive network of relationships. Such competitive advantages are expected to include early awareness of niche investment opportunities, proprietary deal flow, access to proven management teams/joint venture partners and numerous strategic partner investment opportunities.

The Firm expects typical equity contribution for considered transactions will range from \$1 million to \$50 million. Investments are only made after a rigorous bottom-up fundamental analysis of the various opportunities becoming available. The Funds are expected to make both controlling and strategic minority investments (in mineral and royalty interests, oil and gas rights and working interests). The Funds will generally seek to exit investments through both (i) traditional exit alternatives (such as strategic sales, recapitalizations and common stock offerings to the public), as well as (ii) less conventional capital markets vehicles (such as larger energy companies, private equity firms, master limited partnerships, royalty trusts, volumetric production payments and derivative-linked and forward product sales).

### Litigation Finance Strategy

The Litigation Funds engage in funding litigation finance claims. Litigation finance traditionally provides third-party capital to enable (typically) less well-capitalized plaintiffs to pursue claims against defendants with significantly more resources with the financier retaining a percentage interest in the eventual settlement or award. This strategy could result in (among other outcomes) dismissal of the suit, settlement with the defendants, court or jury verdicts (either for or against) the plaintiffs being supported; therefore, the results from such investments can vary widely, often resulting in either outsized returns or substantial losses. The Litigation Funds invest in lawsuits primarily related to the energy and patent industries including lease termination and royalty disputes related to oil and gas producers and [patent infringement], but the Litigation Funds also have authority to engage in other



business litigation disputes. The Litigation Funds engage in single case financing, post settlement funding and the funding of portfolios of cases.

The applicable Governing Documents of each Fund set forth more detailed descriptions of each Fund's investment strategies and methods of analysis. There can be no assurance that SC will achieve the investment objectives of the Funds and a loss of investment is possible.

**B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.**

An investment in the Funds involves a high degree of risk, including the risk of a partial or total loss of capital, and investors must be prepared to bear capital losses which might result from investments. An investment in the Funds is speculative, illiquid and long-term in nature, and is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in the Funds. Investors should also refer to a Fund's Governing Documents for a description of the risk factors specific to their Fund. Different or new risks not otherwise addressed below are likely to arise due to changes in law, investments strategies, as well as other circumstances or conditions. Additionally, there can be no assurance that SC its personnel and its affiliates will not, in the future, engage in further activities that can result in additional conflicts of interest not addressed below and there can be no assurance that SC will identify or resolve all conflicts of interest and, if resolved, that such conflicts will be resolved in a manner that is favorable to the Funds. Currently identified risks and potential conflicts of interest include, but are not limited to, the below.

## **RISKS**

### **Risks Related to All Funds**

*Concentration of Investments; Lack of Diversification.* The Main Funds will focus primarily on acquiring mineral and royalty interests, leasing oil and gas rights and participating in working interests; the Litigation Funds focus on litigation projects primarily in the energy space although it may invest in litigation matters in other areas as well. While the Firm and certain of its partners, members, officers, employees, managers and directors have experience with these investments and in the energy industry, the ultimate performance of a Fund's investments cannot be predicted with certainty. Although SC will attempt to minimize risk, a Fund's actual returns will be subject to numerous factors beyond SC's control, including natural causes, governmental regulation, competing responses to population growth, economic development and increased urbanization, the successful implementation of measures to counter any of the foregoing, whether by way of political will, the development of new technologies for that purpose or otherwise, and consumer needs and preferences. In addition, the Funds expect to participate in a relatively limited number of investments and, as a consequence, the

aggregate returns to each Fund have the potential to be substantially adversely affected by the unfavorable performance of even a single investment. To the extent a Fund concentrates its investments in a particular producing basin, geographic region or type of geological play, such investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect to such producing basin, geographic region or type of geological play. To the extent that the capital raised is less than the targeted amount, a Fund is likely to invest in fewer portfolio investments and thus be less diversified. If a Fund co-invests with another investment fund, an investor in such other fund will, on occasion, have exposure to a single portfolio investment through more than one fund, potentially multiplying such investor's losses. In addition, during the early stages of a Fund's term, that Fund is permitted, in its discretion, to hold more concentrated positions than it otherwise would.

Each General Partner is expected to reinvest a significant amount of any current income and investment proceeds from a portfolio investment of a Fund, including reinvesting the current income and investment proceeds from one portfolio investment in a separate and distinct portfolio investment. There are limited restrictions on a General Partner's ability to reinvest current income and investment proceeds not distributed by the Fund. As such, any such reinvestment will increase a Fund's exposure to a particular portfolio investment and an underperforming portfolio investment is likely to adversely affect other portfolio investments and the aggregate returns of a Fund.

*Highly Competitive Market for Investment Opportunities Generally; Lack of Sufficient Investment Opportunities.* The business of identifying, structuring and completing private equity transactions in the energy industry is highly competitive and competition is increasing. The Funds will encounter competition from other entities having similar investment objectives. Potential competitors include other investment partnerships and corporations, strategic industry acquirers and other financial investors. Over the past several years, an ever-increasing number of private equity funds have been or are being formed, and many existing funds have grown in size. Additionally, a number of new funds and established funds with more generalized investment capabilities have entered into the energy industry within the last several years as capital needs in the industry have increased and investment returns in other industries have decreased. As global efforts are made to respond to anticipated future population growth, economic development and increased urbanization, and the effects of each of them, the number of funds and sources of investment capital that have similar investment objectives to the Funds, or that target similar investment opportunities, is likely to increase. Some of these competitors will potentially have more relevant experience, greater financial resources and/or purchasing power, greater negotiating power, a greater willingness to take on risk and/or more personnel than the Firm, the Funds and their respective affiliates. In addition, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Additionally, with respect to the Litigation Funds, claimants and law firms will in some cases choose to forego litigation financing in favor of other financing sources such as through traditional lenders. The General Partner of each Fund expects that competition for appropriate investment opportunities have the potential to increase, which would likely require the Funds to

participate in auctions, the outcome of which cannot be guaranteed, thus reducing the number of investment opportunities available to the Funds and/or adversely affecting the terms upon which investments can be made. Therefore, identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities has the potential to become more intense. It is possible that this would adversely affect the terms upon which the Funds make investments, decrease the number of suitable investment opportunities and inhibit the Funds' abilities to satisfy their investment objectives. To the extent that the Funds encounter competition for investments, returns to investors will potentially decrease.

It is possible that the Funds will never be fully invested if enough sufficiently attractive investments are not identified. Investors will be required to bear Management Fees during the commitment period based on the entire amount of the investors' capital commitments and pay for other expenses as set forth in the Governing Documents even if the Funds fail to make any investments.

*Illiquidity; Lack of Current Distributions.* An investment in a Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments are sometimes realized before gains on successful investments are realized. While an investment can be sold at any time, it is generally expected that a sale will not occur until a number of years after a Fund's initial investment. Before such time, there will generally be no current return on the investment. Furthermore, the expenses of operating a Fund (including the Management Fee) can, in certain instances, exceed its income, thereby requiring that the difference be paid from that Fund's capital (including the aggregate unfunded capital commitments).

A Fund's ability to dispose of investments will, at times, be limited for several reasons, including the absence of an established market for the investments, as well as contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms upon which a disposition will be made. To the extent that Fund capital is invested in, or associated with, newly discovered oil or natural gas properties, there will, on occasion, be a delay of several calendar quarters in cash distributions made to investors. There are numerous factors that are expected to influence the receipt by a Fund of first production payments from these type of wells, including construction of gas processing plants, distance to pipelines, property right-of-way negotiations, availability of custom equipment for high pressure wells, market demand for product and the process of obtaining appropriate division orders. To the extent a Fund owns less than a majority of the working interests in a portfolio investment, a Fund will have little or no influence over these factors.

*Uncertainty of Projections.* A Fund will generally use financial projections to help analyze a potential investment or future capital raises and financing for portfolio investments or other transactions. Projected operating results of any such investment normally will be based primarily on financial projections prepared by such project's management, with adjustments to such projections made by the General Partner of each Fund in its sole discretion. In all cases, projections are only estimates of

future results that are based, in whole or in part, upon information received from third parties and assumptions made at the time the projections are developed. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events can impair the ability of a portfolio investment to realize projected values. There can be no assurance that the results set forth in any projections will be attained, and actual results have the potential to be significantly different from projections.

*Reliance on Key Persons.* The Funds will be substantially dependent on the services of Joshua Sanger and Robert Le, each co-founder and Managing Partner of the Firm, and (with respect to the Litigation Funds) Mani Walia, Managing Partner, General Counsel and CCO of the Firm. Further, the composition of the professionals making up particular industry sector investment teams can change over time, and there is no guarantee that the professionals included in such teams and who have contributed to the past performance of any prior SC Funds continue to be members of the particular team or serve in the same or similar roles thereon (and in some cases, are no longer with SC, or will leave such team or SC during the life of the Fund). In the event of the death, disability, departure of one or all of the principals, it is possible (if not likely) that the business of a Fund will be adversely affected. The principals will devote such amount of their normal business time to the management of the Fund as they reasonably deem necessary to avoid materially impairing the Fund's business.

*Cybersecurity Risk.* Cybersecurity incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. These have further increased in the post-COVID-19 "work from home" environment. In addition to extracting sensitive information, such attacks could include the deployment of harmful malware or ransomware, denial-of-service attacks, social engineering, and other means to affect service reliability and threaten the confidentiality, integrity, and availability of information. Although the Firm has taken preventative measures, the information technology systems of the Firm, the Funds, the Funds' portfolio investments and any operators of portfolio investments, including Siltstone Administration, are vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events (including fires, tornadoes, floods, hurricanes and earthquakes). If such a system is compromised, becomes inoperable for an extended period of time or ceases to function properly, the Firm, the Funds and/or an operator will often be required to spend time and/or incur expenses seeking to fix or replace such system or otherwise remedy the effects of such issues. The failure of such a system and/or disaster recovery plan has the potential to cause significant interruptions in the Firm's, the Funds', an operator's and/or a portfolio investment's operations and can result in a failure to maintain the security, confidentiality or privacy of sensitive data (including information relating to investors and/or the beneficial owners of investors). Such a failure has the ability to harm the Firm's, the Funds', a portfolio investment's, an investor's or a beneficial owner of an investor's reputation, subject such persons to legal claims, or otherwise affect their business and financial performance. In particular, if unauthorized parties gain access to the General Partner's information and technology systems (or those of its associates and any

service providers engaged for, by or on behalf of the General Partner, its affiliates, or the Fund), they will be able to steal, publish, delete, or modify private and sensitive information. Notably, the Firm has warned all investors, that criminals have been known to impersonate managers of funds such as the Funds and issue falsified drawdown notices, requesting payment from investors to the criminals' (as opposed to the relevant fund's) bank accounts.

In addition, the oil and gas sector has become increasingly dependent on digital technologies to conduct certain exploration, development and production activities. The General Partner of each Main Fund and any operator of a portfolio investment, including Siltstone Administration, are likely to depend on digital technology to estimate quantities of oil and gas reserves, process and record financial and operating data, analyze seismic and drilling information and communicate internally and with third parties. Unauthorized access to seismic data, reserves information or other proprietary or commercially sensitive information has the ability to lead to data corruption, communication interruption or other disruptions in exploration or production operations or planned business transactions, any of which can have a material adverse impact on the operating results of a Fund's investments, and, therefore, of that Main Fund. Further, as cyberattacks continue to evolve, the General Partner of each Fund can be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any vulnerabilities to cyberattacks.

*Fees and Expenses.* The Funds will pay and bear all expenses related to their operations, including the Management Fee and the costs of holding, monitoring, maintaining and disposing of investments, including investment banking fees and consulting fees, whether or not the Funds make any profits. While it is difficult to predict the future expenses of the Funds, such expenses can be substantial and can surpass the Funds' operating income. In addition, such expenses will reduce the actual returns realized by investors on their investment in the Funds and will, in certain circumstances, reduce the amount of capital available to be deployed by the Funds for investments. Such expenses include recurring and regular items, as well as unusual items for which it can be difficult to budget or forecast. As a result, the aggregate amount of such expenses over the life of the Funds and/or the amount called at any one time by the relevant General Partner in respect of such expenses can exceed expectations.

*Investments Longer than Term.* Certain of a Fund's investments will not necessarily be disposed of prior to a Fund's dissolution. For instance, and specifically with regard to the Litigation Funds, certain investments can involve litigation that is appealed on numerous occasions. Even if there is a substantial judgment in favor of the claimant in an Underlying Litigation, the litigation proceeds might not be paid until after the period for appeal has expired, and if the judgment is appealed, it might be overturned, resulting in a lower than anticipated judgment or no judgment at all. The relevant General Partner has a limited ability to extend the term of a Fund and, in such situations, there is a possibility that a Fund would be required to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of its dissolution. To the extent that such investments are held in trust in connection with a Fund's dissolution, such trusts can incur operating and formation expenses. In

addition, there can be no assurance with respect to the timeframe in which a Fund's winding up and final distribution to the partners will occur.

*Changes in Tax Rules:* Investors will be subject to the risk that changes to the tax law can adversely affect the U.S. federal income tax consequences of their investment in the Litigation Funds. Changes in existing tax laws or regulations and their interpretation will in some cases be enacted after the date hereof, possibly with retroactive effect, and could alter the income tax consequences of an investment in the Litigation Funds. Certain provisions of the Internal Revenue Code of 1986, as amended (the "Tax Code") can be further amended or interpreted in a manner adverse to the Litigation Funds, in which event any benefits derived from an investment in the Litigation Funds can be adversely affected. In addition, significant legislative and budgetary proposals affecting tax laws have been made by the legislative and executive branches of the U.S. federal government. Among the changes being discussed are the elimination of certain U.S. federal income tax preferences currently available to oil and gas exploration and production companies, including, but not limited to the repeal of the percentage depletion allowance for oil and gas properties and the elimination of current deductions for intangible drilling and development costs. The likelihood of enactment of any such proposals, or any similar proposals, into law is uncertain. The enactment of any such proposals, including subsequent proposals, into law could have material adverse effects on the Litigation Funds and the investors.

### **Risks Related to the Main Funds and the Energy Industry**

*Business Risks.* The Main Funds' relevant investment portfolios will generally consist primarily of privately held operating and non-operating oil and gas related assets, including oil and gas reserves, leasehold interests, working interests, net profits interests, mineral interests and royalty interests. Operating results for these types of investments during a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Energy and Natural Resources Industries Risks.* As detailed further herein, investments in the upstream oil and gas sector are subject to a variety of risks, not all of which can be foreseen or quantified. For example, the success of many of the Main Funds' investments likely will be affected by numerous factors, including the following: (i) amount, nature and timing of property acquisitions or capital expenditures; (ii) the market for oil and gas acreage or properties or working interests therein; (iii) drilling of wells and other planned development activities; (iv) timing and amount of future production of oil or gas; (v) quantities of discovered or probable, potential or proved reserves of oil or gas; (vi) marketing of and market prices for oil, gas or oil or gas properties or working interests therein generally or in any particular location; (vii) operating costs including lease operating expenses, administrative costs and other expenses; (viii) the Main Funds' future operating or financial results; (ix) cash flow and anticipated liquidity; (x) the timing, success and cost of exploration and development activities; (xi) the risk that the technology employed in an energy project will not be effective or efficient; (xii) governmental and environmental regulation of the oil and gas industry, including the risk that

regulations affecting the energy industry will change in a manner detrimental to the industry; (xiii) environmental liabilities relating to energy properties and projects; (xiv) industry competition, conditions, performance and consolidation; (xv) the availability of drilling rigs and other oilfield equipment and services; and (xvi) natural events.

Because of the Main Funds' upstream oil and gas sector focus, investment-related decisions and determinations, such as portfolio construction and diversification, generally differ as compared to a more broadly focused private equity fund. When making such decisions and determinations, the General Partner emphasizes factors in a different manner and consider different factors, in each case as compared to such decisions and determinations relating to a more broadly focused private equity fund.

*Energy and Natural Resources Investment Risks.* The revenues generated from the activities of the Main Funds and the return on the investments made by the investors will be highly dependent upon the future prices and demand for oil and gas, which can be volatile. Factors that affect prices and demand include, but are not limited to, the world-wide supply of oil and gas, the price of foreign imports, the levels of consumer demand, price and availability of alternative fuels and changes in existing and proposed federal regulation and taxation. Also, gas prices remain somewhat seasonal in nature and, for this reason, it is particularly difficult to estimate accurately future prices of gas, and any assumptions concerning future prices will occasionally prove to be incorrect.

The potential value of an investment in the Main Funds depends to a considerable extent on the prices received for any oil and gas produced. In determining the amounts a Main Fund will pay for oil and gas assets, the relevant General Partner will place substantial emphasis upon current market conditions, including the possibility of increases in the prices at which crude oil and gas can be sold. Because price increases are not guaranteed to occur, this will increase the risk that the investments by a Main Fund produce lesser amounts of income than would have been achieved by other comparable investments. No prediction can be made as to what economic controls or taxes, if any, will be imposed on the production, sale and pricing of oil and gas during the life of a Main Fund. There is no assurance that the prices of crude oil, condensate and gas will not decrease from their present levels.

*Project Development and Operational Risk.* The successful development and operations of the Main Funds' investments will depend on adequate infrastructure being available (or being developed) and remaining available. The Main Funds' investments will, in certain circumstances, be located in areas that are sparsely populated and difficult to access. Reliable roads, power sources, transport infrastructure and water supplies are essential for the conduct of project development and operations and the availability and cost of these utilities and infrastructure affect capital and operating costs. Unusual weather or other natural phenomena, sabotage or other interference in the maintenance or provision of such infrastructure carries the potential to impact the development of a project, reduce production volumes, increase extraction or exploration costs or delay the transportation of raw materials to the mines and

projects and commodities to end customers. Any such issues arising in respect of such infrastructure can materially and adversely impact an investment by the Main Funds.

*Drilling, Exploration and Development.* The Main Funds expect to invest in oil and gas exploration and development projects, which is a speculative business involving a high degree of risk. Exploration and development projects usually have limited production, marketing and financial resources and are, therefore, more vulnerable to the adverse impact of competition and changes in market conditions. Moreover, oil and gas drilling can involve unprofitable and unsuccessful efforts. Companies engaged in oil and gas exploration and development on occasion expend a significant amount of capital drilling in wells that do not produce oil or gas, or in wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs.

Additionally, if multiple rounds of drilling are undertaken before oil or gas is located or produced, the investment will potentially be carried at little or no value, face increased borrowing costs or trigger lending covenants and produce lower returns on an aggregate or IRR basis. Acquiring, developing and exploring for oil and natural gas involve many risks. These risks include: (i) encountering unexpected formations or pressures; (ii) loss of drilling fluid circulations; (iii) premature declines of reservoirs; (iv) blow-outs; (v) possible claims of indigenous peoples; (vi) protests by environmental groups; (vii) eco-terrorism; (viii) continuity of mineable reserves; (ix) availability of essential infrastructure; (x) labor relations; (xi) industrial accidents; (xii) reclamation obligations; (xiii) other accidents in completing wells; (xiv) cratering; (xv) sour gas releases; (xvi) pipeline failures; (xvii) uncontrollable flows of oil, natural gas or well fluids; (xviii) pollution, release of toxic or other hazardous substances; (xix) fires; (xx) explosions; (xxi) spills; and (xxii) other environmental, health and safety risks. The risks and hazards inherent in the oil and gas industries, some of which are enumerated above, have the potential of causing widespread and catastrophic environmental disasters. Such disasters can materially and adversely harm a Main Fund and its investments, even if such investments were not directly involved in any such disasters. In addition, a Main Fund can be liable for environmental damages caused by the previous or subsequent owners or third-party operators of properties (or working interests therein) the Main Fund purchases. It is possible that insurance coverage for environmental damages that occur over time, or insurance coverage for the full potential liability that can be caused by sudden environmental damages, will not be available at a reasonable cost and a Main Fund can be subject to liability or the loss of substantial portions of its properties (or working interests therein) in the event of certain environmental damages.

In addition to the economic costs resulting from such disasters that a Main Fund and/or a portfolio investment of a Main Fund will potentially have to bear through liability for third-party losses or the cessation or suspension of operations (which amounts can be greater than aggregate capital commitments), such disasters have the ability to cause severe reputational damage to such portfolio investment, the Main Funds and potentially, the investors. Furthermore, such disasters will, in certain situations, not be covered by insurance, and casualty and business interruption insurance will not necessarily be available at rates and on terms that key personnel deem desirable. As a result, substantial



liabilities to third parties or governmental entities can be incurred and the payment of such liabilities can have a material adverse effect on the Main Funds' financial condition and results of operations.

*Hydraulic Fracturing Regulations.* It is expected that the portfolio investments in which a Main Fund invests will use hydraulic fracturing as a means of producing commercial quantities of oil and natural gas from reservoirs in which they operate. There have been a number of initiatives and proposed initiatives at the U.S. federal, state and local level to ban or regulate hydraulic fracturing and to study the environmental impacts of hydraulic fracturing and further regulation of the practice. Such initiatives at the U.S. federal, state or local levels to expand or implement regulation of hydraulic fracturing, together with the possible adoption of new laws or regulations that significantly restrict hydraulic fracturing, can result in delays, eliminate certain drilling and injection activities, make it more difficult or costly to perform hydraulic fracturing or sell the oil and natural gas produced from wells that have used hydraulic fracturing in the completion process, increase the costs of compliance and doing business, and delay or prevent the development of unconventional hydrocarbon resources from shale and other formations that are not commercial without the use of hydraulic fracturing. These effects can have a material adverse effect on the feasibility of a portfolio investment, the financial performance of a Main Fund's investments and, therefore, of the Main Funds.

*Energy Regulatory Risk; Environmental Matters.* Investments in the upstream oil and gas sector can entail risks associated with more mature projects and heavily regulated industries. The energy and natural resources industries are subject to comprehensive U.S. federal, state and local laws, rules and regulations as well as non-U.S. laws, rules and regulations. Present and future laws, rules and regulations can cause additional expenditures, decreased revenues, restrictions and delays that can materially and adversely affect the Main Funds' investments and the prospects of the Main Funds. There can be no assurance that: (i) existing laws, rules and regulations applicable to investments generally or the portfolio investments will not be revised or reinterpreted; (ii) new laws, rules and regulations will not be adopted or become applicable to the portfolio investments; (iii) the technology and equipment selected to comply with current and future regulatory requirements will meet such requirements; (iv) portfolio investments will not be materially and adversely affected by such future changes in, or reinterpretation of, laws, rules and regulations (including the possible loss of exemptions from laws, rules and regulations) or any failure to comply with such current and future laws, rules and regulations; or (v) regulatory agencies or other third parties will not bring enforcement actions in which they disagree with regulatory decisions made by other regulatory agencies.

Further, environmental laws, rules, regulations and regulatory initiatives play a significant role in the energy and natural resources industries and can have a substantial impact on investments in these industries. For example, global initiatives to minimize pollution have played a major role in the increase in demand for natural gas and alternative energy sources, creating numerous new investment opportunities. Conversely, required expenditures for environmental compliance have adversely impacted investment returns in a number of segments in the energy and natural resources industries. The energy and natural resources industries will continue to face considerable oversight from

environmental regulatory authorities and significant influence from non-governmental organizations (“NGOs”) and special interest groups. A Main Fund will, at times, contract with an operator of a portfolio investment that is subject to changing and increasingly stringent environmental and health and safety laws, regulations and permit requirements. New and more stringent environmental and health and safety laws, rules, regulations and permit requirements or stricter interpretations of current laws, rules or regulations can impose substantial additional costs on the Firm, portfolio investments and potential investments of the Main Funds. Compliance with such current or future environmental requirements does not ensure that the operations of the portfolio investments will not cause injury to the environment or to people under all circumstances or that the operator of a portfolio investment, including Siltstone Administration, and therefore the Main Funds, will not be required to bear additional unforeseen environmental expenditures. Environmental hazards can expose the Main Funds’ portfolio investments to material liabilities for property damages, personal injuries or other environmental harm, including costs of investigating and remediating contaminated properties.

Failure to comply with any such requirements can have a material adverse effect on a portfolio investment, and there can be no assurance that portfolio investments or the operator of a portfolio investment, including Siltstone Administration, will at all times comply with all applicable environmental laws, rules, regulations and permit requirements. Past practices or future operations of portfolio investments also can result in material personal injury or property damage claims. Any noncompliance with these laws, rules and regulations can subject the Main Funds and certain portfolio investments to material administrative, civil or criminal penalties or other liabilities. Under certain circumstances, environmental authorities and other parties can seek to impose personal liability on the contracting parties to a joint operating agreement (“JOA”) (such as the Main Funds) subject to environmental liability.

*Production.* Exploration and production projects are particularly vulnerable to declines in the demand for and prices of crude oil and natural gas. Reductions in prices for crude oil and natural gas can cause continued production from a given reservoir to cease being economical earlier than it would if prices were higher, resulting in the plugging and abandonment of, and cessation of production from, that reservoir. In addition, lower commodity prices not only reduce revenues but also can result in substantial downward adjustments in reserve estimates. Actual oil and gas prices, development expenditures and operating expenses will vary from those assumed in reserve estimates, and these variances can be significant. Any significant variance from the assumptions used can result in the actual quantity of reserves and future net cash flow being materially different from those estimated in reserve reports. In addition, results from drilling, testing and production and changes in prices after the date of reserve estimates can result in downward revisions to such reserve estimates. Substantial downward adjustments in reserve estimates can have a material adverse effect on a given exploration and production project’s financial position and results of operations and can result in acceleration of result-based loans or defaults thereunder. Actual amounts produced from such reserves can similarly vary. In addition, due to natural declines in reserves and production, exploration and production projects must economically find or acquire and develop additional reserves in order to maintain and

grow their revenues and distributions. Oil and gas wells are by their nature depleting assets, and as a result, annual production will naturally decline over the life of a well and so too will returns to the Main Funds attributable to such well.

Moreover, U.S. federal, state or local laws, rules, regulations and orders have the ability to restrict the rate of oil and gas production below the rate that would otherwise exist in the absence of such laws, rules, regulations and orders, and has the ability to restrict the number of wells which can be drilled in any particular area, thereby also restricting the cash flows of a particular portfolio investment and, therefore, of the Main Funds. State laws regulate the size and shape of drilling and spacing units or proration units governing the pooling of oil and gas properties. Some states allow forced pooling or integration of tracts to facilitate development while other states rely on voluntary pooling of lands and leases. In some instances, forced pooling or unitization will be implemented by third parties and can result in a reduction of the Main Funds' interest in the unitized properties. In addition, state conservation laws establish maximum rates of production from oil and gas wells, which generally prohibit the venting or flaring of natural gas and impose requirements regarding the ratable of production. These laws, rules and regulations can limit the amount of oil and gas that can be produced from wells that generate payments to the Main Funds or limit the number of wells or locations that can be drilled, further limiting potential payments that would likely otherwise be made to the Main Funds.

*Depleting Assets.* Certain net proceeds payable to the Main Funds as the holder of properties in the exploration and production sector will be derived from the sale of depleting assets. The reduction in reserve quantities is a common measure of depletion. Future maintenance and development projects with respect to a property will affect the quantity of reserves and can offset the reduction in reserves. The timing and size of these projects often will depend on the market prices of crude oil, natural gas and other hydrocarbons. If the operator developing a property, including Siltstone Administration, does not implement additional maintenance and development projects, the future rate of production decline of reserves of such a property will potentially be higher than the rate currently expected.

*Commodity Price Volatility.* The value of the Funds' investments will be substantially dependent upon the market price for oil, natural gas and other hydrocarbons, which value ultimately impacts the demand for their products and services. Historically, the markets for hydrocarbons have been volatile and such volatility is likely to continue in the future. Various factors beyond the control of the Funds, the Firm, Siltstone Administration or any third-party operator of a portfolio investment will affect hydrocarbon prices including: (i) the worldwide and domestic supplies of oil and natural gas; (ii) the ability of the members of the Organization of the Petroleum Exporting Countries to agree to and maintain oil prices and production controls; (iii) political instability or armed conflict in the Middle East and other oil or natural gas producing regions; (iv) terrorist acts; (v) the price and level of foreign imports; (vi) the level of consumer demand; (vii) the price, availability and acceptance of alternative fuels; (viii) the availability of pipeline capacity; (ix) weather conditions; (x) transportation interruption; (xi) domestic and foreign governmental regulations, price controls and taxes; (xii) domestic and foreign

environmental laws, rules and regulations; and (xiii) the overall economic environment, including interest rates, levels of economic activity, the price of securities and the participation by other investors in the financial markets. There can be no assurance that there will not be a significant decline in the prevailing price for hydrocarbons, which can adversely affect the value of a Fund's investments and its income from its investments. Price volatility also makes it difficult to budget for, and project the return on, acquisitions, exploration and development projects. With regard to the Litigation Funds, the damages payable pursuant to Underlying Litigations in the energy sector, particularly those relating to mineral or gas rights, are highly dependent upon the prices of, and demand for, energy commodities. Therefore, any significant decline in energy commodity prices can have a material adverse effect on the value of the reserves attributable to any property that is the subject of a Litigation Funds investment, and by extension such a decline can have a material adverse effect on the projected value of such investment and the subject company's ability to pay any judgment or award entered against it.

*New Technology Risk.* The upstream oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services using new technologies. As others use or develop new technologies, the operator of a portfolio investment, including Siltstone Administration, can sometimes be placed at a competitive disadvantage or competitive pressures can force such operator to implement those new technologies at substantial costs to such portfolio investment, which can affect a Main Fund's returns attributable to such portfolio investment. In addition, other oil and natural gas projects have greater financial, technical and personnel resources that allow them to enjoy technological advantages and can in the future allow them to implement new technologies before the operator of a portfolio investment can. An operator will not always be able to respond to these competitive pressures and implement new technologies on a timely basis or at an acceptable cost. If one or more of the technologies an operator uses now or in the future were to become obsolete or if the operator is unable to use the most advanced commercially available technology, a Main Fund's investments can, in some cases, be materially adversely affected.

*Risks Associated with Non-Operating Interests.* The Main Funds expect, in certain situations, to acquire non-operating interests in oil and gas assets, and in such circumstances, the Main Funds will seek to exercise influence over the material decisions of a portfolio investment through its ability to appoint members to the joint operating committee or similar governing body of a portfolio investment, decide the method and timing of exiting a portfolio investment and/or negotiate for certain other contractual rights. However, the Main Funds do not intend to exercise control over the day-to-day operations of a portfolio investment and the assets in which a Main Fund acquires a non-operating interest, and, in such cases, will have consent rights only with respect to major decisions. Subjective decisions made by a Main Fund and/or certain third-party operators can cause a portfolio investment to incur losses or to miss profit opportunities on which it would otherwise have capitalized. As a result, a Main Fund's ability to protect its position in such asset will be limited.

## **Risks Specific to the Litigation Funds and Litigation Industry**

*Innovative Investment Strategy.* SC believes that the Litigation Funds is the first litigation finance platform focused on energy litigation, and accordingly the investment strategy of the Litigation Funds is untested. Past performance of the Firm, the principals, and their respective affiliates is not necessarily indicative of the future performance or profitability of the Litigation Funds. Further, there can be no guarantee that the litigations previously financed under the advice of the Firm will be representative of the Litigation Funds' investments since it is possible they will have different financing needs and were self-funded. The Litigation Funds' investment program should be evaluated on the basis that there can be no assurance that the Firm's assessment of the prospects of the Litigation Funds' investments will prove accurate or that the Litigation Funds will achieve its investment objective.

*Award Collections may be Less than Finance Value.* The award settlements that will secure the Litigation Funds' investment are generally based on, in the case of contracts with plaintiffs and law firms, contingency fees generated from settlements or judgments. There can be no assurance that borrowers will be successful in litigating or settling the applicable cases or claims, generating fee income in respect thereof, or otherwise obtaining favorable outcomes in respect of the claims that serve as collateral for Litigation Funds investments. Even if a favorable outcome is obtained, it might not be upheld or can be subsequently overturned. Defendants in successful Underlying Litigations might be unable to satisfy any judgment entered against it. Therefore, the income collected in connection with even a successful claim could be materially less than estimated by the General Partner. While the Litigation Funds generally will have a security interest in the proceeds of an Underlying Litigation, these are non-recourse obligations and the claimants being funded will have no obligation to repay the capital funded by the Litigation Funds unless the Underlying Litigation produces actual proceeds to the claimant.

*Timing of Awards, Pay-outs, and Collections.* The timing of finance charges and repayments of principal are contingent upon the receipt of awards for assets financed. Should the timing of award receipts differ from the General Partner's projections, distributions to investors can occur earlier or later than expected and reduce the Litigation Fund's internal rate of return. In addition, such differences in timing can negatively impact the Litigation Funds' ability to collect from claimants to whom the Litigation Funds provides financing based on the length of the relevant interest accrual period, as interest can compound over time and there can be no guarantee that all such borrowers will be able to pay off such larger amounts of interest.

*Fraud.* The possibility exists that in seeking financing from the Litigation Fund, borrowers will fail to provide relevant information to the Litigation Funds or make a material misrepresentation or omission of fact. The General Partner will rely upon the accuracy and completeness of representations made and information provided by borrowers, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Litigation Funds can be reclaimed if any such payment or distribution is later determined to have been made with an intent to defraud or prefer creditors.

*Strategy Concentration.* It is anticipated that the Litigation Funds will invest exclusively in litigation finance instruments, with no less than 70% of the Litigation Funds' capital being invested in instruments financing Underlying Litigations in the energy space. Due to the concentration of the Litigation Funds' investments in legal finance opportunities, the Litigation Funds can be exposed to greater risk than if its investments were diversified and spread across a number of investment strategies. For example, changes in statutes, regulations, or case law precedent can disproportionately adversely affect the types of Underlying Litigations being financed by the Litigation Funds. There can be no guarantee that the Litigation Funds' investments will not be concentrated geographically, and accordingly the Litigation Funds' performance could be adversely affected if the local or regional markets perform poorly. Regulatory risks and other key risk factors described herein can furthermore be amplified due to the geographic concentration of the Litigation Funds' investments.

*Reliance on Software.* To determine which prospective Underlying Litigations make it past the initial screening process, the Firm intends to utilize software owned by Litigo Financial, LLC ("Litigo Financial") an affiliate of the General Partner and the Firm. The Litigo™ software is untested and there can be no guarantee that it will not screen out prospective Underlying Litigations that otherwise would present good investment opportunities. If the Litigo™ software does not operate as anticipated, the Firm will have greater difficulty screening prospective Underlying Litigations and it will likely be more burdensome to identify qualifying investment opportunities. Furthermore, while it is anticipated that the Litigation Funds will not be charged for use of the Litigo™ software, costs associated with other third-party software can be included in the operating expenses of the Litigation Funds, and there could be costs associated with use of the Litigo™ software, or the Firm can cease to utilize the Litigo™ software, if it is no longer owned by affiliates of the General Partner.

*Investment Sourcing.* The litigation financing market is a highly specialized and still a developing market. The consistency of available and suitable investments in litigation financing could be a risk. The lack of availability from time to time of suitable investment opportunities by the Litigation Funds can delay the Litigation Funds' ability to achieve its target portfolio size, composition, or rate of return in its projected timeframe or to make investments thereafter, both of which circumstances could materially adversely affect the Litigation Funds' investment performance.

Factors that are expected to affect the Litigation Funds' ability to source suitable investments include, among other things, the following: developments in the market for litigation finance products; competition for investment opportunities and the inability of the Litigation Funds to acquire investments; and the inability of the Litigation Funds to reinvest the proceeds from the sale or repayment of any of its loans in suitable target investments on a timely basis.

*Evaluation and Selection of Investment Opportunities.* The Litigation Funds' business depends on identifying and advising on the conclusion, management, and realization of suitable investments, and on whether or not such investments in which the Litigation Funds invests will be successful or will pay the returns targeted by the Litigation Funds or pay those returns in the anticipated time. In evaluating potential investments for the Litigation Funds, a number of assumptions are sometimes made, including

assumptions regarding the strength of evidence in support of opportunities to pursue litigation, the judicial background and case history of the jurisdictions in which potential investments might be made, rates of repayment of the loans, the timing of claim settlements, the ability of a defendant to satisfy any judgment against it, and judgments of the projected outcome of cases and administrative and contractual claims and other payments. The use of different estimates or assumptions could result in different projected returns or produce materially different values for the Litigation Funds' assets. There is no guarantee that the General Partner or the Firm will be successful in sourcing suitable investments in a timely fashion or at all, or in sourcing a sufficient number of suitable investments that meet the diversification and underwriting and other requirements of the Litigation Funds.

Assessing the values, strengths, and weaknesses of a litigation investment is complex and the outcome is not certain. The ability of the General Partner to evaluate an investment is dependent upon the thoroughness and accuracy of material facts received during due diligence regarding the applicable Underlying Litigation from each claimant, law firm, or other stakeholders in such investment, as well as the General Partner's assessment of applicable legal precedent. In some instances, legal privileges and other confidentiality restrictions, such as court orders, restrict access to information about potential investments. If any such aforementioned stakeholder withholds material facts from the members of the General Partner's team, or certain material facts are not known, it is possible that the General Partner will select an investment that it would not otherwise have selected if all material facts were known, which can adversely impact the Litigation Funds' investment performance. Moreover, litigation is an inherently risky and unpredictable undertaking regardless of the extent and quality of the diligence and investigation undertaken.

The Litigation Funds could be materially adversely affected should investments in which the Litigation Funds invests prove to be unsuccessful or produce returns below those expected by the General Partner. The Litigation Funds can incur complete losses of its invested capital and, in some jurisdictions, payment of the successful defendant's costs (in jurisdictions or under contracts or statutes where this is relevant). Since results depend on numerous factors that cannot be predicted with certainty at the outset, including new facts learned in discovery, adverse rulings, and changes in the law, there is a risk that investments will turn out to be less valuable as the litigation proceeds than was initially assessed.

*Ethics and Legal Restrictions.* Various laws and professional regulations addressing litigation generally, including, without limitation, individual jurisdictions' laws and regulations with respect to legal ethics, are complex and subject to constant change and uncertainty. Certain jurisdictions expressly prohibit or restrict the ability to assign certain claims or to participate in a lawyer's contingent fee interest in a claim. Such prohibitions and restrictions are governed by the rules and regulations of each state and jurisdiction in various countries and vary in degree of strength and overall enforcement. Specifically, it is possible that some jurisdictions will not permit the Litigation Funds to make investments in, or engage in other business and financial transactions relating to, certain legal claims. Further, the laws in such jurisdictions can, in some cases, be uncertain enough that the Litigation Funds will not have the ability or the desire to make such investments, thereby limiting the total size of the potential market

for the Litigation Funds' investments. There is also a risk that the Litigation Funds will make an investment in a certain jurisdiction that carries with it a risk that such investment agreement will not be enforced given the uncertainty as to the applicable law and regulations. In many jurisdictions, the relevant issues will not have been considered by the courts or addressed directly by statute or are subject to change, so obtaining definitive legal advice will not be possible.

*Evaluation and Disclosure of Investments.* Due to competitive, legal, and ethical considerations and restrictions, the Litigation Funds and the General Partner will not be able to provide to the limited partners details of the underlying litigations in which it intends to invest or pursue or in which it has invested. The limited partners will not have an opportunity to evaluate any investment or legal claim themselves and will be wholly dependent upon the General Partner's and the General Partner's ability to assess and manage investments made by the Litigation Funds.

*Imperfect and Asymmetric Information.* The Litigation Funds undertakes extensive due diligence efforts, but there is no guarantee that the information on which the General Partner bases its investment decisions is entirely accurate. In addition, the prospective claimant and its counsel will generally have substantially better access to relevant information than the General Partner and the Litigation Funds. As such, access to information is asymmetric. Further, even the prospective claimant and its counsel do not have perfect information, as adversaries or third parties will, in some cases, be in the possession of other relevant facts that are not available at the time of investment.

The asymmetry of information is affected by the fact that legal principles of confidentiality and legal professional privilege can, in certain instances, require that certain information about potential investments and invested cases not be made available to the General Partner. Moreover, due to confidentiality and other legal concerns, information known to the General Partner generally cannot be disclosed to investors in the Litigation Funds.

*Costs of Litigation.* Litigation can be costly and protracted. While the Litigation Fund's investments will fund a portion of the expenses of the Underlying Litigations, expenses can exceed those financed by the Litigation Funds. In these situations, additional pressure can be placed on claimants to prematurely settle an Underlying Litigation due to lack of available funding of additional expenses. While the Litigation Funds will be permitted to make additional investments in respect of a Underlying Litigation and the General Partner is permitted to recycle capital to do so, there can be no assurance that the Litigation Funds will have the capital to provide such additional funding or that the Firm will recommend making an additional investment in that Underlying Litigation.

*Lack of Control of Underlying Litigations.* The Litigation Funds will not be the client of the law firm representing the party to the litigation or legal or regulatory process, and, under most circumstances, will not have the ability to control or even influence decisions made by the claimant, defendant, or the law firm. The Litigation Funds will take non-controlling interests in its investments and in many jurisdictions there are significant constraints on the Litigation Funds' ability to control or influence ongoing litigation matters, resulting in the Litigation Funds often being a passive investor once it has made an investment decision. Attorneys are generally required to act pursuant to their clients'



directives and owe fiduciary and ethical duties to their clients, not to the Litigation Funds. The law firms involved also will be subject to an overriding duty to the courts and not the Litigation Funds. Investment documents will make clear that parties to the litigation or legal or regulatory process related to Litigation Fund investments retain the right to replace their litigation counsel, accept or reject settlement offers, make key strategic decisions, and abandon the litigation or legal or regulatory process if they believe it no longer has merit—all without the Litigation Funds’ having any contractual right or ability to direct that a party act otherwise or that the party’s counsel disregard its client’s directives. Further, the law firm could make decisions that result in increased expenses or lower pay-out associated with a litigation. It is likely that the Litigation Funds would be materially harmed by such acts.

*Reliance on Outside Counsel and Experts.* As part of the due diligence process in which the Litigation Funds engages, the Litigation Funds might rely on the advice and opinion of outside counsel and other experts in assessing potential opportunities. Further, the Litigation Funds and the General Partner will be dependent upon the skills and efforts of independent law firms to litigate or arbitrate cases or administer legal or regulatory processes. There is no guarantee that the ultimate outcome of any case will be in line with a law firm’s or expert’s initial assessment of the validity and merit of a legal claim.

*Uncertain Taxation of Litigation Finance Proceeds.* The taxation of litigation financing is uncertain. An investment in the Litigation Funds involves complex tax considerations that will differ for each investor depending on an investor’s particular circumstances. It is possible that litigation finance agreements will be treated as debt, capital assets, or otherwise. In addition, in certain cases the Litigation Funds can be deemed to be engaged in the active conduct of a trade or business. It is possible that the General Partner will choose to treat certain litigation finance investments as capital assets, including as variable prepaid forward contracts, and treat the proceeds from such investments as capital gains, including as arising from the termination of a capital asset under Section 1234A of the Tax Code or otherwise. If the General Partner does so, there is a risk that the U.S. Internal Revenue Service (the “IRS”) could challenge such treatment, and, if successful, require the proceeds to be taxed as ordinary income. In addition, under this circumstance the investors can be subject to interest and penalties in connection with a successful challenge by the IRS.

## **CONFLICTS OF INTEREST**

### **Conflicts of Interest Specific to All Funds**

Other present and future activities of the General Partner, the Firm, and their affiliates are likely to give rise to additional conflicts of interest not discussed below. In the event that a conflict of interest arises, the General Partner, the Firm, and their affiliates will attempt to resolve such conflicts in a fair and equitable manner over time.

*Allocation of Investment Opportunities.* The principals and/or the Firm or its affiliates will, in its discretion, in the future form and/or manage several other SC Funds and will potentially direct certain relevant investment opportunities to such Funds. As a result of the foregoing, certain investment opportunities identified by the Firm and/or its employees, partners, members, officers, directors, managers and affiliates will not be presented or made available to any specific Fund. Certain investments are expected to be allocated between Funds in a manner as determined by the Firm, in its sole discretion. Conflicts of interest can arise if a Fund makes an investment in a portfolio investment in conjunction with an investment made by another Fund. For instance, there can be no guarantee that a Fund will necessarily invest through the same holding companies or subsidiaries, have the same access to credit or employ the same hedging or investment strategies as another Fund. These differences in funding are also likely to result in differences in price, investment terms, leverage and associated costs between Funds. There can be no assurance that Funds will exit the investment at the same time or on the same terms, and there can be no assurance that a Fund's return on such an investment will be the same as the returns achieved by another Fund participating in the transactions. Given the nature of these conflicts, there can be no assurance that the resolution of these conflicts will be beneficial to a Fund.

In determining how to allocate an investment opportunity, the Firm generally assess whether an investment opportunity is appropriate for each relevant entity based on factors they determine, in their sole discretion, to be appropriate at such time, which can include each entity's investment restrictions and objectives (including those set forth in the relevant entity's governing agreements, where applicable), strategy, risk profile, time horizon, tax sensitivity, tolerance for turnover, asset composition, cash level (if any), applicable regulatory restrictions, life cycle and structure. The Firm's allocation of investment opportunities among the Funds often will not be proportional. Therefore, such allocations can be more advantageous to a Fund relative to one or all of the other SC Funds, or vice versa. There can be no assurance that the allocation of any investment opportunity, or terms on which the allocation is made, will be as favorable as they would be if the conflicts of interest to which the Firm becomes subject did not exist.

In addition, because a Fund has a fixed commitment period after which capital from investors generally shall only be drawn down in limited circumstances and at certain times the Management Fee is calculated based upon the invested capital a Fund, there can be an incentive for the General Partner of that Fund to deploy capital when it would not otherwise have done so.

*Allocation of Expenses.* The Funds will pay and bear all Fund Expenses related to their operations. The amount of these Fund Expenses will be substantial and will reduce the actual returns realized by the investors on their investment in the Funds. The fees, expenses and costs borne by the Funds encompasses a broad range of items and activities. Each General Partner and its affiliates can from time to time incur fees, costs and expenses, including in connection with transactions not consummated, on behalf of the Funds. To the extent practicable, any fees, costs and expenses that are incurred in connection with a consummated investment are expected to be charged to the applicable portfolio investment. Except as otherwise set forth in "Co-Investments" above, to the

extent such fees, costs and expenses are not charged to a portfolio investment, they are expected to be paid by each Funds that participated or was expected to participate in such investment. The Funds are expected to bear a portion of any such fees, costs and expenses in proportion to the size of its actual or proposed investment, or in such other manner as the relevant General Partner considers, in its sole discretion, to be fair and equitable. Notwithstanding the foregoing, each General Partner and its affiliates can, in their discretion, in the future develop policies and procedures to address the allocation of expenses that differ from its current practice.

There are occasions when one Fund (the “Payor Fund”) pays an expense common to multiple Funds (the “Allocated Funds”). On such occasions, each Allocated Fund will reimburse the Payor Fund for its share of such expense, without interest, promptly after the payment is made by the Payor Fund. There are also occasions where the Firm or a Payor Fund pays an expense on behalf of a portfolio investment. On such occasions, the portfolio investment will reimburse the Firm or Payor Fund for the expense, without interest, and such reimbursement will not be subject to the fee offset provision.

A conflict of interest could arise in SC’s determination whether certain costs or expenses that are incurred in connection with the operation of the Funds meet the definition of Fund operational expenses for which the Funds are responsible, whether such expenses should be borne by SC or the manner in which SC allocates expenses among the Funds. The Funds will be reliant on the determinations of SC in this regard. From time to time, it is possible that subsequent review of allocations could result in an identification of expenses that should have been allocated in a different manner, in which case measures are expected to be undertaken to correct such circumstance, which might include a reversal of the original expense allocations, if possible, or such other equitable adjustment believed by SC to be the most appropriate corrective measure.

Moreover, the Firm and its employees, partners, members, managers, officers, directors and affiliates are expected to receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of the Funds which will not be subject to Management Fee offset or otherwise shared with the Funds and/or investors. For example, airline travel or hotel stays incurred as Fund Expenses often result in “miles” or “points” or credit in loyalty/status programs, and such benefits and/or amounts will, whether or not de minimis or difficult to value, inure exclusively to the Firm and/or its employees, partners, members, managers, officers, directors and affiliates (and not the Funds and/or investors) even though the cost of the underlying service is borne by the Funds. From time to time, the Firm will be required to decide whether costs and expenses are to be borne by the Funds, on the one hand, or the Firm and its affiliates, on the other, and/or whether certain costs and expenses should be allocated between or among the Funds, on the one hand, and/or co-investors, on the other hand. Travel and related expenses in connection with a trip taken by employees, partners, members, managers, officers, directors and affiliates of the Firm for purposes of multiple matters will be allocated by the Firm at its sole discretion.

*Siltstone Administration.* As described further in Item 5, the Firm and/or its affiliates will engage Siltstone Administration to provide the Administration Services in exchange for the Administration Fees received by Siltstone Administration (or a member thereof). Although the Firm intends to retain Siltstone Administration (or a member thereof) with a view to reducing the costs to a portfolio investment (and, ultimately, the Funds) and/or improving portfolio investment performance, a number of factors can result in limited or no cost savings from such retention. There can be no assurance that no other service provider is more qualified to provide the applicable services or can provide such services at lesser cost.

*Industry Relationships.* As with other private equity fund sponsors, as part of the Firm's business, the principals, the Firm, Siltstone Administration and their respective partners, members, managers, officers, directors and affiliates have developed relationships with third parties which have the potential to raise conflicts of interest. Such third parties include investment bankers, lenders, consultants, operators, geologists, engineers, professional advisors (such as attorneys and accountants), co-investors, current and former service providers to current and former portfolio investments, current and former employees of current and former portfolio investments and former employees and members of the Firm. Certain of these third parties have the ability to: (i) introduce investment opportunities to the Firm; (ii) arrange for, or facilitate the financing of, the purchase or recapitalization current and potential portfolio investments or oil and gas assets; (iii) introduce portfolio investments or oil and gas assets to potential acquisition or merger candidates; (iv) facilitate the disposition of portfolio investments or oil and gas assets; or (v) provide investment banking, consulting, legal or advisory services to the Firm, the Funds, Siltstone Administration or portfolio investments. Such third parties sometimes provide goods or services to or have business, personal, political, financial or other relationships with the Firm, Siltstone Administration and their respective partners, members, managers, officers, directors and affiliates. In addition, such third parties can invest in one or more Funds, co-invest in one or more investments or provide other significant business or investment services to the Firm, Siltstone Administration, the Funds and/or their portfolio investments. These relationships have the potential to influence the General Partner of each Fund in deciding whether to select or recommend any such third party to perform services for a Fund or a portfolio investment. The cost of any services provided by such third parties will generally be borne directly or indirectly by the Funds through reimbursement to the Firm or Siltstone Administration.

*Valuation of Assets.* There is not expected to be an actively traded market for most of the investments owned by a Fund. When estimating fair market value, each General Partner will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing assets for which reliable market quotations are not available, including oil and gas interests, is based on inherent uncertainties and the resulting values can differ from values that would have been determined had an active market existed for such assets and can differ from the prices at which such assets ultimately are sold. The exercise of discretion in valuation by each General Partner can give rise to conflicts of interest,

including in connection with determining the amount and timing of distributions of Carried Interest and the calculation of Management Fees.

*Lease Agreement.* An affiliate of SC has, effective January 1, 2018, entered into a lease agreement with Siltstone Administration for an office building owned by such affiliate pursuant to which such affiliate will receive rental payments from Siltstone Administration. SC or an affiliate will, in certain future situations, enter into similar arrangements with portfolio investments (including their subsidiaries) or other affiliates of SC. Payments under such lease agreement and similar arrangements will not offset or reduce the Management Fee and will not otherwise be shared with the Funds or the investors, and there can be no assurance that the terms of such arrangements will be the lowest cost or best terms available for such portfolio investment.

*Advisory Board.* Each General Partner will appoint one or more representatives of certain of the investors to the advisory board, which has the ability to review, approve, advise and/or provide a waiver with regard to numerous matters, including compliance with certain provisions of the relevant Fund's limited partnership agreement, such as resolving certain potential conflicts of interest situations, and the advisory board's approval is required or can be requested in certain circumstances under the limited partnership agreement, including certain approvals or consents required by the Advisers Act.

*Certain Firm Employees are Related by Marriage.* Mr. Le, one of the Firm's Managing Partners, and Cecile Cao, the Firm's Director of Investor Relations and Chief Operating Officer, are related by marriage. Although Ms. Cao does not have investment decision making authority, generally, a familial relationship (in this case, by marriage) between principals (for these purposes, "related principals") can result in potential conflicts of interests. Such conflicts include, without limitation: enhanced disclosure among related principals, increased influence on Firm decision-making and approvals relating to compensation issues, expense reimbursements, and other back-office and overhead determinations. SC will seek to adopt policies and procedures designed to address potential conflicts of interest in regards to such relationship, although there can be no guarantee that such policies and procedures will cover all such potential conflict scenarios.

### **Conflicts of Interest Specific to the Litigation Funds**

*Allocation of Investment Opportunities Among the Litigation Funds and Other Funds.* In some cases, the Litigation Funds will have the opportunity to participate in investments on a co-investment basis with other Funds, as reasonably determined by the General Partner. If the General Partner determines that such a co-investment is appropriate, the General Partner will seek to acquire and allocate assets for all of the participating investment accounts on a fair and equitable basis; provided, however that, subject to the below, the Litigation Funds participates on substantially the same economic terms as such other Funds; provided, further, that, subject to the below, the investments by the Litigation Funds and such other Funds are divested at the same time unless such divestment by the Litigation Funds would be disproportionately disadvantageous to the Litigation Funds. However, this will not

always be the case. For example, there will be circumstances where: (i) the Litigation Funds and only some of such other Funds participate in investment transactions alongside each other (provided that, subject to the below, such other Funds will participate on substantially the same economic terms and will be divested at the same time); (ii) the level of participation by the Litigation Funds and the other Funds in investment transactions alongside each other is not on a pro rata basis (to the extent of such no-pro rata participation); (iii) the terms of investment transactions entered into by the Litigation Funds and one or more other Funds vary between and among them (provided that any investment transactions entered into by the Litigation Funds and one or more other Funds at substantially the same time will carry substantially the same terms); or (iv) investment transactions between and among the Litigation Fund and the other Funds vary in other respects (provided that any investment transactions entered into by the Litigation Funds and one or more other Funds at substantially the same time will carry substantially the same terms). Such investment transactions described in clauses (i)-(iv) between or among the Litigation Fund and other Funds will be made at the discretion of the Firm and other members of the Firm only when deemed: (x) appropriate because of the differences between the clients involved or (y) otherwise to be in the best interests of the clients involved.

*The Litigation Funds Will Not Pursue Investments Involving Other Siltstone Entities or Properties.* Affiliates of the Litigation Funds own interests in and operate certain oil, gas and other energy sector properties. The operation of these properties can give rise to litigation similar to the type the Litigation Funds is seeking to finance via its investments. The Litigation Funds will not under any circumstances make investments related to any litigation the subject of which is an entity or property that is affiliated with the Litigation Funds, the Firm, its members or any of their respective affiliates.

*Services to Adverse Parties.* The Firm or its affiliates are permitted to provide administrative or other services to third parties who have interests that conflict with those of a Litigation Funds investment. For instance, while it is anticipated that Litigo Financial initially will source litigation finance opportunities exclusively for the Litigation Funds, eventually it expects to source litigation finance investments for other third parties, and affiliates of the General Partner will continue to benefit from such sourcing. Litigo Financial and its affiliates will own software and otherwise provide services to perform diligence on and originate litigation financing investments. Litigo Financial is likely also provide services to other accounts managed by the General Partner, the Firm, or any of their respective affiliates without offering such services to the Litigation Funds.

*Other Activities.* Other than as set forth elsewhere in these “Conflicts of Interests,” members of the Firm are free to engage in investments or possess an interest in other business ventures or commercial dealings of every kind and description, including the acquisition of other investments that can, in certain instances, be competitive with Litigation Funds investments. Neither the Litigation Funds nor any investor will have any right to participate in any such investments or other activities.

*Affiliate Services; General Partner Fees.* The Litigation Funds partnership agreement authorizes the Litigation Funds to pay affiliates of the General Partner and Firm compensation for services rendered

to the Litigation Funds as long as the amounts paid for such services are at market rates and approved by a majority of investors.

*Affiliation with Litigo Financial.* The Litigation Funds anticipates sourcing investments through Litigo Financial, an affiliate of the General Partner and the Firm. While it is not anticipated that the Litigation Funds will pay separate fees to Litigo Financial, the General Partner is incentivized to source investments through Litigo Financial due to its related-party status in order to build up its track record, among other things. Furthermore, to the extent the Litigation Funds does source an investment through Litigo Financial, the Litigation Funds will likely be required to reimburse Litigo Financial for its out-of-pocket expenses, including those that have already been incurred. The General Partner has an incentive to direct investment opportunities from Litigo Financial to the Litigation Funds to ensure that these out-of-pocket expenses are paid by someone other than the General Partner's affiliates

**C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.**

For information regarding the types of securities and portfolio investments in which Funds invest, please see Item 4.B and Item 8.A, above.

## **Item 9 – Disciplinary Information**

**If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.**

Like other registered investment advisers, SC is required to disclose all material facts regarding any legal or disciplinary events that would materially impact an investor's evaluation of SC or the integrity of SC's management. SC and its management persons have not been subject to any material legal or disciplinary events applicable to this Item.

On occasion, in the ordinary course of its business, SC, the Funds or the Funds' portfolio investments (or their respective directors and executive officers) can be named as defendants in a legal action. Although there can be no assurance of the outcome of such legal actions, SC does not believe that any current legal proceedings or claims to which SC, the Funds or the Funds' portfolio investments (or their respective directors and executive officers) are a party, if any, relate to the advisory services provided to the Funds or would individually or in the aggregate materially affect an investor's or prospective investor's evaluation of the Firm; the Firm or the Funds' results of operations, financial position or cash flows; or the integrity of the Firm's management.

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

**A. If you or any of your management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.**

Neither SC nor any of its management persons are registered or have an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

**B. If you or any of your management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities, disclose this fact.**

Neither SC nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of the foregoing.

**C. Describe any relationship or arrangement that is material to your advisory business or to your clients that you or any of your management persons have with any related person listed below. Identify the related person and if the relationship or arrangement creates a material conflict of interest with clients, describe the nature of the conflict and how you address it.**

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker
2. Investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)
3. Other investment adviser or financial planner
4. Futures commission merchant, commodity pool operator, or commodity trading advisor
5. Banking or thrift institution
6. Accountant or accounting firm
7. Lawyer or law firm
8. Insurance company or agency
9. Pension consultant
10. Real estate broker or dealer
11. Sponsor or syndicator of limited partnerships.

SC does not have arrangements with a related person who is a broker-dealer, municipal securities dealer, government securities dealer or broker, investment company, other investment adviser or financial planner, futures commission merchant, commodity pool operator, commodity trading



advisor, banking or thrift institution, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, real estate broker or dealer or sponsor or syndicator of limited partnerships that are material to its advisory business or to its Funds or its investors. SC has and will continue to develop relationships with professionals who provide services it does not provide, including legal, accounting, banking, investment banking, tax preparation, insurance brokerage and other services. Some of these professionals provide services to the principals, the Funds or their portfolio investments. Additionally, some of these professionals are investors in SC Funds, either personally or through their company.

As described above in Item 4, SC is affiliated with the Funds' General Partners which are deemed registered with the SEC under the Advisers Act pursuant to SC's registration. These General Partners operate as a single advisory business together with SC and serve as the General Partner, affiliate or managing members of private investment funds and other pooled vehicles and share common owners, officers, partners, employees, consultants or persons occupying similar positions. These General Partners do not have employees of their own.

Additionally, affiliates of the Firm, including affiliates of the Litigation Funds General Partner, have founded Litigo Financial, a litigation finance company that provides cost-based service contracts and assigns funding agreements to the Litigation Funds. Litigo Financial owns software which helps to analyze potential outcomes of litigation, including size and likelihood of settlement, cost, etc. It is possible that the Litigo<sup>TM</sup> software will be used for the benefit of, licensed or sold to third-parties, some of which will potentially compete with the Litigation Funds.

From time to time, SC receives training, information, promotional materials, meals, entertainment, gifts and other perquisites from vendors, and others with whom it does business or to whom it makes referrals. However, at no time will SC accept any benefits, gifts, entertainment or other arrangements that are conditioned on directing individual Fund transactions to a specific investment, product or provider. Similarly, SC employees may speak at and attend conferences and programs for potential investors interested in investing in pooled investment vehicles and other industry events that are sponsored by various investment bankers, broker-dealers or others. Through such capital introduction events, prospective investors have the opportunity to meet with SC. Neither SC nor any Fund will compensate these investment bankers, broker-dealers or others for investments ultimately made by prospective investors attending such events other than registration, sponsorship, membership or other similar fees paid to attend such events.

**D. If you recommend or select other investment advisers for your clients and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.**

SC does not recommend or select other investment advisers for the Funds.

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

**A. If you are an SEC-registered adviser, briefly describe your Code of Ethics adopted pursuant to SEC Rule 204A-1 or similar state rules. Explain that you will provide a copy of your Code of Ethics to any client or prospective client upon request.**

Pursuant to Rule 204A-1 of the Advisers Act, SC has adopted a written code of ethics (“Code of Ethics” or the “Code”) that sets forth standards of conduct expected of supervised persons and addresses personal trading and reporting of personal securities transactions, gifts and entertainment and outside business activities, among other topics. The Code of Ethics requires all supervised persons to place Fund interests ahead of the Firm’s interests, to avoid taking advantage of his or her position and to maintain full compliance with the federal securities laws.

Supervised persons are required to certify to their compliance with the Code of Ethics upon hire and on an annual basis. Supervised persons who violate the Code will be subject to remedial actions, including, but not limited to, censure, suspension or dismissal as well as reporting of violations to appropriate authorities. Supervised persons are also required to promptly report any violations of the Code of which they become aware.

SC will provide a copy of its Code of Ethics to any existing or prospective investor upon request to SC’s Chief Compliance Officer, Mani Walia, (713) 375-9200 or [mani.walia@siltstone.com](mailto:mani.walia@siltstone.com).

**B. If you or a related person recommends to clients, or buys or sells for client accounts, securities in which you or a related person has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

### **Participation or Interest in Client Transactions**

Certain SC employees and family members of SC employees have invested in the Funds through the General Partner and/or as Fund investors. As mentioned in Item 5 above, SC generally reduces all or a portion of the Management Fee and Carried Interest related to investments held by such persons.

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account, knowingly buys from or sells a security to an advisory client. This also applies to any affiliates or controlling persons of the adviser (*i.e.*, an owner, employee or affiliate of the adviser). Cross trades between Funds can also be deemed to be principal transactions if the adviser (and/or its affiliates, owners or controlling persons) own, in the aggregate, 25% or more of either Fund. In the context of SC’s business, a principal transaction would most likely refer to the practice of warehousing an investment for the formation of a future Fund. Agency cross transactions occur when an adviser

or an affiliate arranges a transaction (*i.e.*, acts as broker) between two or more different funds or accounts that are managed by that same adviser or an affiliate. Agency cross transactions can also arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. An adviser is not “acting as a broker” if the adviser receives no compensation (other than the advisory fee earned in the ordinary course of managing the assets) for effecting the transaction and therefore is not considered to be conducting an agency cross transaction under Section 206(3) of the Advisers Act. In the context of SC’s business, an agency cross transaction could occur when selling a portfolio investment, investment or other asset from one Fund to another.

In the event SC were to recommend a principal transaction or agency cross transaction, it would only be after: (i) the Firm has determined the transaction to be in the best interest of participating clients; (ii) the transaction is permitted by the relevant Governing Documents; (iii) proper disclosure is given to the investors or advisory board, as appropriate; (iv) if necessary, consent is obtained from the appropriate parties; and (v) the Firm ensures that best execution is achieved for the transaction.

### **Conflicts of Interest**

If any matter arises that SC determines in its good faith constitutes an actual conflict of interest, SC will take such actions as are necessary or appropriate, and as permitted by any applicable Fund’s Governing Documents, to address the conflict.

**C. If you or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that you or a related person recommends to clients, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.**

### **Personal Trading**

The personal trading policy for SC supervised persons is set forth in SC’s Code of Ethics and is acknowledged as received and understood by each supervised person. SC’s personal trading policies are designed to ensure that no Fund is disadvantaged by the transactions executed by a supervised person and that supervised persons in no respect misappropriate any benefit properly belonging to a Fund.

SC’s supervised persons are prohibited from trading, either personally or on behalf of others, in securities while in possession of material nonpublic information regarding publicly traded securities or communicating material nonpublic information about such securities to others. The Code of Ethics establishes guidelines for personal trading requirements, insider trading and reporting of personal securities transactions, including certain pre-clearance and reporting obligations. SC maintains a restricted list of issuers about which it has or may have material nonpublic information. Pre-clearance is required by supervised persons for certain personal securities transactions, including trading in restricted list securities, initial public offerings and certain limited offerings. In addition, supervised

persons are required to file certain reports and submit their brokerage account statements to the Chief Compliance Officer for review.

The supervised persons of SC will occasionally carry on investment activities for their own account and for family members or others who do not invest in the Funds, and in connection therewith, can potentially give advice and recommend securities which differs from advice given to, or securities recommended or bought for, the Funds, even if their investment objectives are the same or similar. In addition, supervised persons and affiliates are permitted to buy securities in transactions offered to, but rejected by, the Funds or that are outside the investment mandate of the Funds.

**D. If you or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that you or a related person buys or sells the same securities for your own (or the related person's own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

Because of the private nature of the Funds' investments, SC does not typically face a situation where a supervised person buys or sells a security for his or her own account at or about the same time that the Firm is also buying or selling the same securities for the Funds. In the event this were to occur, the supervised person would be required to seek pre-approval from the Chief Compliance Officer for such transaction.

## **Item 12 – Brokerage Practices**

**A. Describe the factors that you consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).**

Generally, SC focuses on securities transactions of privately negotiated transactions, including the purchase and sale of private companies, energy-related assets (including mineral leases, royalty interests or other similar interests) and interests in litigation proceedings. None of these transactions involve the services of a broker-dealer.

- 1. *Research and Other Soft Dollar Benefits.* If you receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions ("soft dollar benefits"), disclose your practices and discuss the conflicts of interest they create.**

SC does not receive research or other soft dollar benefits in connection with securities transactions for the Funds.

- 2. *Brokerage for Client Referrals.*** If you consider, in selecting or recommending broker-dealers, whether you or a related person receives client referrals from a broker-dealer or third party, disclose this practice and discuss the conflicts of interest it creates.

SC does not receive client referrals in connection with selecting or recommending broker-dealers for the Funds.

**3. Directed Brokerage.**

SC does not engage in directed brokerage.

- B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various client accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to clients of not aggregating.**

In the event SC were to aggregate the purchase or sale of securities for Fund accounts, it would do so on a pro rata basis.

**Item 13 – Review of Accounts**

- A. Indicate whether you periodically review client accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the supervised persons who conduct the review.**

The investment portfolios of each Fund are generally private, illiquid and long-term in nature and accordingly SC's review of them is not directed toward a short-term decision to dispose of securities. Decisions as to when to purchase or sell a portfolio investment are made by the relevant investment committee. SC closely monitors the portfolio investments of its Funds and a team of investment professionals reviews, without limitation, sales trends (including, but not limited to total amount and rate of royalty collection, amount and quality of oil production per day, etc.), margins, profitability, debt-to-equity ratios, material business developments (including, but not limited to short-term and long-term drilling prospects, environmental and/or legal changes, etc.), and competitive landscape and management. The team includes principals and other investment professionals of SC. Moreover, partners of SC monitor portfolio investment performance through regular management meetings, as well as detailed reviews of specific portfolio investments that occur as needed.

- B. If you review client accounts on other than a periodic basis, describe the factors that trigger a review.**

The relevant investment committee of each Fund or SC's Chief Compliance Officer would perform additional reviews in the event that there were a serious performance issue.

**C. Describe the content and indicate the frequency of regular reports you provide to clients regarding their accounts. State whether these reports are written.**

SC provides to investors on behalf of its Funds the following written reports, which are delivered in electronic format, including through an investor portal, in each case as agreed to with the relevant investor and as agreed to in the relevant Governing Documents: (i) annual audited financial statements prepared in accordance with United States generally accepted accounting principles (“GAAP”) as promulgated by the Financial Accounting Standards Board (“FASB”), accompanied by the report of the independent certified public accountant, within 120 days of fiscal year end; (ii) unaudited financial statements for the first three quarters of each fiscal year; (iii) annual tax information necessary for the completion of tax returns (K-1); and (iv) annually a statement of the determination of the value of each investment as of the end of the preceding calendar year. The Firm also has contact with investors (*e.g.*, personal visits, telephone, email) throughout the year as conditions warrant.

In the course of conducting due diligence, investors periodically request information pertaining to SC’s investments. SC responds to these requests, and in answering such requests, provides information that is not always made available to other investors who have not requested such information. Additionally, as it pertains to existing investors, upon becoming an investor in a Fund, upon specific request or pursuant to contractual obligations, certain investors receive additional information and reporting that other investors do not receive. The fact that SC provides such information upon request to one or more investors does not obligate SC to affirmatively provide such information to all investors. As a result, certain investors will have more information about a Fund than other investors, and SC has no duty to, and does not intend to, ensure all investors seek, obtain or possess the same information regarding a Fund and its investments.

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

**A. If someone who is not a client provides an economic benefit to you for providing investment advice or other advisory services to your clients, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.**

As described in Item 5 above, while SC is entitled to receive certain supplemental fees and compensation with respect to portfolio investments, to date it has not done so. If SC were to receive such fees, an allocable portion of such benefits received by SC or its employees (but not Siltstone Administration or its employees) in connection with services rendered would be offset against Management Fees payable by the relevant Fund, to the extent described above in Item 5 and as detailed in each Fund’s Governing Documents.

**B. If you or a related person directly or indirectly compensates any person who is not your supervised person for client referrals, describe the arrangement and the compensation.**

When raising capital for a new Fund, SC typically engages the services of a registered broker-dealer to serve as placement agent for Fund units. Fees for the placement agent include both a fixed, non-refundable advisory fee and a scaled placement fee based on a percentage of capital commitments from investors in excess of a stated threshold in each case, only with respect to capital raised from specified investors for which placement agent fees paid pursuant to applicable law. Placement agent fees are payable by the Funds and any such fees paid offset the Management Fee on a dollar-for-dollar basis, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Fund as part of its organizational expenses. All placement agents engaged by SC are registered broker-dealers.

**Item 15 – Custody**

**If you have custody of client funds or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.**

SC is deemed to have custody of the Funds' assets because of its affiliation with each Fund's General Partner and the General Partners' ability to deduct fees from Fund accounts. To comply with Advisers Act Rule 206(4)-2 (the "Custody Rule"), SC has elected to undergo an annual GAAP financial statement audit by an independent public accountant registered with and subject to inspection by the Public Company Accounting Oversight Board ("PCAOB") for each of the Funds over which it is deemed to have custody, copies of which are (or will be, for newly closed Funds) delivered to the Funds and their respective investors within 120 days of fiscal year end. Investors are encouraged to carefully review such financial statements.

SC does not, however, accept physical custody of any Fund assets (other than certain privately offered securities to the extent permitted by the Advisers Act). Called capital is directly sent or wired to the relevant Fund's account maintained with a qualified custodian. SC receives monthly statements from each of its qualified custodians on behalf of the Funds.

**Item 16 – Investment Discretion**

**If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this**

**authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).**

SC generally receives and exercises complete discretionary authority to manage investments on behalf of the Funds as per the Governing Documents of each Fund. Investment advice is provided directly to the Funds, subject to the discretion and control of the relevant General Partner, and not to investors in the Funds individually. To become an investor in a Fund, an investor must execute, among other documents, a subscription agreement and a limited partnership agreement (or similar agreement) with such Fund. Such documents generally contain a power of attorney that grants SC or the applicable Fund's General Partner certain powers related to the orderly administration of the affairs of the Funds. Once an investor executes these documents, with limited exceptions, such as certain conflicts of interest as discussed elsewhere in this Brochure, SC is not required to contact such investor prior to transacting business in a Fund.

Generally, SC's only restrictions with respect to managing a Fund, such as (but not limited to) the type of securities in which a Fund is permitted to invest, will be contained in the relevant Fund's Governing Documents. However, an investor can seek to impose limitations on SC's authority through a side letter agreement, and the Firm and/or the relevant General Partner can choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions placed upon SC's investment authority with respect to an investor's investment must be presented to SC and the relevant Fund's General Partner in writing and agreed to by all applicable parties. Other investors meeting certain commitment thresholds are often provided with notification provisions regarding such side letter agreements but are not provided with consent rights over such agreements.

No investors to date have limited the Firm's or a Fund's discretion to provide investment advice.

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

**A. If you have, or will accept, authority to vote client securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC Rule 206(4)-6. Describe whether (and, if so, how) your clients can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your clients with respect to voting their securities. Describe how clients may obtain information from you about how you voted their securities. Explain to clients that they may obtain a copy of your proxy voting policies and procedures upon request.**

Rule 206(4)-6 of the Advisers Act requires an investment adviser who exercises voting authority with respect to client securities to adopt and implement written policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interest of its clients. Rule 206(4)-6 further requires an adviser to provide a concise summary of its proxy voting process and offer to provide copies of the complete proxy voting policy and procedures to clients upon request. Lastly,



Rule 206(4)-6 requires that each adviser disclose to clients how they can obtain information on how the adviser voted their proxies.

In general, the Main Funds hold investments in energy-related assets (including mineral, royalty and overriding royalty interests along with oil and gas leases and participating in working interests primarily on a non-operated basis) while the Litigation Funds holds interests in the outcome of certain plaintiff lawsuits. Such investments in, respectively, energy-related assets and interests in litigation finance cases, do not issue proxies or written shareholder consents. Accordingly, the Firm does not have an opportunity to vote proxies on behalf of its Funds and does not currently exercise voting authority on behalf of its Funds. In the event this were to change, the Firm will implement policies and procedures to vote such proxies in accordance with its fiduciary duty and in the best interests of the Funds.

SC will provide a copy of its proxy voting policy to investors upon request to Mani Walia, Chief Compliance Officer, at (713) 375-9200 or [mani.walia@siltstone.com](mailto:mani.walia@siltstone.com).

**B. If you do not have authority to vote client securities, disclose this fact. Explain whether clients will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) clients can contact you with questions about a particular solicitation.**

This Item is not applicable to SC.

## **Item 18 – Financial Information**

**A. If you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, include a balance sheet for your most recent fiscal year.**

SC does not require or solicit prepayment of more than \$1,200 in fees per Fund six months or more in advance.

**B. If you have discretionary authority or custody of client funds or securities, or you require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to clients.**

SC has no financial condition that impairs its ability to meet contractual commitments to the Funds and their investors.

**C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.**

SC has not been the subject of a bankruptcy petition.