

# Hongkou Management LP

## Part 2A of Form ADV

### Firm Brochure

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This Brochure provides information about the qualifications and business practices of Hongkou Management LP (“Hongkou” or “Investment Manager”). If you have any questions about the contents of this Brochure, please contact us at 646-225-5993.

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

Hongkou is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

## **Item 2: Material Changes**

This brochure serves as an update to the brochure filed by the Firm on June 16, 2021. There were no additional material changes to the business activities of Hongkou since its most recent filing of Form ADV in June 2021.

We encourage all recipients of this brochure and private offering materials to read these documents carefully in their entirety and to contact us should you have any questions.

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## Item 4: Advisory Business

Hongkou Management LP a limited partnership (the “Investment Manager”) organized under the laws of the state of Delaware, United States, is registered with the Securities and Exchange Commission (the “SEC”) as an investment adviser under the Investment Advisers Act of 1940 (“Advisers Act”). Xiaotong (Peter) Zhou (the “Principal”) controls Hongkou Management GP LLC, its General Partner.

Hongkou Management LP, a Delaware limited partnership (the “Investment Manager”), serves as the investment manager to Hongkou Capital LP, (the “Partnership”), Hongkou Capital Offshore Ltd. (the “Offshore Fund”), Hongkou Capital Master LP, (the “Master Fund”) (collectively, the “Hongkou Funds” or “Funds”) and special purpose vehicles (collectively, the “Hongkou SPVs” or “SPVs”). Hongkou Management GP LLC, a Delaware limited liability company (the “General Partner”), serves as the general partner of the Investment Manager. The Principal and/or entities owned or controlled by him or for the benefit of him and his family will control Hongkou Management GP LLC.

The Investment Manager has also established Hongkou Opportunity Fund I LP, Hongkou Opportunity Fund II LP, Hongkou Opportunity Fund III, LP, Hongkou Opportunity Fund IV, LP and Hongkou Opportunity Fund V, LP as special purpose vehicles based upon their respective investment objectives. Hongkou Opportunity GP LLC, a Delaware limited liability company serves as the General Partner.

A “master-feeder” structure has been established to achieve certain trading and administrative efficiencies. Each of the Partnership and Hongkou Capital Offshore Ltd., a Cayman Islands exempted company (the “Offshore Fund”), which pursues an investment program the same as that of the Partnership, invests all of its investable assets in, and is a feeder fund and limited partner of, Hongkou Capital Master LP, a Cayman Islands exempted limited partnership (the “Master Fund”). The Principal and key members of the Investment Manager’s investment team (collectively, the “Investment Team”) are responsible for implementing the investment objective and strategies of the Partnership and the Master Fund.

Pursuant to the terms of an investment management agreement among the Investment Manager and the Funds (the “Investment Management Agreement”), the Investment Manager is responsible for certain investment management and administrative responsibilities with respect to the Funds and SPVs and will bear certain expenses associated with running its business and the business of the Funds and SPVs. The Investment Manager will be responsible for and will pay, or cause to be paid, all of its ordinary overhead expenses, including rent, furniture, fixtures, equipment, office supplies, clerical expenses and all salaries, bonuses and benefits paid to, or on behalf of, personnel of the Investment Manager.

The interests are not and will not be registered with the Securities and Exchange Commission (the “SEC”) in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”). As a result, the transferability of the interests will be restricted.

The Partnership and the Master Fund are not registered, and do not intend to register, as investment companies pursuant to the Investment Company Act of 1940, as amended (the “Investment Company Act”), in reliance upon the exclusion afforded by Section 3(c)(7) thereof. In general, Section 3(c)(7) permits private investment companies to sell their interests, on a private placement basis, to an unlimited number of “qualified purchasers.”

Hongkou does not participate in wrap fee programs.

As of December 2021, Hongkou managed client regulatory assets of approximately \$162 million, all of which is managed on a discretionary basis.

## Item 5: Fees and Compensation

### Management Fee

Pursuant to the Investment Management Agreement, the Investment Manager is paid a management fee, payable in advance of each quarterly period, as compensation for the services to be performed by the Investment Manager (the “Management Fee”).

The Management Fee for the Hongkou Funds and Hongkou SPVs is equal to the MF Percentage (defined below) of the Capital Account balances of each Limited Partner with respect to the applicable Class of Interests, determined as of the beginning of each quarterly period.

“MF Percentage” means the applicable percentage listed below:

<b>Hongkou Funds - Class of Interests</b>	<b>MF Percentage</b>
Standard Tranche A	0.375% per quarter 1.5% on an annualized basis
Standard Tranche B	0.4375% per quarter 1.75% on an annualized basis

<b>Hongkou SPVs</b>	<b>MF Percentage</b>
Hongkou Opportunity Fund I LP	No Fees Charged
Hongkou Opportunity Fund II LP	0.375% per quarter 1.5% on an annualized basis
Hongkou Opportunity Fund III LP	0.375% per quarter 1.5% on an annualized basis
Hongkou Opportunity Fund IV LP	No Fees Charged
Hongkou Opportunity Fund V LP	0.375% per quarter 1.5% on an annualized basis

Unless otherwise determined by the General Partner, the Management Fee for the Hongkou Funds is calculated at the Partnership level on a Capital Account-by-Capital Account basis, paid at the Master Fund level and charged to the corresponding MF Sub-Capital Account at the Master Fund level. The Management Fee for the Hongkou SPVs is calculated based on each Limited Partner’s pro rata share of the then-current net asset value of the respective SPV, determined at the beginning of each quarterly period.

### Adjustments to the Management Fee

If a new Limited Partner is admitted at any time other than the first day of a quarterly period, or an existing Limited Partner makes an additional capital contribution at any time other than the first day of a quarterly period, the portion of the Management Fee payable with respect to such new Limited Partner, or with respect to such existing Limited Partner with respect to its additional capital contribution, for the partial quarterly period will be prorated based on the number of days then-remaining in such quarterly period. For

the avoidance of doubt, there will be no adjustment to the Management Fee paid with respect to any other Limited Partner to reflect such additional contribution until the start of the following quarterly period.

With respect to any Limited Partner (including any affiliates of the Investment Manager), the Investment Manager has the right to reduce, waive, assign, grant participation in or otherwise share the Management Fee, without the consent of, or notice to, any other Limited Partner. No Management Fee is paid with respect to Interests held (directly or indirectly) by or for the benefit of the Principal, employees of the Investment Manager or its affiliates, immediate family members of such parties or special purpose vehicles.

#### Incentive Allocation

For the Hongkou Funds, subject to the High Watermark (defined below), the General Partner is entitled to an annual incentive allocation equal to the Incentive Allocation Percentage (defined below) of realized and unrealized income and gains and other net income (the “Incentive Allocation”) during each fiscal year.

The “High Watermark” equals the value of the applicable Capital Account immediately after the last Incentive Allocation is allocated with respect to such Capital Account; *provided*, that with respect to any Capital Account with respect to which no Incentive Allocation has been previously allocated, the High Watermark will be equal to the original amount of the capital contribution to such Capital Account. The High Watermark will be reduced proportionately by any withdrawals or distributions from such Capital Account.

For the Hongkou SPVs, distributions of Distributable Proceeds (defined below) shall be made at the times, in the amounts and in the form determined by the General Partner, in its sole and absolute discretion. The General Partner shall tentatively apportion Distributable Proceeds *pro rata* among all Partners (including the General Partner, to the extent of its investment in the SPV) based on the Partners’ relative ownership percentages. Such amounts tentatively apportioned to the General Partner shall be distributed to it. The amounts tentatively apportioned to the Limited Partners shall be distributed on a Limited-Partner by Limited-Partner basis as follows: First, one hundred percent (100%) of such Distributable Proceeds shall be distributed to such Limited Partner to the extent necessary so that such Limited Partner receives cumulative aggregate distributions equal to the amount of the capital contributions made by such Limited Partner; and, second, thereafter, eighty-two and one-half percent (82.5%) of such remaining tentatively-apportioned amounts shall be distributed to such Limited Partner, and seventeen and one-half percent (17.5%) (the “Incentive Allocation Percentage”) of such remaining tentatively-apportioned amounts shall be distributed to the General Partner.

The “Distributable Proceeds” means all cash received by the SPV that is attributable to any SPV’s investment (including payments in cash of interest, dividends, and principal, and proceeds from the sale of any SPV investment) and all other income of the SPV, in each that has not previously been distributed to the limited partners, net of all expenses and liabilities, reserves, and any cash being retained on hand, all as determined by the General Partner in its sole discretion. In addition, Distributable Proceeds shall also include any SPV investments that the General Partner, in its sole and absolute discretion, has determined to distribute in kind.

“Incentive Allocation Percentage” means the applicable percentage listed below:

<b>Hongkou Funds - Class of Interests</b>	<b>Incentive Allocation Percentage</b>
Standard Tranche A	Seventeen and One-Half Percent (17.5%)
Standard Tranche B	Twenty Percent (20%)

<b>Hongkou SPVs</b>	<b>Incentive Allocation Percentage</b>
Hongkou Opportunity Fund I LP	No Incentive Fee
Hongkou Opportunity Fund II LP	Seventeen and One-Half Percent (17.5%)
Hongkou Opportunity Fund III LP	Seventeen and One-Half Percent (17.5%)
Hongkou Opportunity Fund IV LP	No Incentive Fee
Hongkou Opportunity Fund V LP	Seventeen and One-Half Percent (17.5%)

The Incentive Allocation for the Hongkou Funds is determined with respect to any fiscal year as of the close of business on the last day of such fiscal year (each, an “Incentive Allocation Determination Date”). Upon a full or partial withdrawal by a Limited Partner, there will be a special determination and allocation of the Incentive Allocation with respect to the withdrawn amount, and the date of such withdrawal will be an Incentive Allocation Determination Date.

The Incentive Allocation for the Hongkou Funds is allocated at the Master Fund level, but is calculated with respect to each Capital Account in the Partnership such that any Partnership-level income and expenses are taken into account for purposes of calculating the Incentive Allocation. Notwithstanding the foregoing, the Partnership, in the sole and absolute discretion of the General Partner, may ultimately apply the Incentive Allocation directly to the Limited Partners’ Capital Accounts rather than indirectly through the Master Fund. Upon final allocation of the Incentive Allocation, the General Partner may withdraw such amount at any time, without notice to or consent from any Limited Partner.

With respect to any Limited Partner in the Hongkou Funds or the Hongkou SPVs (including any affiliates of the General Partner), the General Partner will have the right to reduce, waive, assign, grant participation in or otherwise share the Incentive Allocation. No Incentive Allocation is allocated with respect to Interests held (directly or indirectly) by or for the benefit of the Principal, employees of the Investment Manager or its affiliates, or immediate family members of such parties.

#### Other Expenses Charged to the Funds and SPVs

In addition to Management Fees and Incentive Allocations, the Partnership and SPVs bear all of its organizational and offering expenses and for the Hongkou Funds its *pro rata* share of the organizational and offering expenses of the Master Fund and reimburses the General Partner, the Investment Manager and/or the Principal, as applicable, to the extent that any of them bears organizational and/or offering expenses on behalf of the Partnership or SPV, in each case, including such costs incurred at or prior to the formation of the Partnership or SPV and prior to the closing of the Partnership or SPV. Such organizational and offering expenses include, without limitation, all costs and expenses incurred in

connection with the Partnership's formation and the marketing, offering and sale of the Interests, including, but not limited to, legal and accounting fees and expenses, registration fees, filing fees and all costs and expenses incurred in connection with the preparation of offering and organizational documents, marketing and similar materials, and drafting and negotiating contracts with service providers at or prior to the formation of the Partnership or SPV and prior to the initial closing of the Partnership or SPV. If any of the above expenses are incurred jointly for the account of the Fund (and/or the Intermediate Fund and/or the Master Fund) and any Other Account, such expenses will generally be allocated among the Fund (and/or the Intermediate Fund and/or the Master Fund) and such Other Accounts in proportion to the size of the investment made by each in the activity or entity to which the expense relates, by the net asset value of the Fund (or the Master Fund) and any Other Accounts, or in such other manner as the Investment Manager considers fair and equitable under the circumstances, taking into consideration the nature of such expenses.

The Partnership and SPVs bear all its operating expenses. In addition, the Partnership bears its *pro rata* share of the operating expenses of the Master Fund (collectively, the "Partnership Expenses"), which expenses include, without limitation:

(a) organizational and offering expenses; (b) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Partnership or Master Fund, as well as overall consideration and evaluation of the Master Fund's portfolio, including, without limitation, those expenses incurred before the initial closing of the Hongkou Funds, including, without limitation, expenses associated with sourcing, negotiating, investigating, researching, financing and structuring of investments and potential investments, whether or not consummated, including, without limitation, data and research on boarding, ingestion, aggregation, and analysis, third-party research, data, analytics, modeling, risk, structuring, pricing, execution and other third-party information systems, including, without limitation, installation and maintenance, software and service fees (including, without limitation, the expenses with respect to data, data feeds, subscriptions, expert networks, political intelligence providers and reports); (c) the costs of research-related computer hardware and software expenses, including, without limitation, Bloomberg terminals and subscriptions and other market information systems, as well as the costs of research management systems and corporate access tracking systems; (d) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing of all investments of the Partnership and Master Fund and all transaction and other costs associated therewith, including, without limitation, expenses associated with proxy research and voting services; (e) travel and related expenses associated with investments and potential investments; (f) professional fees associated with investments and potential investments, including, without limitation, consulting, due diligence, accounting, valuation, financial, legal and other advisory fees and expenses; (g) transaction fees, brokerage commissions, custodial fees, clearing and settlement charges and similar fees and expenses associated with the acquisition, disposition and settling of investments and potential investments, including, without limitation, in connection with outsourced trading; (h) expenses associated with legal and regulatory filings of the Partnership and/or Master Fund in the United States, the Cayman Islands or in any other jurisdiction (including, without limitation, pursuant to Sections 13 and 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as the expenses associated with preparation and filing of the Investment Manager's Form 13F, Form 13H and Form PF, if applicable, and any other similar filing in any other U.S. or non-U.S. jurisdiction; (i) administrative, custodial, appraisal, valuation, legal, regulatory, compliance, consulting, advisory and similar fees and expenses associated with the Partnership's or Master Fund's operations, investments and transactions, including, without limitation, fees and expenses of the Administrator (defined below); (j) expenses incurred in connection with responding to requests or inquiries from any U.S. federal, state, local or non-U.S. governmental entity or authority, regulatory body or self-regulatory organization with respect to the Partnership or Master Fund; (k) broken-deal, failed transaction, break-up and similar fees, costs and expenses (if any); (l) costs and expenses of leverage or any other borrowings of the Partnership or Master Fund, including, without limitation, interest charges and fees; (m) expenses incurred in the collection of monies owed to the Partnership or the Master Fund, as applicable; (n) auditing and accounting expenses of the Partnership and Master Fund, including, without limitation, expenses associated with the preparation of financial statements, tax returns and Schedules K-1 and the



fees and expenses of the auditor; (o) any entity-level taxes, fees or other governmental charges on the Partnership or the Master Fund, including, without limitation, any withholding taxes not due to the status or noncompliance of a particular Limited Partner; (p) costs and expenses associated with investor communications and reports and the delivery thereof to investors; (q) the costs of service providers or software to measure or monitor risk metrics, to aggregate positions and/or to provide reporting with respect to risk metrics and/or positions; (r) a portion of the compensation of certain consultants of the Investment Manager or its affiliates engaged to provide research, diligence, and similar services with respect to the Master Fund, based on the portion of such consultant's time spent with respect to transactions contemplated by or consummated by the Master Fund; (s) costs and expenses associated with meetings of the Limited Partners, including, without limitation, the reasonable costs of the Investment Manager's travel to such parties; (t) a portion of the insurance expenses, including, without limitation, general partner liability insurance and other policies, if any, as well as the Partnership's and the Master Fund's share of expenses with respect to directors' and officers' liability insurance and errors and omissions insurance; (u) costs and expenses (including, without limitation, entity-level taxes, fees or other governmental charges) associated with the formation, organization and operation of any subsidiary, special purpose vehicle, alternative investment vehicle, holding company or similar entity formed with respect to investments, credit facilities or other transactions entered into for the benefit of the Partnership or the Master Fund; (v) wind-up, liquidation, termination and dissolution expenses; (w) costs, fees and expenses related to registration, qualification and/or exemption under any applicable U.S. federal, state, local or non-U.S. laws, rules or regulations, including, without limitation, blue sky fees, Form D, Form 8.3, CFTC filings and notices and other securities and/or investment-related filing expenses; (x) costs related to any transfers of Interests, unless otherwise charged to or borne by the applicable transferor and/or transferee; (y) expenses incurred in connection with the preparation of any amendment to the Amended and Restated Limited Partnership Agreement of the Partnership (the "Partnership Agreement") and the Private Placement Memorandum, as well as the preparation or amendment of any side letter; (z) expenses incurred in connection with pursuing, defending or participating in any litigation, arbitration, mediation or similar proceeding by the Partnership or the Master Fund; (aa) any extraordinary expenses (including, without limitation, all litigation-related and indemnification and contribution expenses, including, without limitation, the amount of any judgment or settlement paid in connection therewith); (bb) the Management Fee; and (cc) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Partnership or Master Fund, including, without limitation, any other cost that may otherwise be paid by the Partnership or the Master Fund with soft dollars pursuant to Section 28(e) of the Exchange Act.

In general, each Limited Partner will bear its proportionate share of the Partnership Expenses on a *pro rata* basis with respect to the size of its Capital Account(s). The General Partner may, however, allocate expenses on another basis, including by allocating certain expenses to certain (but not all) Limited Partners or Capital Accounts, if the General Partner determines that such an allocation is more equitable.

In addition, any Partnership Expenses attributable solely to investments in "new issues", special purpose vehicles or solely to Designated Investments (defined below) will be allocated solely to those Partners who participate in the relevant investments with respect to their relative interest in such investments. Further, the General Partner will have the right to charge any Partner, and not treat as a Partnership Expense, any expense attributable to a single Partner or a small group of Partners, including, without limitation, additional accounting expenses incurred in providing a calculation of "unrelated business taxable income" ("UBTI"), if any, to particular Partners.

From time to time, the General Partner, the Investment Manager and/or their affiliates may elect to bear certain expenses on behalf of the Partnership that would otherwise be Partnership Expenses. The General Partner, the Investment Manager and/or their affiliates will not have any obligation to bear such expenses and may elect at any time (in whole or in part) to no longer bear such expenses on behalf of the Partnership.

To the extent that Partnership Expenses are attributable to multiple Hongkou Funds or Hongkou SPVs (defined below), such amounts are allocated in accordance with the Investment Manager's expense allocation policy, pursuant to which the Investment Manager generally will allocate such expenses *pro rata* based upon the respective net asset values of such applicable Hongkou Funds. Notwithstanding the foregoing, the Investment Manager may make non-*pro rata* allocations as permitted by its expense allocation policy.

The Investment Manager, the General Partner and/or the Principal may advance funds on behalf of the Partnership or the Master Fund, and the Investment Manager, the General Partner and the Principal, as the case may be, will be reimbursed by the Partnership or the Master Fund for such advanced amounts.

In certain circumstances, as discussed below, the Investment Manager will provide co-investment opportunities. The terms applicable to any such co-investment, including management fees, incentive allocations, incentive fees, expense obligations, withdrawal rights, reporting and disclosure requirements and other terms, will be negotiated at the time of such co-investment between the Investment Manager and the co-investors.

## **Item 6: Performance Based Fees and Side-by-Side Management**

As described above in Item 5, Hongkou or its affiliates will receive performance-based compensation in the form of Incentive Allocation. The fact that a significant portion of Investment Manager's compensation is directly computed on the basis of profits generated by the sale or disposition of the Hongkou Funds assets may create an incentive for the Investment Manager to make investments on behalf of the Fund that is riskier or more speculative than would be the case in the absence of such compensation.

## **Item 7: Types of Clients**

Hongkou provides discretionary investment management and advisory services to Hongkou Funds directly, subject to the direction and control of the General Partner of each Fund, and not individually to the shareholders.

The Partnership offers one class of limited partnership interest: Standard Interests.

The Standard Interests also are divided into two (2) tranches: Tranche A and Tranche B (respectively, the "Standard Tranche A Interests" and the "Standard Tranche B Interests," and collectively, the "Standard Interests" or "Interests").

The minimum initial subscription for Interests is as follows:

<b>Class of Interests</b>	<b>Minimum Initial Subscription</b>
Standard Tranche A	Twenty-Five Million Dollars (\$25,000,000)
Standard Tranche B	Five Million Dollars (\$5,000,000)

The General Partner, in its sole and absolute discretion, may accept subscriptions in lesser amounts and/or may increase or decrease such minimum subscription amounts, with respect to all, or fewer than all, Limited Partners without notice to or consent from any Limited Partner.

The minimum subscription for additional Interests by an existing Limited Partner are One Million Dollars (\$1,000,000) with respect to the Standard Tranche A Interests and Five Hundred Thousand Dollars (\$500,000) with respect to the Standard Tranche B Interests. The General Partner, in its sole and absolute discretion, may accept lesser amounts and/or may increase or decrease such minimum additional

subscription amounts with respect to all, or fewer than all, Limited Partners, without notice to or consent from any Limited Partner.

The Partnership may admit new Limited Partners and accept additional subscriptions from existing Limited Partners on the first day of each calendar month or at such other times as the General Partner, in its sole and absolute discretion, may determine.

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

The investment objective of the Partnership, through its investment in the Master Fund, is to seek to maximize return and minimize the risk of permanent capital loss by investing long and short across sectors and geographies with a focus on the implementation and fallout of technology.

The Investment Manager employs a selective approach to private investing by the Master Fund to supplement the public portfolio and augment the Investment Manager's research. The symbiotic relationship between public and private investing is intended to help the Investment Manager identify emerging trends and gain an understanding of the views of disrupters and the potential impact to public markets.

The investment strategies described herein are those that the Investment Manager employs on behalf of the Master Fund. However, except as expressly set forth herein, there are no limitations on the investment strategies that the Master Fund may employ in order to opportunistically respond to, or to take advantage of, changing market conditions and new investment opportunities. Further, the Investment Manager may invest opportunistically in securities or transactions that vary from the core strategy of the Master Fund.

The Master Fund intends to make certain investments that, in the Investment Manager's sole and absolute discretion, it deems at the time of such investment to be illiquid or without a readily ascertainable market value, including investments in private securities (each such investment, an "Original Illiquid Investment"). In addition, the Master Fund General Partner may, from time to time, in its sole and absolute discretion, designate an existing investment that it deems to have become illiquid or without a readily ascertainable market value (each such investment, a "Transitioned to Illiquid Investment") and together with any Original Illiquid Investment, a "Designated Investment").

On the long side, the Master Fund typically owns 5-10 core ideas, which could be single names or small baskets of names, in concentrated sizes of 5% to 10% each (60%-80% of equity). In addition, the Master Fund typically allocates a minimum of 20% of the book to the long scout portfolio comprised of ideas sized at 1% to 2% each.

On the short side, the Master Fund generally holds a more diversified book of 10-20 core ideas in concentration sizes of 1.5% to 4% each (20-50% of equity). Each idea could be expressed as an individual name or small basket of names. In addition, the Master Fund will allocate a minimum of 5% of equity to the short scout portfolio comprised of ideas sized at 0.25% to 1% each.

The public portfolio targets a gross exposure range of 140% to 200% and approximately 180% in normal market conditions. Targeted net exposure will range between 25% to 75% and approximately 50% in normal market conditions.

The Investment Manager's risk management starts with the idea quality and expected returns of the core positions. The Investment Manager will monitor valuations relative to one, five, and ten-year IRRs and compare relative returns across public and private opportunities. At a portfolio level, the Investment Manager will monitor the risk exposures across sectors, factors, and geographies to manage crowding and rotation risk. While long-term winners on the long side often generate sustainable returns over multiple years, shorts require more nimble management and profit-taking during market turmoil. The Investment

Manager will use the expected return profile of the short portfolio as an input for both individual position sizing as well as portfolio exposure management.

## Risks

### *Risks Relating to Management and Operations*

Prospective shareholders should carefully consider the risks involved in an investment in the Master Fund, including, but not limited to, those discussed below. Various risks discussed below may apply to some or all of the Master Fund's investment strategies and types of financial instruments in which the Master Fund invests. Different or new risks not addressed below may arise in the future and, therefore, the following list is not intended to be exhaustive. Prospective shareholders should consult their own legal, tax and financial advisors about the risks of an investment in the Funds. Any such risk could have a material adverse effect on the Fund and the shareholders.

**Limited Operating History.** Each Fund has a limited operating history upon which prospective shareholders can evaluate their anticipated performance. The Principal has been using the same or similar strategies to the strategies described herein for many years. However, there can be no assurance that the Fund or the Investment Manager will be successful.

**Dependence on the Investment Manager.** The success of the Funds is dependent upon the ability of Mr. Zhou to manage the Funds and effectively implement the Funds' investment program. The Funds' governing documents do not permit the shareholders to participate in the management and affairs of the Funds. If the Investment Manager were to lose the services of Mr. Zhou or the Funds or any Other Accounts were to incur substantial losses, the Investment Manager may not be able to provide the same level of service to the Funds as it has in the past or continue operations. The loss of the services of Mr. Zhou or the Investment Manager's key personnel could have a material adverse effect on the Funds and the shareholders' investments therein.

**Misconduct of Personnel of the Investment Manager and of Third-Party Service Providers.** The Funds rely on personnel of the Investment Manager and its affiliates, counterparties and other service providers that are not controlled by the Investment Manager. Accordingly, risks associated with errors by such personnel are inherent in the business and operations of the Funds. Misconduct by such personnel could cause significant losses may include binding the Funds and may including binding the Master Fund to transactions that are not properly authorized, that present unacceptable risks or that conceal unsuccessful trading activities (which may result in unknown and unmanaged risks or losses). Losses could also result from misconduct by such personnel, including, for example, failing to recognize trades and misappropriating assets. In addition, such personnel may improperly use or disclose confidential information. Notwithstanding the foregoing, the Investment Manager has adopted measures to prevent and detect misconduct, including an exhaustive process for hiring firm personnel and for engaging with reliable third-party service providers. However, such measures may not be effective in all cases.

**Retention and Motivation of Key Employees.** The success of the Funds is dependent upon the talents and efforts of highly skilled individuals employed by the Investment Manager and the Investment Manager's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that the Investment Manager's investment professionals will continue to be associated with the Investment Manager throughout the life of the Funds, and the failure to attract or retain such investment professionals could have a material adverse effect on the Funds and the shareholders' investments therein. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of the Investment Manager's investment professionals could be replaced.

**Outsourced Trading.** Hongkou outsources all of the Master Fund's trading functions. All key trading functions are provided by Cowen under an arm's-length contract on terms that the Investment Manager has determined to be commercially reasonable. This differs from the practices of many asset managers, which rely on employees of the investment adviser and its affiliates to perform all or most of the key trading functions attendant to the operation of a complex regulated business.

In particular, Cowen exercises substantially all of the discretion as it relates to pricing, timing and routing of certain non-directed, non-held trade orders. Prospective investors should consider the possible negative economic effects on the Master Fund of allocating substantially all execution discretion to an outsourced third-party, irrespective of the other controls maintained by the Investment Manager.

Prospective investors should also consider the risks inherent in a structure where the Investment Manager does not exert direct control over the individuals carrying out key operational tasks such as trading. Cowen has clients other than the Investment Manager and the Master Fund. These other demands could place limitations on, or reduce the responsiveness of, Cowen and may result in harm to the Master Fund (and thus the Fund).

**Increased Regulatory Oversight.** Increased regulation (whether promulgated under securities laws or any other applicable law) and regulatory oversight of and changes in law applicable to private investment funds and their managers may impose administrative burdens on the Investment Manager, including, without limitation, responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert the Investment Manager's time, attention and resources from portfolio management activities. Such regulatory inquiries are generally confidential in nature, may involve a review of an individual's or a firm's activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

**Systems and Operational Risks.** The Funds depend on the Investment Manager to develop and implement appropriate systems for the Funds' activities. On a daily basis, the Funds rely heavily on financial, accounting and other data processing systems to execute and settle transactions across numerous and diverse markets and to evaluate certain securities, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of the Fund's activities. Certain of the Fund's and the Investment Manager's activities are dependent upon systems operated by third parties, including prime brokers, custodians, ISDA counterparties, the Administrator, market counterparties and other service providers, and the Investment Manager may not be in a position to verify the risks or reliability of such third-party systems. However, the Investment Manager shadows the books and records of the Administrator and seeks to detect errors or other issues as soon as practicable. Failures in the systems employed by the Investment Manager, prime brokers, the Administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Funds' operations may cause the Funds to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Funds and the shareholders' investments therein.

**Cybersecurity Risk.** As part of its business, the Investment Manager processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Funds and personally identifiable information of the shareholders. Similarly, service providers of the Investment Manager and the Funds, especially the Administrator, may process, store and transmit such information. The Investment Manager has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other

problems that could unexpectedly compromise information security. Network connected services provided by third parties to the Investment Manager may be susceptible to compromise, leading to a breach of the Investment Manager's network. The Investment Manager's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by the Investment Manager to the shareholders may also be susceptible to compromise. Breach of the Investment Manager's information systems may cause information relating to the transactions of the Fund and personally identifiable information of the shareholders to be lost or improperly accessed, used or disclosed.

The service providers of the Investment Manager and the Funds are subject to the same electronic information security threats as the Investment Manager. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Funds and personally identifiable information of the shareholders may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of the Investment Manager's or the Funds' proprietary information may cause the Investment Manager or the Funds to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Funds and the shareholders' investments therein.

#### *Risks Relating to the Structure of the Funds*

**Significant Fees and Expenses.** The fees and expenses of the Funds may be significant. The Funds must generate sufficient income to offset such fees and expenses to avoid a decrease in the NAV of the Funds.

**Anchor Investors and Substantial Investors; Possible Effect of Redemptions on the Value of the Shares and Additional Information.** Substantial redemptions by shareholders (including any Anchor Investors) could require the Master Fund to liquidate investments more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions and, at the same time, achieve a market position appropriately reflecting a smaller equity base.

**Liquidity Risks.** Under certain market conditions, such as during volatile markets or when trading in a security or market is otherwise impaired, the liquidity of the Master Fund's portfolio positions may be reduced. During such times, the Master Fund may be unable to dispose of certain assets, which would adversely affect the Master Fund's ability to manage its portfolio or to meet redemption requests. In addition, such circumstances may force the Master Fund to dispose of assets at reduced prices, thereby adversely affecting the Fund's performance. If there are other market participants seeking to dispose of similar assets at the same time, the Master Fund may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if the Master Fund incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, the Master Fund's counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Funds credit risk to them.

**In-Kind Distributions.** The Fund expects to, and the Investment Manager will use commercially reasonable efforts to, satisfy all redemptions in cash. However, the Investment Manager may, make distributions in cash or in kind, or in a combination of cash and in kind if doing so is in the best interests of the Fund as a whole under then-existing circumstances. Redemption proceeds that are paid in kind to a shareholder will be, to the extent reasonably practicable, proportionately allocated to such redeeming shareholder based on such shareholder's pro rata interest in any asset that is distributed in-kind. In-kind distributions may be made to shareholders directly or indirectly through a distribution of interests in one or more trading vehicles or special purpose vehicles holding financial instruments owned by the Master Fund or participations therein.

**Incentive Allocation.** Subject to the High Watermark (defined below), the General Partner will be entitled to an annual incentive allocation equal to the Incentive Allocation Percentage (defined below) of realized and unrealized income and gains and other net income (the “Incentive Allocation”) during each fiscal year.

**“Master-Feeder” Structure.** A “master-feeder” structure was established to achieve certain trading and administrative efficiencies. Each of the Partnership and Hongkou Capital Offshore Ltd., a Cayman Islands exempted company (the “Offshore Fund”), which pursues an investment program the same as that of the Partnership, invests all of its investable assets in, and is a feeder fund and limited partner of, Hongkou Capital Master LP, a Cayman Islands exempted limited partnership (the “Master Fund”).

**Portfolio Valuation.** The assets of the Partnership and the Master Fund are valued at their fair value in accordance with the Valuation Policy, which seeks to assure that the investments of the Partnership and the Master Fund are accurately priced based on approved methodologies.

The Administrator was delegated the responsibility for calculating the net asset value of the Partnership and the Master Fund, subject to the overall supervision and direction of the Investment Manager. The Administrator calculates the net asset value of the Partnership and the Master Fund in accordance with the Valuation Policy and may consult with the General Partner, as well as with the Investment Manager and other authorized persons, in calculating asset valuations. The net asset value of the Partnership and the net asset value applicable to each Partner’s Capital Account are final and binding on the Partnership and the Partners, except in the case of manifest error.

**Side Letters; Different Terms.** The General Partner and/or the Investment Manager, without notice to or consent from existing or prospective Limited Partners, may, on behalf of the Partnership, enter into side letters or similar separate agreements with one or more Limited Partners that may alter the terms and conditions described herein and in the Partnership Agreement solely with respect to the parties to such side letters or similar separate agreements (including, without limitation, with respect to the Management Fee, Incentive Allocation, Designated Investments, co-investment rights, required initial contribution amounts and related Ramp Up Period rights, transfers, capacity rights, withdrawals, notices, reporting, and disclosure).

**Voluntary Withdrawals.** Subject to the Key Person Withdrawal Right, amounts may not be withdrawn from a Capital Account until the last day of a calendar quarter that is at least four (4) quarters after the date of such Limited Partner’s subscription for the corresponding Interests (the “Lock-Up Period”). For the avoidance of doubt, each subscription by a Limited Partner for Interests is subject to a Lock-Up Period from the relevant subscription date.

**Compulsory Withdrawals.** The General Partner, in its sole and absolute discretion, may require that any Limited Partner withdraw all or any portion of its Interests in the Partnership for any or no reason upon at least five (5) calendar days’ prior written notice to such Limited Partner.

#### Risks Related to Investment Activities

**Risks of Investments Generally.** An investment in the Funds involves risks, including the risks that the entire amount invested may be lost. The Master Fund invests in and actively trades securities and other financial instruments using investment techniques with certain risk characteristics, including, without limitation, risks arising from the volatility of the equity markets and the potential illiquidity of securities and other financial instruments and the risk of loss from counterparty defaults. No guarantee or representation is made that the Funds’ investment objective will be achieved.

**Investment and Due Diligence Process.** Before making investments, the Investment Manager conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to

each investment. When conducting due diligence, the Investment Manager may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. When conducting due diligence and making an assessment regarding an investment, the Investment Manager relies on the resources reasonably available to it, which in some circumstances whether or not known to the Investment Manager at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

**Long/Short.** The success of the Master Fund's long/short investment strategy depends upon the Investment Manager's ability to identify and purchase securities that are undervalued and identify and sell short securities that are overvalued. The identification of investment opportunities in the implementation of the Master Fund's long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Master Fund's positions were to fail to converge toward or were to diverge further from values expected by the Investment Manager, the Master Fund may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Master Fund to close out one or more positions. Furthermore, the financial and valuation models used to determine whether a position presents an attractive opportunity consistent with the Investment Manager's long/short strategies may become outdated and inaccurate as market conditions change.

**Undervalued Securities.** The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Master Fund's investments may not adequately compensate for the business and financial risks assumed.

**Short Selling.** The Master Fund engages in short selling. Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Master Fund may engage in short sales will depend upon the Investment Manager's ability to identify and sell short securities that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Master Fund of buying those securities to cover the short position. There can be no assurance that the Master Fund will be able to maintain the ability to borrow securities sold short. In such cases, the Master Fund can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Master Fund may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Master Fund secures a "good borrow" of the securities sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Master Fund to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the Master Fund.

**Leverage; Interest Rates; Margin.** The Master Fund may employ leverage in connection with its investment strategies or for any other purpose deemed necessary, desirable or appropriate at such times, in such amounts and subject to such terms and conditions as the General Partner or Investment Manager, as



applicable, may determine in its sole and absolute discretion. Such leverage may take a variety of forms, including, but not limited to, margin borrowing from securities brokers and dealers, repurchase agreements, derivative instruments that are inherently leveraged, loans and other financing arrangements, as determined by the General Partner in its sole and absolute discretion. Leverage is likewise deployed by shorting securities. Leverage employed by the Master Fund may be secured by the securities holdings and other assets of the Partnership and/or the Master Fund, as applicable.

The use of leverage may increase the volatility of the Partnership's returns and may compound any negative returns. Leverage typically will cause the Partnership's and/or the Master Fund's net asset value to increase or decrease at a greater rate than if leverage were not used.

In general, any use by the Master Fund of short-term margin borrowings results in certain additional risks. For example, should the securities pledged to brokers to secure the portfolio's margin accounts decline in value, the portfolio could be subject to a "margin call", pursuant to which the portfolio must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the portfolio's assets, the portfolio might not be able to liquidate assets quickly enough to pay off its margin debt.

**Lending of Portfolio Securities.** The Master Fund may lend securities on a collateralized and an uncollateralized basis from its portfolio to creditworthy securities firms and financial institutions. While a securities loan is outstanding, the Master Fund will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially.

**Diversification and Concentration.** As described above, the Master Fund's long portfolio is concentrated in approximately 5-10 core ideas and 10-20 core short ideas. The Master Fund's portfolio may be significantly concentrated in securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

**Lack of Control.** The Master Fund invests in securities of companies that it does not control, which the Master Fund may acquire through market transactions or through purchases of securities directly from the issuer. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Master Fund does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Master Fund's interests.

**Hedging Transactions.** The Investment Manager is not required to hedge market risks or other risks inherent in the Master Fund's positions. In addition, the Investment Manager may not anticipate a particular risk so as to hedge against it.

The Master Fund, however, may utilize a variety of financial instruments (including options and derivatives), both for investment purposes and (to the extent desired) for risk management purposes in order to: (i) protect against possible changes in the market value of the Master Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of the Master Fund's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Master Fund's portfolio; (v) hedge the interest rate or currency exchange rate on any of the Master Fund's liabilities or assets; (vi) protect against any increase in the price of any securities the Master Fund anticipates purchasing at a later date; or (vii) for any other reason that the Investment Manager deems appropriate.

The success of the Investment Manager's hedging is subject to the Investment Manager's ability to correctly assess the degree of correlation between the performance of the instruments used to hedge and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when the Investment Manager hedges portfolio positions in the Master Fund is also subject to the Investment Manager's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Master Fund may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Master Fund than if they had not engaged in any such hedging transactions. For a variety of reasons, the Investment Manager may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Master Fund from achieving the intended hedge or expose the Master Fund to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Master Fund's portfolio holdings.

**Fundamental Analysis.** The Investment Manager's investment process is grounded in fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the Master Fund's trading strategies, the Master Fund may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that the Investment Manager misinterprets the meaning of certain data, the Fund may incur losses.

**Analytical Model Risks.** The Master Fund employs certain strategies which depend upon the reliability, accuracy and analysis of the Investment Manager's analytical models. To the extent such models (or the assumptions underlying them) do not prove to be correct, the Master Fund may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon the judgment of the Investment Manager and the assumptions embedded in them. To the extent that with respect to any investment, the judgment or assumptions are incorrect, the Fund can suffer losses.

**Alternative Data.** The Investment Manager obtains and uses alternative data in its investment process. Alternative data may consist of datasets that have been culled from a variety of sources, such as internet usage, payment records, financial transactions, weather and other physical phenomena sensors, applications and devices (such as smartphones) that generate location and mobility data, data gathered by satellites, and government and other public records databases (this data is sometimes referred to as "big data" or "alternative data"). The Investment Manager intends to apply this alternative data to better anticipate micro- and macro-economic trends and otherwise to develop or improve trading or investment themes. The analysis and interpretation of alternative data involves a high degree of uncertainty and may entail significant expense, including technological efforts, that are borne by the Master Fund (and indirectly by the Funds). No assurance can be given that the Investment Manager will be successful in utilizing alternative data in its investment process.

**Necessity for Counterparty Trading Relationships; Counterparty Risk.** The Master Fund expects to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Master Fund to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Master Fund will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships would limit the Master Fund's trading activities, and could create losses, preclude the Master Fund from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent the Master Fund from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Master Fund establishes additional relationships could have a significant impact on the Master Fund's business due to the Master Fund's reliance on such counterparties.

**Counterparty Fraud.** Of paramount concern in investments is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying an investment. The Investment Manager relies upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Master Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Counterparty Insolvency.** The Master Fund's assets may be held in one or more accounts maintained for the Master Fund by counterparties, including its prime brokers, and ISDA counterparties. There is a risk that any of such counterparties could become insolvent. The insolvency of the Master Fund's counterparties is likely to impair the operational capabilities or the assets of the Master Fund. Although the Investment Manager regularly monitors the financial condition of the counterparties it uses, if one or more of the Master Fund's counterparties were to become insolvent or the subject of liquidation proceedings in the U.S. (either under the U.S. Securities Investor Protection Act or the U.S. Bankruptcy Code), there exists the risk that the recovery of the Master Fund's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, the Master Fund may use counterparties located in various jurisdictions outside the U.S. Such local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Master Fund's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Master Fund and its assets. Investors should assume that the insolvency of any Master Fund counterparty would result in a loss to the Fund, which could be material.

**Competition; Availability of Investments.** Certain markets in which the Master Fund may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that the Investment Manager will be able to identify or successfully pursue attractive investment opportunities in such environments.

**Significant Positions in Securities; Regulatory Requirements.** In the event the Master Fund acquires a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, the Master Fund may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on the Master Fund and the Investment Manager. Any such requirements may impose additional costs on the Master Fund and may delay the acquisition or disposition of the securities or the Master Fund's ability to respond in a timely manner to changes in the markets with respect to such securities.

In addition, "position limits" may be imposed by various regulators that may limit the Master Fund's ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that the Master Fund's position limits were aggregated with an affiliate's position limits, the effect on the Master Fund and resulting restriction on its investment activities may be significant. If at any time positions managed by the Investment Manager were to exceed applicable position limits, the Investment Manager would be required to liquidate positions, which might include positions of the Master Fund, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, the Master Fund might have to forego or modify certain of its contemplated trades.

In addition, if the Master Fund, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the Exchange Act, the Master Fund may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances the Master Fund will be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

**Exposure to Material Non-Public Information.** From time to time, the Investment Manager may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Master Fund may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

**Currency Exchange Exposure.** The Master Fund may invest in securities denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. The Master Fund, however, values its securities in U.S. dollars. The Master Fund may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions, such as treasury locks, forward contracts, futures contracts and cross-currency swaps. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when the Master Fund wishes to use them, or that hedging techniques employed by the Master Fund will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Master Fund's positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies. Such fluctuations may result in a loss to the Fund.

**Initial Public Offerings.** Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities and, thus, for the value of the Shares.

**Non-U.S. Investments.** While the Master Fund invests in companies inside the United States, the Master Fund may make investments in companies outside the United States. Investing in the securities of companies in non-U.S. countries involves certain considerations not usually associated with investing in securities of U.S. companies or U.S. markets, including: political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain, gross sale or disposition proceeds or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Master Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to U.S. standards and, consequently, less information is available to investors in companies located in such countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in such countries than there is in the U.S. As a result, the Master Fund may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Master Fund's rights in such markets. For example, securities traded on non-U.S.

exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the U.S. Commodity Futures Trading Commission, the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Master Fund under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

**Co-Investments.** The Investment Manager (i) will have the sole and absolute discretion whether to offer a co-investment opportunity; (ii) will not be obligated to offer any Partner the right to co-invest with the Master Fund; (iii) may offer such right to third parties and/or some and not other Partners; and (iv) may determine how to allocate any such co-investment opportunities, in its sole and absolute discretion.

#### *Risks Related to Specific Investments*

**Equity Securities.** The Master Fund's investment portfolio includes equity and equity-related securities of U.S. and non-U.S. companies. The value of equity securities of public companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the Master Fund may suffer losses if it will invest in equity instruments of issuers whose performance diverges from the Investment Manager's expectations or if equity markets generally move in a single direction and the Master Fund has not hedged against such a general move.

**Derivative Instruments Generally.** Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives is subject to change. In addition, the Master Fund may, in the future, take advantage of opportunities. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which the Fund may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the Fund.

**Call Options.** There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

**Put Options.** There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

**Index or Index Options.** The value of an index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular security, whether the Master Fund will realize appreciation or depreciation from the purchase or writing of options on indices depends upon

movements in the level of instrument prices in the security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

**Index Futures.** The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, shareholders may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by the Master Fund also is subject to the Investment Manager's ability to correctly predict movements in the direction of the market.

**Futures Contracts.** The Master Fund may invest in futures contracts or options thereon. Futures positions may be illiquid because, for example, many commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Master Fund from promptly liquidating unfavorable positions and subject the Master Fund to substantial losses. In addition, the Master Fund may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

**Forward Trading.** Forward contracts and options thereon, unlike futures contracts, are generally not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually widespread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Master Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Master Fund. Market illiquidity or disruption could result in major losses to the Master Fund.

**Swap Agreements.** The Master Fund may enter into swap agreements. These agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the Master Fund's exposure to, for example, equity securities. Swap agreements can take many different forms and are known by a variety of names. The Master Fund is not limited to any particular form of swap agreement if consistent with the Fund's investment objective. Whether the Master Fund's use of swap agreements will be successful depends on the Investment Manager's ability to select appropriate transactions for the Master Fund. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Master Fund's portfolio. Moreover, the Master Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Master Fund also bears the risk of loss related to swap agreements, for example, for breaches of such

agreements or the failure of the Master Fund to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Master Fund's ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

**Other Derivative Instruments.** The Master Fund may enter into swaps and other derivative instruments. It may take advantage of opportunities with respect to certain other derivative instruments that are not currently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Fund and believed by the Investment Manager to be legally permissible. Special risks may apply to instruments that are invested in by the Master Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by the Master Fund. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

**High Volatility.** The prices of derivative instruments, including currencies, futures and option prices, can be highly volatile. Price movements of derivative contracts in which the Master Fund portfolio's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Master Fund's portfolio is also subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

**Regulation in the Derivatives Industry.** There are many rules related to derivatives that may negatively impact the Master Fund, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared over-the-counter ("OTC") instruments and mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps, are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All these requirements add costs to the legal, operational and compliance obligations of the Investment Manager and the Master Fund, and increase the amount of time that the Investment Manager spends on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Master Fund.

**Currencies.** The Master Fund may enter into spot and forward currency contracts or invest in currency futures contracts and options on currencies and futures to hedge currency risk by shifting exposure to foreign currency fluctuations from one currency to another with respect to the Master Fund. Currency transactions made on a spot (*i.e.*, cash) basis are at the spot rate prevailing in the currency exchange market. A forward currency contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, reduces the Master Fund's exposure with respect to its investment to changes in the value of the currency it will deliver and increases the Master Fund's exposure to changes in the value of the currency it will receive for the duration of the contract.

**Exchange Traded Funds.** Exchange-traded funds ("ETFs") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF investors are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying

securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each investor of an ETF bears a pro rata portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Fund's expenses (*e.g.*, Management Fees and operating expenses), shareholders may also indirectly bear similar expenses of an ETF.

### Risks Relating to Sector-Specific Investments

**Risks of Sector-Specific Investments.** The Master Fund generally invests in the following sectors and subsectors of the equities markets: telecommunications, media and technology; consumer, healthcare, autos/industrials and financials. The industry-specific risk factors below are intended to provide a non-exclusive summary of certain risks attendant to certain industries in which the Master Fund generally invests. The Master Fund may invest in sectors and sub-sectors other than those listed below; furthermore, the Master Fund may invest in companies in the sectors listed below that are subject to additional risks not described below. These investments may represent core positions of the Master Fund, the profit or loss from which may have a material impact on the Master Fund's performance.

**Investing in Technology Companies.** Investing in securities and other instruments of technology companies involves substantial risks. These risks include: the fact that certain companies in the portfolio of the Master Fund may have limited operating histories; rapidly changing technologies and products which may quickly become obsolete; cyclical patterns in information technology spending which may result in inventory write-offs, cancellation of orders and operating losses; scarcity of management, engineering and marketing personnel with appropriate technological training; the possibility of lawsuits related to technological patents; changing investor sentiments and preferences with regard to technology sector investments (which are generally perceived as risky) with their resultant effect on the price of underlying securities; and volatility in the stock markets affecting the prices of technology company securities, which may cause the performance of the Master Fund to experience substantial volatility. The Master Fund may also invest in the securities of issuers in the business services sector (such as providers of credit risk analysis and reporting, educators, payroll providers, merchant processors and staffing providers, among others), which investments generally involve a number of the risks associated with the technology sector.

**Investing in Media and Telecommunications Companies.** The Master Fund may invest in media companies (which may engage in the production or distribution of television, film, radio, internet and other content) and telecommunications companies (which may provide traditional and wireless telephone services, paging, data transmission services, equipment retailing and internet services). Whereas traditionally media and telecommunications companies were considered to be in different sectors, these sectors have increasingly converged and oftentimes overlap in the services they provide. Companies in the media and telecommunications sector may encounter distressed cash flows due to the need to commit substantial capital to meet increasing competition, particularly in formulating new products and services using new technology. In addition, media and telecommunications companies may be subject to greater price volatility than the overall market due to a variety of factors, including: changing government regulations, changing consumer tastes, intense competition, and strong market reactions to technological developments throughout the industry.

**Investment in Financial Companies.** The Master Fund may invest in companies in the financial sector, which may include entities that facilitate or are involved in the movement of funds and which may not be chartered banking institutions. Companies in the financial sector may provide consumer-facing products and services, products targeted to business customers, and back-end processing for other financial institutions. Many of the areas in which financial businesses compete evolve rapidly with changing and disruptive technologies, shifting user needs, and frequent introductions of new products and services. The global financial industry is highly competitive, rapidly changing, highly innovative, and increasingly subject to regulatory scrutiny. The cost of compliance or the failure of a financial company to comply with a series of complex regulations in this sector could have an adverse impact on such financial company, and



thus the Master Fund's investment therein. Since the financial sector is a heavily and increasingly regulated sector, all participants in the space face costs and risks associated with compliance with applicable federal, state, and local laws and regulations, including those related to licensing and supervision, anti-money laundering, the Bank Secrecy Act, financial privacy and cybersecurity and data security. Such regulatory costs and risks include the direct cost of compliance as well as risks and costs related to noncompliance, including, for example, litigation and regulatory proceedings, monetary fines, and prohibitions and restrictions on current and future products and services as well as on the business relationships used to provide such products and services.

**Investing in Consumer Companies.** The Master Fund may invest in companies in the consumer sector. The success of consumer product manufacturers and retailers is tied closely to the performance of the overall domestic and global economy, interest rates, competition and consumer confidence. Success depends heavily on disposable household income and consumer spending. Also, companies in the consumer discretionary sector may be subject to severe competition, which may have an adverse impact on their respective profitability. Changes in demographics and consumer tastes can also affect the demand for, and success of, consumer products and services in the marketplace.

**Investing in the Industrials Sector.** The Master Fund may invest in companies in the industrials sector, such as those involved in construction and manufacturing, transportation, industrial machinery and equipment, materials, metals and mining, and aerospace and defense. The industrials sector can be significantly affected by general economic trends, including employment, economic growth, and interest rates; changes in consumer sentiment and spending; the supply of and demand for specific industrial and energy products or services; government regulation and spending; and global competition. For example, adverse changes in the prices of certain commodities and unit volume reductions resulting from an oversupply of materials used in industrials and energy equipment and services industries can adversely affect those industries. Furthermore, a company in the industrials sector can be subject to liability for environmental damage, depletion of resources, and mandated expenditures for safety and pollution control.

**Investing in the Health Care Sector.** Various segments of the health care industry are (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally, (ii) subject to frequent regulatory change and (iii) dependent upon various government or private insurance reimbursement programs. While the Master Fund intend to make investments in companies that comply with relevant laws and regulations, certain aspects of their operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or an adverse change in the regulatory requirements or reimbursement programs, could have a material adverse effect on the operations of the companies in which a Fund invests. Recent legislative changes have had, and will likely continue to have, a significant impact on the health care industry. In addition, various legislative proposals related to the health care industry are introduced from time to time at the United States federal and state level, and any such proposals, if adopted, could have a significant impact on the health care industry.

#### *Risks Relating to Private Investment Funds Generally*

**Legal and Regulatory Environment for Private Investment Funds and their Managers.** The legal and regulatory environment worldwide for private investment funds (such as the Funds) and their managers is evolving, and changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of the Fund to pursue its investment program and the value of investments held by the Master Fund. There has been an increase in scrutiny of the alternative investment industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Fund to pursue its investment program or employ brokers and other counterparties could have a material adverse effect on the Fund and the shareholders' investments therein.

**Alternative Investment Fund Managers Directive.** The Alternative Investment Fund Managers Directive (the "AIFM Directive") regulates: (i) alternative investment fund managers (each, an "AIFM") based in the European Economic Area (the "EEA"); (ii) the management of any alternative investment fund ("AIF") established in the EEA (irrespective of where an AIF's AIFM is based); and (iii) the marketing of any AIF, such as the Fund, to professional investors in the EEA.

Under the AIFM Directive, certain conditions must be met to permit the marketing of the Shares to any potential and existing investors in the EEA. The ability of the Fund or the Investment Manager to offer the Shares in the EEA will depend on the relevant EEA state permitting the marketing of non-EEA domiciled funds under the national private placement regimes implementing the AIFM Directive and the ability of the Fund and the Investment Manager to comply with such national private placement regimes, where available. Compliance with the requirements of such regimes may increase the costs of the administration of the Fund significantly, including the costs of regulatory reporting, custody and prime brokerage services provided to the Fund. As such, the Fund's ability to market the Shares to EEA investors may be limited.

**Systemic Risk.** Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Master Fund interacts, as well as the Master Fund, are all subject to systemic risk. A systemic failure could have material adverse consequences on the Master Fund and on the markets for the securities in which the Master Fund seeks to invest.

**Assumption of Business, Terrorism and Catastrophe Risks.** Opportunities involving the assumption by the Master Fund of various risks relating to particular assets, markets or events may be considered from time to time. The Master Fund's portfolio is subject to the risk of loss arising from exposure that it may incur, directly or indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events and events that could adversely affect the health or life expectancy of people such as pandemics and infectious disease. These risks of loss can be substantial, could greatly exceed all income or other gains, if any, received by the Master Fund in assuming these risks and, depending on the size of the loss, could adversely affect the return of the Fund.

#### *Risks Relating to Market Conditions Generally*

**General Economic and Market Conditions.** The success of the Master Fund's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Master Fund's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the Master Fund's investments. Volatility or illiquidity could impair the Master Fund's profitability or result in losses. The Master Fund may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

**Governmental Interventions.** Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Master Fund's strategies.

**Potential Interest Rate Increases.** The United States has experienced a decade-long period of historically low interest rate levels. Any future interest rate increases may result in periods of volatility and cause the value of the securities held by the Master Fund to decrease, which may result in substantial redemptions

from the Fund that, in turn, force the Master Fund to liquidate such securities at disadvantageous prices negatively impacting the performance of the Master Fund.

**Discontinuation of LIBOR.** It is expected that the London Interbank Offered Rate ("LIBOR"), which is commonly used as a reference rate within various financial contracts (any such rate, a "Reference Rate"), will not be published after the year 2021, with the remaining USD LIBOR maturities ceasing immediately after June 30, 2023. In anticipation of the end of LIBOR, the United States and other countries are currently working to replace LIBOR with alternative Reference Rates. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts to which the Master Fund is a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including the Master Fund and its counterparties. The impact of the discontinuation of LIBOR on financial markets generally may adversely affect the performance of the Master Fund.

**Brexit.** On January 1, 2021, the United Kingdom officially withdrew from the European Union. The withdrawal could cause an extended period of uncertainty and market volatility, not just in the United Kingdom but throughout the European Union, the European Economic Area and globally. It is not possible to ascertain the precise impact these events may have on the Master Fund or the Investment Manager from an economic, financial or regulatory perspective but any such impact could have material consequences for the Master Fund.

**MiFID II.** The package of European Union market infrastructure reforms known as "**MiFID II**", in effect from January 3, 2018, is expected to have a significant impact on the European capital markets.

MiFID II increases regulation of trading platforms and firms providing investment services in the European Union. Among its many market infrastructure reforms, MiFID II has brought in: (i) significant changes to pre- and post-trade transparency obligations applicable to financial instruments admitted to trading on EU trading venues (including a new transparency regime for non-equity financial instruments); (ii) an obligation to execute transactions in shares and derivatives on an EU regulated trading venue; and (iii) a new focus on regulation of algorithmic and high frequency trading. These reforms may lead to a reduction in liquidity in certain financial instruments, as some of the sources of liquidity exit European markets and may result in significant increases in transaction costs.

## **Item 9: Disciplinary Information**

Hongkou nor any of its officers, directors, members, partners or employees (the "Employees"), have been involved in any legal or disciplinary events in the past 10 years that would require disclosure in response to this Item.

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

### Item 10A.

No management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

### Item 10B.

No management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

Item 10C.

Hongkou Management GP LLC, a Delaware limited liability company, serves as the general partner of the Investment Manager.

Item 10D.

Hongkou does not recommend or select other advisers for shareholders.

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

Pursuant to Rule 204A-1 of the Advisers Act, Hongkou has adopted a written Code of Ethics predicated on the principal that the Investment Manager owes a fiduciary duty to the Fund and its Shareholders. The Code of Ethics is designed to address and avoid potential conflicts of interest and is applicable to all Employees. The Investment Manager requires its Employees to act in the Fund's best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper.

Hongkou's Code of Ethics governs personal securities trading by its employees. Generally, Supervised Persons will not purchase or sell the following securities in a personal account. Any exception to this policy must be approved in advance by the CCO.

- Equity securities (i.e., common stock) and certain exchange traded funds ("ETFs");
- Options on equity securities, certain ETFs, on currencies; and
- All forms of limited partnership and limited liability company interests, including investments in private investment funds (such as hedge funds), and interests in investment clubs.

The following securities will not be subject to the general prohibition stated above:

- Debt (including corporate, sovereign and municipal) and preferred securities;
- Shares of ETFs that contain ten (10) or more underlying investments ("Broad-based ETFs"), including options on broad-based ETFs;
- Direct obligations of the U.S Government (i.e., Treasury securities);
- Bankers acceptances, certificates of deposit, commercial paper, and high-quality short-term debt obligations (defined as any instrument that has a maturity at issuance of less than 366 days and that is rated in one of the two highest rating categories by a Nationally Recognized Statistical Rating Organization), including repurchase agreements;
- Shares issued by money market funds;
- Shares of open-end mutual funds registered with the SEC;
- Interests in "529 College Savings Plans";
- Shares issued by unit investment trusts that are invested exclusively in one or more open-end mutual funds; and
- Interests by pooled investment vehicles for which Hongkou serves as the investment adviser.

Each employee is required to advise the CCO and receive approval prior to opening any new investment or trading account and must report their personal securities holdings and transactions to the CCO on at least a quarterly basis. Previously owned securities have been grandfathered in but may not be added to the original holding. Employees are required to obtain approval of the sale of previously owned securities. All

personal security transactions will be subject to a 30-day holding period. Any exceptions to this must be approved in writing by the CCO.

In connection with the initial closing of the Hongkou Funds (the “Initial Closing”), the Principal (directly or indirectly through an entity owned by him and/or entities for the benefit of him and his family) contributed in-kind to the Master Fund certain marketable securities (directly or indirectly through the Partnership). In exchange for such contributions in-kind, the Principal (directly or indirectly through such entity owned by him and/or entities for the benefit of him and his family) received a proportional amount of Founders Tranche A Interests in the Partnership.

A copy of Hongkou’s Code of Ethics will be made available upon request.

## **Item 12: Brokerage Practices**

The Master Fund has appointed several prime brokers, each serving as prime broker and custodian to the Master Fund and clear (generally on the basis of payment against delivery) the Master Fund's securities transactions which may be affected through their and other brokerage firms. The Master Fund is not committed to continue its prime brokerage or custodial relationship with the Prime Brokers for any minimum period, and the Investment Manager, without providing notice to shareholders, may select other or additional brokers or custodians to act as prime broker(s) and custodian(s) to the Master Fund.

As discussed above, the Master Fund outsources its trading functions to Cowen, a non-affiliated third party (see Item 8 Risks). On a periodic basis, the Investment Manager reviews the trading activity conducted by Cowen on behalf of the Master Fund to ensure best execution, considering a variety of factors, which may include, without limitation, the following: price quotes; the size of the transaction; the nature of the market for the security; the timing of the transaction; the difficulty of execution; the broker/dealer's facilities, reliability, promptness and financial stability; the broker/dealer's reputation for diligence and integrity (including in correcting errors); confidentiality considerations; the quality and usefulness of research products and services and investment ideas presented by the broker/dealer, including access to company management and deal flow; and other factors. There will be no obligation to solicit competitive bids or to seek the lowest available commission cost or spread. The use of commissions or "soft dollars" to pay for research and brokerage products or services will fall within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”).

## **Item 13: Review of Accounts**

All investments are carefully reviewed and approved by the Investment Manager’s investment team. Shareholders receive unaudited monthly performance reports of the Fund and an annual financial report of the Fund audited by the Fund's independent auditors. The Funds’ investments are reviewed on a continuous basis and the investment personnel meets regularly to discuss investment ideas, economic developments, industry outlook and other issues related to current portfolio holdings and potential investment opportunities.

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

Hongkou does not receive economic benefits from non-clients for providing investment advice and other advisory services.

Hongkou may directly or indirectly compensate persons who are not supervised persons, including placement agents, for client referrals. The Chief Compliance Officer or his designee will determine whether such arrangements: (i) are subject to Rule 206(4)-3 under the Advisers Act (the “Cash Solicitation Rule”) and, if so, whether the arrangements comply with that rule; and (ii) comply with other applicable laws, rules and regulations, including laws and regulations requiring the registration of broker-dealers. Such compensation to third parties for referrals may be based, among other things, on a percentage of the assets initially invested with us or remaining invested with us over time. Placement agents that may solicit

or refer potential clients or investors on our behalf are subject to a conflict of interest because they will be compensated in connection with their solicitation activities.

## **Item 15: Custody**

Pursuant to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), Hongkou maintains custody of certain Client funds and securities because of the authority Hongkou or its affiliates will have over these assets. Hongkou's general policy is to ensure that Client funds and securities are maintained with qualified custodians.

Pursuant to the Custody Rule and applicable guidance, Hongkou will maintain compliance by ensuring that:

- The Hongkou Funds are audited on an annual basis by an independent accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board in accordance with its rules.
- It will distribute audited financial statements prepared in accordance with generally accepted accounting principles to all members, shareholders or other beneficial owners within 120 days of the end of its fiscal year of the Funds.

## **Item 16: Investment Discretion**

The General Partner of the Funds has ultimate responsibility for the management, operations and the investment decisions made on behalf of the Funds, but has delegated investment discretion over the Funds' assets to the Investment Manager pursuant to the terms of the Investment Management Agreement. For a further discussion of these and related items, see Item 4 (Advisory Business).

## **Item 17: Voting Client Securities**

In compliance with Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended, the Investment Manager has adopted a proxy voting policies and procedures. In addition, the Investment Manager has engaged the services of a non-affiliated third party proxy voting service provider on behalf of the Funds and other clients, including other investment funds, managed accounts and proprietary accounts in which the Fund will not have an interest (including Other Accounts and Accounts), to monitor proxy proposals, amendments, consents or resolutions (collectively, "Proxies") pertaining to portfolio securities, provide research and recommendations for voting Proxies, cast such votes in accordance with the Investment Manager's policies and maintain records with respect to such votes.

## **Item 18: Financial Information**

Hongkou (i) does not solicit fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients or (iii) has not been subject to any bankruptcy proceeding during the past 10 years.