

# North Reef Capital Management LP

North Reef Capital Management LP

851 South Coast Hwy  
Laguna Beach, California 92651

Form ADV Part 2A

March 21, 2023

Item 1 - Cover Page

This brochure (“**Brochure**”) provides information about the qualifications and business practices of North Reef Capital Management LP (“**North Reef**” or the “**Firm**”), an investment adviser registered with the United States Securities and Exchange Commission (“**SEC**”). Any reference to North Reef as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

This Brochure is neither an offer to sell nor a solicitation of an offer to buy shares or limited partnership interests in any of the investment funds sponsored, managed, or advised by North Reef. An offer of such funds can only be made through the offering materials for the relevant investment fund and only in jurisdictions in which such an offer would be lawful.

If you have any questions about the contents of this Brochure, please contact Daniel Locasto at [IR@northreefcapital.com](mailto:IR@northreefcapital.com). Additional information about North Reef is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 - Summary of Material Changes**

Our business practices have not materially changed since the last update to this brochure filed with the Commission on June 27, 2022. Item 2 discusses only material changes that were made to this brochure since its last annual updating amendment:

- Item 4 was amended to reflect our discretionary regulatory assets under management as of December 31, 2022.
- Item 5 was amended to reflect the Firm's current fee arrangements.
- Item 7 was amended to reflect our additional sub-advisory relationship with the investment company.
- Item 8 was amended to reflect the Firm's conversion of its private fund from reliance on the exemption under section 3(c)(1) of the Investment Company Act to avoid requirements that the Fund register as an "investment company" to the exemption under section 3(c)(7). In addition, Item 8 now reflects the risks associated with the Firm's addition of its Offshore Fund and conversion to a "mini-master" fund structure.

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**Item 4 - Advisory Business**

North Reef is a Delaware limited liability company formed on August 28, 2020, and maintains its principal place of business in Laguna Beach, California. North Reef provides investment advisory services on a discretionary basis to a private investment fund organized as a mini-master feeder structure comprised of affiliated pooled investment vehicles (collectively referred to as the “**Fund**”) and sub-advises managed accounts of other investment managers (“**Sub-Advised Accounts**”), such Sub-Advised Accounts include an open-end investment company registered under the Investment Company Act of 1940, (collectively the “**Clients**”). An Affiliate of North Reef, North Reef Capital LLC, acts as the general partner of the Fund (the “**General Partner**”). North Reef (the “**Adviser**” or the “**Firm**”) and the General Partner are principally owned by James H. Hanna III. Any references to the “Firm”, “us,” “we,” and “our” in this Brochure refer to North Reef. Any defined terms used in this Brochure not otherwise defined herein, have the definition ascribed to them in the offering documents of the applicable Fund, as defined below.

North Reef generally has broad and flexible investment authority with respect to Clients and tailors its advisory services to Client needs respective of the investment objectives set forth in the applicable offering materials. The Fund’s objectives and strategies are set forth in the limited partnership agreements (and any applicable supplements) provided to each investor in the Fund and the investment management agreement for the Sub-Advised Accounts.

North Reef seeks to achieve superior long-term capital appreciation by generating low volatility, double digit annual return, across all market environments through the management of a hedged equity portfolio primarily focused on the North American financial services sector. The Firm primarily buys and sells US and Canadian publicly listed equity securities but also has the latitude to initiate derivatives transactions such as options or futures and expects to employ margin borrowings.

North Reef does not tailor its advisory services to the individual needs of underlying investors in the Fund. However, North Reef reserves the right to enter into side letters and other agreements and arrangements with certain investors in the Fund that may be provided terms and conditions that are more advantageous than those set forth in the respective Fund’s offering materials. Such terms and conditions may include special rights to make future investments in the Fund or other investment vehicles or accounts managed by North Reef, different transparency rights, reporting rights, different withdrawal/redemption rights, different fee terms, and/or terms to accommodate an investor’s particular legal, tax or regulatory requirements.

North Reef does not participate in any wrap fee programs.

As of December 31, 2022, North Reef had regulatory assets under management of \$1,942,739,810.

**All discussions of the Fund in this brochure, including but not limited to their investments, the strategies used in managing the Fund, the fees and other costs associated with an investment in the Fund, and conflicts of interest faced by North Reef in connection with management of the Fund, are qualified in their entirety by reference to the Fund’s offering materials and advisory agreements.**

## Item 5 - Fees and Compensation

### Fees

The Adviser typically charges fees that are based upon a set percentage of assets under management (“AUM”) and/or performance for the Fund, and percentage of AUM Equivalent for the Sub-Advised Accounts. Set forth below are summaries of the fees payable by investors in the Fund and Sub-Advised Accounts. It should be noted that detailed disclosure about the fees and other expenses applicable to an investment in the Fund is provided in the respective operative documents. Those documents should be carefully reviewed prior to making an investment in the Fund.

In consideration for investment management services provided to the Fund, North Reef receives a management fee calculated at an annual rate dependent upon the aggregate amount of fee-paying assets of the respective Fund. North Reef’s Fund management fee is paid quarterly in advance, calculated and payable based on the value of the investor’s capital account(s) as of the end of the immediately preceding quarter or on the date of a contribution if other than the beginning of a quarter. Management fees related to Sub-Advised Accounts are typically paid in arrears, however, they are negotiated on a case-by-case basis. North Reef in its sole discretion reserves the right to waive, modify or calculate differently the management fee for certain investors, including for investors that are members, principals, employees or affiliates of the Adviser or for certain large or strategic investors. Management fees may be refunded for funds withdrawn at any time other than at the end of a calendar quarter, subject to GP waiver of quarterly redemption requirements, based on pro rata portion based on the actual number of days remaining in such partial quarter.

In addition, the Adviser receives an annual performance allocation reallocated from the capital accounts of each Fund investor to the Adviser. The performance allocation is calculated based upon the Performance Percentage of the Net Asset Value of the Fund as set forth in the relevant offering materials and are subject to a High Water Mark. Performance allocations are generally made at the end of each calendar year and as of any date on which a limited partner makes a withdrawal from the Fund. When calculating the performance allocation, the management fee and all items of income, loss and expense incurred by the Fund will be taken into account. North Reef in its sole discretion reserves the right to waive, modify or calculate differently the performance allocation for certain investors, including for investors that are members, principals, employees or affiliates of the Adviser or for certain large or strategic investors.

Investors in the Fund are generally limited in their ability to terminate their participation in the Fund. In addition to other redemption and transfer restrictions that are described in the Fund's offering materials, the Fund imposes a 1 year “lock-up” period during which investors may not withdraw capital. In processing withdrawal requests, the Adviser may elect to hold back the investor’s pro rata share of any capital reserved to fulfill Fund expenses, liabilities or any unpaid management fees.

Neither North Reef nor any of its affiliates or related persons receive commission or transaction-based compensation related to the sale of interests in the Fund.

With respect to Sub-Advised Accounts, the fees for services paid to North Reef and its affiliates are established by, and negotiated between, North Reef and each respective sponsor of the Sub-Advised Accounts (the “**Primary Adviser**”), who appoints North Reef as the Sub-Adviser. For the discretionary services provided by North Reef, the Primary Adviser pays North Reef a percentage of AUM Equivalent

based on the pre-negotiated percentage. In addition to the AUM Equivalent percentage fee, a significant percentage of the appreciation of Sub-Advised Accounts' assets is paid to North Reef as performance-based/incentive fees or allocations as negotiated, and where applicable, subject to loss carryforward. Such fee is paid after the deduction of allowable expenses calculated in accordance with the terms negotiated between North Reef and the Primary Adviser.

The Primary Adviser to the registered investment company pays North Reef a percentage of daily net assets allocated to the Adviser that shall accrue daily at a rate of  $1/365^{\text{th}}$  of the applicable fee rate and payable quarterly in arrears payable following each calendar quarter end.

North Reef negotiates fee waivers and management fee provisions separately with each Primary Adviser.

### **Other Fees and Expenses**

The Fund typically pays its own expenses, as set forth in the respective offering materials. The Fund will incur other expenses in connection with North Reef's advisory services that are not included in North Reef's fees, including without limitation transaction fees, brokerage commissions, custody fees and other related costs and expenses that will be incurred by the Fund with respect to the transactions for its account. The Fund will also bear additional charges, including, without limitation, legal and organizational expenses in connection with the Fund's formation and initial offering, and ongoing expenses necessary to perform the operation of each such Fund. Expenses will generally be shared by all investors on a pro rata basis or will be charged solely to investors who participate in the respective investments.

North Reef will render its services to the Fund at its own expense and will be responsible for its overhead expenses including: office rent; utilities; furniture and fixtures; stationery; secretarial/internal administrative services; salaries and bonuses; entertainment expenses; employee insurance and payroll taxes.

**It is very important that investors refer to their respective Fund's governing documents for a complete understanding of how the Adviser is compensated for its advisory services. The information contained herein is a summary only and is qualified in its entirety by the relevant Fund governing documents.**

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

As described above in *Item 5 – Fees and Compensation*, the Adviser is eligible to receive performance-based fees from investors in the Fund and other Clients. A significant percentage of the appreciation of Client assets which would otherwise be allocated to Clients is paid to North Reef as performance-based fees or allocations. This performance-based compensation is based upon unrealized, as well as realized, gains, and such unrealized gains may never be recognized by the Client. It should be noted that the possibility for the Adviser to receive performance-based compensation creates a potential conflict of interest in that it may create an incentive for North Reef to make investments that are riskier or more speculative than would be the case in the absence of such a performance-based fee. Investors are provided with clear disclosure as to how performance-based compensation is charged with respect to a particular Client and the risks associated with such performance-based compensation prior to making an investment.

Clients' assets and liabilities are valued in accordance with the Adviser's valuation policy. In making valuation determinations, the Adviser may be deemed subject to a conflict of interest, especially with

respect to illiquid securities, as the valuation of such assets and liabilities affects its compensation. There is no guarantee that the value determined with respect to a particular asset or liability by the Adviser will represent the value that will be realized by the Clients on the eventual disposition of the related investment or that would, in fact, be realized upon an immediate disposition of the investment.

The Adviser and its respective officers, directors, members or employees will devote such time to the management of Clients as they deem necessary. However, they are also responsible for advising or providing advisory services to other accounts, and may in the future organize, manage and advise investment funds or other entities with objectives similar to or different from those of Clients. Conflicts of interest may arise in allocating investment opportunities, management time, services or other functions amongst Clients and such other accounts.

However, the Adviser recognizes that it is a fiduciary and, as such, must act in the best interests of Clients. Further, the Adviser recognizes that it must treat all Clients fairly and must refrain from favoring one Client's interests over another. The Adviser has adopted policies and procedures designed to address conflicts of interest, including procedures regarding the allocation and aggregation of investment opportunities among Clients and a Code of Ethics, which includes a standard of business conduct and establishes policies and procedures with regard to personal securities transactions of North Reef personnel.

#### **Item 7 - Types of Clients**

North Reef provides investment advisory services to a pooled investment vehicle operating as private investment fund and sub-advises managed accounts, including a sub-advised open-end investments company registered under the Investment Company Act of 1940. Each investor in the Fund must meet certain eligibility provisions. Interests in the Fund are generally offered to investors who qualify as accredited investors within the meaning of Regulation D of the Securities Act of 1934. Further, the minimum initial investment in a Fund is \$1,000,000. The Adviser may waive or increase minimum account sizes and decline to accept new investments in its sole discretion.

North Reef provides investment advisory services to investment companies. In providing advisory services to the investment company account, North Reef is subject to the investment objectives, policies and restrictions set forth by the investment company's applicable prospectus and additional information ("Statement of Information") filed with the Securities and Exchange Commission (the "SEC") as part of the investment company's registration statement.

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

All references to the Fund in this brochure, including, but not limited to, their investments and management strategies, are qualified in their entirety by reference to the respective Fund's offering documents or applicable investment management agreements. The following is a general discussion of the methods of analysis, investment strategies and the risk of loss associated with North Reef's overall investment strategy. These risk factors may change over time. There can be no assurance that the Fund will achieve their objectives or that the Fund will not incur losses. Investors in the Fund must be prepared to lose all or substantially all of their investment in the Fund.

**THE INFORMATION BELOW IS INTENDED TO SERVE AS A SUMMARY OF POTENTIAL RISKS OF INVESTING. THE FOLLOWING IS NOT A SUBSTITUTE FOR THE OFFERING DOCUMENTS OF THE FUND OR INVESTMENT**

**MANAGEMENT AGREEMENTS OF THE SUB-ADVISED ACCOUNT. POTENTIAL INVESTORS IN THE FUND MUST REVIEW OFFERING DOCUMENTS IN THEIR ENTIRETY BEFORE INVESTING. THIS INFORMATION MAY BE BOTH SUPPLEMENTED AND SUPERSEDED BY INFORMATION IN THE OFFERING DOCUMENTS FOR THE FUND OR RESPECTIVE INVESTMENT MANAGEMENT AGREEMENTS.**

North Reef investment strategy seeks to generate a low volatility, double digit annual return, across all market environments through the management of a hedged equity portfolio primarily focused on the North American financial services sector. The Fund will primarily buy and sell US and Canadian publicly listed equity securities but may also initiate derivatives transactions such as options or futures and also expects to employ margin borrowings.

The investment strategy includes:

- Coverage of the North American financial services industry, including approximately 250 public equities within the manager's investment universe.
- Idea generation based on developing a thesis, establishing a target price, assessing sentiment, and weighing risks including establishing a downside target price.
- Portfolio construction is the selection and sizing of core positions and trading positions to express the investment team's macro and micro views within North Reef's risk guidelines.
- Risk management processes that involve operating the investment portfolio within preestablished risk guidelines including limits on position concentration and liquidity and limits at the portfolio level on net market exposure, leverage, and factor exposure.

The investment strategy that we employ involves significant risks. Investors must be prepared to bear the loss of their entire investment. The following summary of certain risks does not purport to be complete but includes some of the potential risks generally associated with North Reef's investment strategy.

#### *Deploying Newly Contributed Capital*

North Reef may encounter periods during which it will incur certain risks relating to new contributed capital. Moreover, these periods also represent a special risk in that the level of diversification of the Firm's Client portfolios may be lower than in a fully invested portfolio.

#### *Reliance on North Reef and no Authority by Investors*

The success of the Firm depends on the ability of North Reef to develop and implement investment strategies to achieve the Firm's investment objectives. Although North Reef may impose limits on the types of positions the Firm may take, or the concentration of its investments, the Partnership Agreement imposes no such limits. Investors will have no right or power to take part in the management of the pooled investment vehicles they are respectively invested in. The Firm's investment performance could be materially adversely affected if any members of the investment team were to die, become ill or disabled, or otherwise cease to be involved in the active management of the business of the Firm's portfolios.

#### *Dependence on Key Personnel*

North Reef and the General Partner are dependent on the services of its principals and key personnel, including James H. Hanna III. The success of the Firm may depend to a great extent on the investment skills of North Reef's principals and key personnel. There can be no assurance that James H. Hanna III or any other principals or key personnel will continue to be associated with North Reef, the General Partner,



and their affiliates. The Firm and its Clients may be adversely affected if, because of illness, resignation, or other factors, the services of the relevant people were not available for any significant period of time.

#### *Undisclosed Investing Strategy*

North Reef's investment strategy and the techniques it will employ to attempt to reach its Client's goals are proprietary and are not required to be disclosed to potential or current investors or other Clients.

#### *Undisclosed Positions*

In an effort to protect the confidentiality of its positions and its strategies, North Reef generally will not disclose its Client's positions to investors on an ongoing basis. North Reef, upon consultation with the General Partner, may from time to time permit such disclosure to certain investors.

#### *Changes in Investment Strategies*

The General Partner has broad discretion to expand, revise or contract the Firm's advisory business without the consent of the investors. Regarding the Fund, the Fund's investment strategies may be altered, without prior approval by, or notice to, the investors, if North Reef, in consultation with the General Partner, determines that such change is in the best interest of the Firm's Clients.

#### *Operating Deficits*

The expenses of operating the Fund (including Management Fees payable to the General Partner) and the Sub-Advised Accounts could exceed its income. This would require that the difference be paid out of the Client's capital, reducing the amount of capital available to the Fund or the Sub-Advised Accounts for investment and the Client's potential for profitability.

#### *Business and Regulatory Risks of Hedge Funds*

Legal, tax and regulatory changes could occur over the course of North Reef's advisory operations that may adversely affect the Firm's Clients. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by North Reef and the ability of North Reef to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivative transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The effect of any future regulatory change on the Firm could be substantial and adverse.

#### *Enhanced Scrutiny and Potential Regulation of Private Investment Funds*

There has been enhanced governmental scrutiny and/or increased regulation of the private investment fund and financial services industries in general. Future legislation may have an adverse effect on the private investment fund industry generally and/or on North Reef, specifically. In addition, regulatory agencies in the U.S., Europe, or elsewhere may adopt burdensome laws (including tax laws) or regulations, or changes in law or regulation, or in the interpretation or enforcement thereof, which are specifically

targeted at the private investment fund industry, or other changes that could adversely affect private investment firms and the funds they sponsor, including North Reef. Additional governmental scrutiny may reduce the availability of the Client's investment opportunities and may increase the Client's, the General Partner's and North Reef's exposure to potential liabilities and to legal, compliance and other related costs. Such increased regulation and scrutiny could have a material and adverse effect on the Firm's Clients.

#### *Assignment of Advisory Contracts*

Federal and state laws applicable to investment advisers (including, without limitation, the Investment Advisers Act and rules promulgated thereunder) may impose limitations on the General Partner's or North Reef's ability to assign certain of its rights and obligations under the Partnership Agreement. Normally, such limitations would permit the General Partner or North Reef, as applicable, to engage in transactions that do not involve a change of control of the General Partner or North Reef without consent of the investors. However, to the extent that an assignment does involve a change of control, the General Partner or North Reef, as applicable, will be required to seek consent of the investors before the transaction will be consummated. To the extent that the consent of investors is required for a particular assignment, such consent may be withheld to a transaction that would, in the view of the General Partner or North Reef benefit the Clients and/or the investors. Generally, these laws do not require a minimum length of time for notices or deadlines to provide or withhold consent. The General Partner or North Reef may establish reasonable notice periods and deadlines in their sole discretion. The General Partner or North Reef may seek investor consent via electronic means and/or negative consent.

#### *Terrorist Action*

There is a risk of terrorist attacks on the United States and elsewhere causing significant loss of life and property damage and disruptions in global markets. Economic and diplomatic sanctions may be in place or imposed on certain states and military action may be commenced. The impact of such events is unclear but could have a material effect on general economic conditions and market liquidity.

#### *Cybersecurity Risk*

As part of its business, the General Partner and North Reef process, store, and transmit large amounts of electronic information, including information relating to the transactions of North Reef and personally identifiable information of the investors. Similarly, service providers of the General Partner, North Reef, or the Clients, especially the Administrator, may process, store and transmit such information. The General Partner and North Reef have procedures and systems in place 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 General Partner or North Reef may be susceptible to compromise, leading to a breach of the General Partner's or North Reef's network. The General Partner's and North Reef's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. Breach of the General Partner's or North Reef's information systems may cause information relating to the transactions of North Reef and personally identifiable information of the investors to be lost or improperly accessed, used, or disclosed.

The service providers of the General Partner, North Reef, and the Clients are subject to the same electronic information security threats as the General Partner and North Reef. 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 North Reef and personally identifiable information of the investors may be lost or improperly accessed, used, or disclosed.

The loss or improper access, use, or disclosure of the General Partner's, North Reef's, or the Client's proprietary information may cause the General Partner, North Reef or the Clients 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 North Reef.

#### *Force Majeure*

North Reef's investments may be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, lightning, outbreaks of an infectious disease, chemical or radioactive contamination or ionizing radiation, pandemic or any other serious public health concern, war, terrorism, labor strikes, major plant breakdowns, pipeline or electricity line ruptures, failure of technology, defective design and construction, accidents, demographic changes, government macroeconomic policies, social instability, uninsurable losses). Some force majeure events may adversely affect the ability of a party (including North Reef or a counterparty to North Reef) to perform its obligations until it is able to remedy the force majeure event and/or prompt precautionary government-imposed closures of certain travel and business. In addition, forced events, such as the cessation of the operation of machinery for repair or upgrade, could similarly lead to the unavailability of essential machinery and technologies. These risks could, among other effects, adversely impact North Reef's returns, cause personal injury or loss of life, disrupt global markets, damage property, or instigate disruptions of service. In addition, the cost to North Reef of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Force majeure events that are incapable of or are too costly to cure may have a permanent adverse effect on North Reef's expected returns. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries and/or markets in which North Reef may invest. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over industry assets, could result in losses to North Reef, including if its investments are canceled, unwound or acquired (which could be without adequate compensation). Any of the foregoing may therefore adversely affect the performance of North Reef and its investments.

#### *General Investment and Trading Risks*

An investment advised by North Reef involves a high degree of risk, including the risk that the entire amount invested may be lost. North Reef invests in securities and other financial instruments using strategies and investment techniques with significant risk characteristics. No guarantee or representation is made that North Reef's program will be successful. North Reef's investment program may utilize investment techniques, the use of which can, in certain circumstances, maximize the adverse impact to which North Reef may be subject.

#### *Equity Securities*

The value of the equity securities held by North Reef are subject to market risk, including changes in economic conditions, growth rates, profits, interest rates and the market's perception of these securities. While offering greater potential for long-term growth, equity securities are more volatile and riskier than some other forms of investment.

#### *Small- and Mid-Cap Risks*

A portion of North Reef's assets may be invested in securities of small-cap and mid-cap issuers. While in North Reef's opinion the securities of small- and mid-cap issuers may offer the potential for greater capital appreciation than investments in securities of large-cap issuers, securities of small- and mid-cap issuers may also present greater risks. For example, some small- and mid-cap issuers often have limited product lines, markets, or financial resources. They may be subject to high volatility in revenues, expenses, and earnings. Their securities may be thinly traded, may be followed by fewer investment research analysts, and may be subject to wider price swings, and thus may create a greater chance of loss than when investing in securities of larger-cap issuers. The market prices of securities of small- and mid-cap issuers generally are more sensitive to changes in earnings expectations, to corporate developments, and to market rumors than are the market prices of large-cap issuers. Transaction costs in securities of small- and mid-cap issuers may be higher than in those of large-cap issuers.

#### *Exchange-Traded Funds*

North Reef may invest in exchange-traded funds ("ETFs"), which are a type of index fund bought and sold on a securities exchange. The risks of owning ETF shares generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile. Investors in ETFs bear a proportionate share of the expenses of those ETFs, including management fees, custodial and accounting costs, brokerage commissions, and other transaction costs. ETFs are also subject to other risks, including the risk that their prices may not correlate perfectly with changes in the underlying index and the risk of possible trading halts due to market conditions or other reasons that, in the view of the exchange upon which an ETF trades, would make trading in the ETF inadvisable. An exchange-traded sector fund may also be adversely affected by the performance of that specific sector or group of industries on which it is based.

#### *Derivatives*

Derivatives are financial contracts whose value depends on, or is derived from, an underlying product, such as the value of a futures or commodities contract. North Reef may make use of derivatives in their trading. Derivatives often carry a high degree of embedded leverage and consequently, are highly price sensitive to changes in interest rates, government policies, economic forecasts and other factors which generally have a much less direct impact on the price levels of the underlying instruments. Specifically, the risks generally associated with derivatives include the risks that: (1) the value of the derivative will change in a manner detrimental to North Reef; (2) before purchasing the derivative, North Reef will not have the opportunity to observe its performance under all market conditions; (3) another party to the derivative may fail to comply with the terms of the derivative contract; (4) the derivative may be difficult to purchase or sell; and (5) the derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price sensitivity to market fluctuations.

#### *Options*

North Reef may buy or sell (write) both call options and put options on various underlying investments including options on specific securities, options on securities indices, and options on security futures contracts. When North Reef writes options, it may do so on a “covered” or an “uncovered” basis. A call option is “covered” when the writer owns investments of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in investments of the relevant class and amount. North Reef’s option transactions may be part of a hedging strategy (i.e., offsetting the risk involved in another investment position) or a form of leverage, in which North Reef has the right to benefit from price movements in a large number of investments with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions North Reef may enter into, the principal risks involved in options trading can be described as follows: When North Reef buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of their investment in the option (including commissions). The Firm could mitigate those losses by selling short, or buying puts on, the investments for which it holds call options, or by taking a long position (e.g., by buying the investments or buying calls on them) in investments underlying put options. When the Firm sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is “covered”. If it is covered, North Reef would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss North Reef might suffer as a result of owning the security. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

#### *Commodity Futures Contracts*

North Reef may trade futures and/or commodity interests (e.g., futures contracts on commodities, securities indices, or currencies). As with some other derivatives, futures trading can provide a form of leverage, allowing North Reef to participate in market price fluctuations of securities indices or commodity interests underlying futures (or options on futures), while investing only a small percentage of the value of those underlying securities indices or commodity interests. Trading in futures can be highly speculative and may entail risks that are greater than investing in securities. Some of those risks include the following:

- **Futures Trading is Volatile and Speculative.** Futures markets are highly volatile. Futures contracts are influenced by, among other things: changing supply and demand relationships, governmental actions, agricultural and commercial trade programs and policies, national and international political events, national and international economic events, weather and other natural occurring phenomena, and prevailing psychological characteristics of the marketplace. There is no assurance that North Reef will engage in profitable trades for its Clients or that its Clients will not incur substantial losses.
- **Futures Trading is Highly Leveraged.** The margin deposit required to enter into a futures position is typically 2-10% of the total value of the contract. As a result, if the Client’s account is margined, a relatively small price movement in a commodity futures contract may result in a loss to the investor equal to or substantially greater than the amount of the deposit. Combined with the

volatility of futures prices, the leveraged nature of futures trading can cause futures traders to sustain large and sudden losses of their capital. When the market value of a particular open position changes to a point where the margin on deposit in a participating investor's account does not satisfy the applicable maintenance margin requirements imposed by North Reef's futures commission merchant ("FCM"), the Clients, and not North Reef, will receive a margin call from the FCM. If North Reef does not satisfy the margin call within a reasonable time (which may be as brief as a few hours), the FCM will close out North Reef's position.

- **Futures Positions May Be Illiquid.** Futures positions may be closed out only on the exchange on which they were entered into or through a linked exchange. Most 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". Once the price for a particular contract has increased or decreased by an amount equal to the "daily limit", positions can be neither taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent North Reef from liquidating unfavorable positions and subject it to substantial losses. In addition, the Firm may not be able to effect futures contract trades at favorable prices if trading volume in those contracts is low.
- **Cash Flow.** Futures contracts gains and losses are marked-to-market daily for purposes of determining margin requirements. Option positions generally are not, although short option positions will require additional margin if the market moves against the position. Due to these differences in margin treatment between futures and options, there may be periods in which positions on both sides must be closed down prematurely due to short-term cash flow needs. Were this to occur during an adverse move in the spread or straddle relationships, a substantial loss could occur. Futures exchanges and the CFTC typically have the right to suspend or limit trading in the contracts that each such exchange lists. Such a suspension or limitation could render it impossible for the Firm to liquidate its positions and thereby expose it to losses. In addition, there is no guarantee that exchange and other secondary markets will always remain liquid enough for North Reef to close out existing futures positions. It is also possible that an exchange or the CFTC could order the immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.
- **Counterparties, Futures Commission Merchants, and other Third Parties.** In entering into futures contracts and options on futures contracts, there is a credit risk that a counterparty will not be able to meet its obligations to North Reef. The counterparty for futures contracts and options on futures contracts traded in the United States exchanges is the clearinghouse associated with such exchange. In general, clearinghouses are backed by the corporate members of the clearinghouse who are required to share any financial burden resulting from the non-performance by one of its members, and as such, should significantly reduce this credit risk. In cases where the clearinghouse is not backed by the clearing members, it is normally backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearing members, or clearinghouse will be able to meet its obligations to North Reef. In addition, under the Commodity Exchange Act, FCMs are required to maintain customers' assets in a segregated account. If the Firm engages in futures and options contract trading and the FCMs with whom the Firm maintains accounts fail to so segregate the Firm's assets or are not required to do so, North Reef will be subject to a risk of loss in the event of the bankruptcy of any of its FCMs. Even where customers' funds are properly segregated, North Reef might be able to recover only a pro rata share of its property pursuant to a distribution of a bankrupt FCM's assets.

### *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 Firm engages in short sales depends upon North Reef's investment strategy and opportunities. 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 North Reef of buying those securities to cover the short position. There can be no assurance that the Firm will be able to maintain the ability to borrow securities sold short. In such cases, North Reef 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 are available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

#### *Net Cash*

North Reef may hold a significant portion of its portfolio in cash and cash equivalents. This may result in the Firm's investment results underperforming market indices, or a portfolio which is 100% invested without any net cash holdings.

#### *Highly Volatile Markets*

The prices of financial instruments in which North Reef may invest can be highly volatile. Price movements of forward and other derivative contracts in which the Firm'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. The Firm is subject to the risk of failure of any of the exchanges on which their positions trade or of its clearinghouses.

#### *High Risk Investments*

While investments in companies in certain industries offer the opportunity for significant capital gains, such investments involve a high degree of business, financial, technological and regulatory risk, which can result in substantial losses. Moreover, the Firm's portfolio may include investments particularly subject to increased risk because they are in companies at an early stage of development, which have been or may go into bankruptcy, acquired as leverage buyouts subject to interest rate fluctuations, or engaged in highly competitive industries dominated by companies with substantially greater resources. As a result, North Reef may experience substantial volatility and potential for loss. North Reef believes that its investment program and research techniques moderate this risk through a careful selection of securities and other financial instruments. However, no guarantee or representation is made that the program will be successful.

#### *Unidentified Investments; Competitive Market for Investments*

North Reef may be very selective when seeking investments. The business of identifying and structuring certain transactions is competitive (and may become more competitive in the future), and involves a high degree of uncertainty. There can be no assurance that North Reef will be able to locate and complete attractive investments or that it will be able to adhere to the investment strategy outlined herein. Furthermore, there can be no assurance that North Reef will be able to invest the entire amount of the

Firm's assets or that suitable investment opportunities will otherwise be identified. If North Reef is unable to identify adequate investments at any given time, a significant portion of the Firm's assets may be held in cash or equivalents, which produce low rates of return.

### *Use of Leverage*

North Reef may leverage its capital because the Firm believes that the use of leverage may enable the Firm to achieve a higher rate of return. Accordingly, the Firm may pledge its investments in order to borrow additional funds for investment purposes. North Reef may also leverage its investment return with options, short sales, swaps, forwards, and other derivative instruments. The amount of borrowings which the Firm may have outstanding at any time may be substantial in relation to its capital. While leverage presents opportunities for increasing North Reef's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by the Firm would be magnified to the extent North Reef is leveraged. The cumulative effect of the use of leverage by the Firm in a market that moves adversely to the Firm's investments could result in a substantial loss to North Reef which would be greater than if the Firm were not leveraged. The use of short-term margin borrowings results in certain additional risks to North Reef. For example, should the securities pledged to brokers to secure the Client's margin accounts decline in value, the Firm could be subject to a "margin call", pursuant to which the Firm must either deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Firm's assets, the Firm might not be able to liquidate assets quickly enough to satisfy its margin requirements.

### *Brokerage Commissions/Transaction Costs*

During some periods, North Reef's activities may involve a high level of trading, and the turnover of its portfolio may generate substantial transaction costs. These costs will be borne by the Firm regardless of its profitability.

### *Hedging Transactions*

North Reef on behalf of the Clients will not, in general, attempt to hedge all or any market or other risks inherent in the Client's portfolio positions, and may hedge certain risks, if at all, only partially. North Reef may choose not, or may determine that it is economically unattractive, to hedge all or certain risks – either in respect of particular positions or in respect of its overall portfolio. North Reef's portfolio composition will commonly result in various directional market risks remaining unhedged. Even if North Reef is successful in reducing or controlling risk through hedging, the cost of hedging may have the effect of reducing returns. Furthermore, it is possible that North Reef's hedging strategies will not be effective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risk and losses.

### *Limited Diversification*

North Reef may select investments that are concentrated in a limited number or types of investments. This limited diversity could expose the Fund to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those investments.



*Non-U.S. Securities*

Although North Reef's emphasis will be on U.S. listed equities, the Firm may invest in non-U.S. securities. Investments in securities of non-U.S. issuers pose a range of potential risks which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers. Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S. There is generally less government supervision and regulation of exchanges, brokers and issuers than there is in the United States. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The Firm might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect North Reef's performance.

*Security Breaches*

Any security breach caused by hacking, which involves efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses, could result in the halting of the Firm's operations, the suspension of redemptions or a loss of Firm's Client assets. While North Reef generally intend to use and rely on third party security systems maintained by the exchanges on which the Firm's trades are effected, such security systems are not impenetrable and may not be free from defect, and any loss due to a security breach or software defect will not be borne by North Reef.

*Systems and Operational Risk*

The Firm's investment strategy relies extensively on computer programs and systems to trade, clear and settle securities transactions, to evaluate certain securities based on real-time trading information, to monitor its portfolio and net capital, and to generate risk management and other reports that are critical to oversight of account activities. In addition, certain of the Firm's operations interface with or depend on systems operated by third parties, including its prime brokers and market counterparties and their sub-custodians and other service providers, and the Firm may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by worms, viruses and power failures. Any such defect or failure could have a material adverse effect on the Firm's portfolios.

*Currency*

North Reef may invest a portion of its assets in instruments denominated in currencies other than the U.S. dollar, the price of which is determined with reference to currencies other than the U.S. dollar. Client accounts will, however, be valued in U.S. dollars. To the extent unhedged, the value of the assets will fluctuate with U.S. dollar exchange rates as well as the price changes of investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies will reduce, all other economic factors being constant, the effect of increases and magnify the effect of decreases in the prices of the account's securities in their local markets. Conversely, a decrease in the

value of the U.S. dollar will have the opposite effect on non-U.S. dollar securities. To the extent permitted, the Firm also may, but does not expect to regularly do so, utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

#### *Counterparty Risk*

Some of the markets in which North Reef may affect its transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Firm to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing North Reef to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Firm has concentrated its transactions with a single or small group of counterparties. North Reef is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, North Reef has no internal credit function that evaluates the creditworthiness of their counterparties. The ability of the Firm to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparty’s financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Firm.

#### *No Control Over Portfolio Companies*

The Firm may acquire substantial positions in the securities of particular companies. Nevertheless, North Reef is unlikely to be represented on the board of directors or share any control over the management of any such company. The success of each investment depends on the ability and success of the management of that company, in addition to economic and market factors.

#### *Illiquidity of Interests; In-Kind Distributions*

An investment in the Fund is relatively illiquid and is not suitable for an investor who needs liquidity. There is no public market for Interests (nor is any public market expected to develop for such Interests) and the Partnership Agreement imposes significant limitations on investors’ abilities to transfer Interests. Interests may not be transferred or pledged except in compliance with significant restrictions on transfer as required by Federal and state securities and commodities laws and as provided in the Partnership Agreement. The Partnership Agreement does not permit an investor to transfer or pledge all or any part of its Interest to any person without the prior written consent of the General Partner, the granting of which is in the General Partner’s sole discretion. In addition, rights to withdraw funds from the Fund are subject to several limitations. The General Partner may consent (or, in its sole discretion, decline to consent) to deviations from one or more of the procedures or limitations regarding withdrawals. The General Partner, following consultation with the Firm, has the discretion to cause the Fund to deliver amounts withdrawn in-kind rather than cash. The assets so delivered may be relatively illiquid and the investor would bear the risk of a decline in their value after the effective time of its withdrawal. Further, such investments so distributed may not be readily marketable or saleable and may have to be held by such investor for an indefinite period of time. Any such in-kind distributions will not materially prejudice the interests of the remaining investors. These facts, taken together, will significantly affect the liquidity of an investor’s investment in the Fund.

*Effect of Substantial Withdrawals*

Substantial withdrawals by investors within a short period of time could require or result in the liquidation of investment positions more rapidly than would otherwise be desirable, possibly reducing the value of North Reef's assets and/or disrupting North Reef's investment strategy. Reduction in the size of the Firm's Clients could make it more difficult to generate a positive return or to recoup losses due to, among other things, reductions in the Firm's ability to take advantage of particular investment opportunities or decreases in the ratio of its income to its expenses. The General Partner may permit some investors to have access to more information about the Firm's investments, or to obtain information more rapidly, than investors generally. In addition, withdrawals or redemptions by investors in other investment vehicles or accounts managed by the General Partner or North Reef, some of which may have more advantageous information and/or liquidity rights than those provided to investors, could adversely affect the value of portfolio positions held by the Firm. Further, a significant withdrawal of Capital Accounts from the Firm's Clients may cause a temporary imbalance in the Client's portfolios, which may adversely affect the remaining non-withdrawing investors. The Firm may distribute cash and/or assets to withdrawing investors who have no need for liquidity in the investment, other than to pay annual tax liabilities associated with the Firm.

*Potential Mandatory Withdrawal*

The General Partner may, in its sole discretion at any time, require an investor to withdraw all or a portion of its Capital Account. Such a mandatory withdrawal could result in adverse tax and/or economic consequences to such investor.

*Risk of Asset Growth*

If the assets managed by North Reef and its affiliates grow significantly, it may adversely affect the Firm's investment performance. It becomes more difficult to find attractive investment opportunities as the amount of assets that North Reef must invest increases. In this event, the Firm may find it necessary to invest in a greater number of positions than it currently intends, which could dilute its focus on individual positions, impair its ability to monitor existing and potential investments, and result in investments in positions that it otherwise would not select. In addition, with greater assets to invest, it will be increasingly difficult for North Reef to make investments large enough to be meaningful to their overall portfolios.

*Contingency Reserves*

The General Partner, following consultation with the Firm, may on behalf of the Fund establish reserves for contingencies (including general reserves for unspecified contingencies). The establishment of such reserves will not insulate any portion of the Fund's assets from being at risk, and such assets may still be traded by the Fund. A pro rata portion of any reserve may be withheld from distribution to a withdrawing investor.

*Tax Liability Without Distributions*

Investors must recognize for income tax purposes their pro rata shares of the taxable net income of the Fund, regardless of whether the investors requested a partial withdrawal from the Fund to cover their income tax liabilities. Taxable income can be expected to differ from Net Income, primarily because

generally only realized gains and losses are considered for income tax purposes but Net Income and Net Loss will include unrealized gains and losses. The Fund may generate taxable income for an investor even though the value of the investor's interest in the Fund has declined. It will generally be necessary for investors to pay such tax liabilities out of separate funds or withdrawals from the Fund. There are significant limitations on an investor's right to withdraw funds from the Fund. Sufficient information may not be available in time for the investor to determine accurately an amount to withdraw to pay taxes for a given fiscal year.

#### *Information Rights*

Subject to the sole discretion of the General Partner, certain investors may invest on terms that provide access to information that is not generally available to other investors, and as a result, may be able to act on such additional information (i.e., withdraw their Capital Accounts) that other investors do not receive.

#### *Performance Allocation to the General Partner*

The General Partner is entitled to receive a Performance Allocation, based upon the net capital appreciation, if any, allocated to the investor's Capital Account. The Performance Allocation may create an incentive for the Firm to make investments that are riskier or more speculative than would be the case if such arrangement were not in effect. In addition, because the Performance Allocation is calculated on a basis which includes unrealized appreciation of the Fund's assets, it may be greater than if such compensation were based solely on realized gains.

#### *Side Letter Agreements*

In accordance with common industry practice, the General Partner and/or the Firm may enter into one or more Side Letters or similar agreements with certain investors pursuant to which they may agree to vary certain of the terms applicable to any such investor or grant to any such investor specific rights, benefits, or privileges that are not made available to investors generally. The General Partner and/or the Firm may also agree to provide a greater level of disclosure regarding the investments and activities of the Fund to certain investors than other investors. Such agreements will be disclosed only to those actual or potential investors that have separately negotiated with the General Partner and/or the Firm for the right to review such agreements.

#### *Asset Valuation*

The General Partner and North Reef have substantial discretion in determining the value of the Fund's assets and liabilities, whether or not a public market exists for assets of the same class or type. While some marketable assets are valued based on prices reported in the public markets, other investments may be more thinly-traded or subject to irregular trading activity. Determinations on the value of certain investments, and how to value assets and liabilities as to which limited prices or quotations are available, are based on the General Partner's or North Reef's recommendations or instructions to the Administrator. The General Partner and the Firm may face a conflict of interest in making any of these valuation decisions or recommendations. If the General Partner's valuation of any such asset is inaccurate, the General Partner might receive a Performance Allocation and the Firm may receive a Management Fee that is greater than the fee to which they would otherwise be entitled. Any such inaccuracy could adversely affect investors. Additionally, any reduction in the value of any assets or increase in the value of any liabilities

held by the Fund would reduce the amount of fees to which the General Partner or the Firm may be entitled.

#### *Cross-Class Liability*

The Fund has the power to issue Interests in different Classes. However, the Fund is a single legal entity and there is no limited recourse protection for any Class. Accordingly, all of the assets of the Fund will be available to meet all of its liabilities regardless of the Class to which such assets or liabilities are attributable. In practice, cross-class or cross-series liability is only expected to arise where liabilities referable to one Class are in excess of the assets referable to such Class and it is unable to meet all liabilities attributed to it. In such a case, the assets of the Fund attributable to other Classes may be applied to cover such liability excess and the value of the contributing Classes will be reduced as a result.

#### *Mini-Master Feeder Structure*

The Fund is also the investment vehicle for the Offshore Fund. The Offshore Fund invests substantially all of its assets in the Fund. The “mini-master” fund structure presents certain unique risks to investors. For example, a smaller feeder fund investing in a mini-master fund may be materially affected by the actions of a larger feeder fund investing in such mini-master fund. If a larger feeder fund redeems its shares of a mini-master fund, a remaining feeder fund may experience higher pro rata operating expenses, thereby producing lower returns. A mini-master fund may become less diverse due to a redemption by a larger feeder fund, resulting in increased portfolio risk. A mini-master fund is a single entity and creditors of such master fund may enforce claims against all assets of such mini-master fund.

The Fund may enter into an arrangement with other investment funds managed by the General Partner or Investment Manager with the same or substantially similar investment objectives as the Fund’s to either allow other funds to contribute their assets to the Fund to invest, or to pursue its investment activities by investing all or a portion of its assets in a “Master Fund” that will conduct the investment activities described in this Memorandum.

#### *Legal Counsel*

Documents relating to North Reef, including the Subscription Documents to be completed by each investor, as well as the Partnership Agreement, are detailed and often technical in nature. Cole-Frieman & Mallon LLP is legal counsel to the Fund, the General Partner and the Firm and Maples and Calder (Cayman) LLP (“Maples and Calder”) is Cayman Islands legal counsel to the Fund and neither Cole-Frieman & Mallon LLP nor Maples and Calder represent the interests of any Shareholder. Accordingly, each prospective investor is urged to consult with its own legal counsel before investing with North Reef. Finally, in advising as to matters of law (including matters of law described in this Memorandum), legal counsel has relied, and will rely, upon representations of fact made by the General Partner, the Firm and other persons in this Memorandum and other documents. Such advice may be materially inaccurate or incomplete if any such representations are themselves inaccurate or incomplete, and legal counsel generally will not undertake independent investigation with regard to such representations.

#### *Tax Considerations*

North Reef will be permitted to utilize leverage and borrow. Thus, tax-exempt investors may incur an income tax liability with respect to their share of any unrelated business taxable income (“UBTI”) North

Reef may generate, if applicable. Each investor should consult with and rely on its own independent tax counsel as to the U.S. Federal income tax consequences of an investment in the Firm based on its particular circumstances, as well as to applicable state, local or non-United States tax laws. For a more detailed discussion of the income tax considerations associated with an investment in the Firm, see the discussion below under “Tax Considerations”. Risks for Certain Benefit Plan Investors Subject to ERISA. Prospective investors that are benefit plan investors subject to the ERISA and Department of Labor Regulations issued thereunder should read the section hereof entitled “ERISA MATTERS” in its entirety for a discussion of certain risks related to an investment by benefit plan investors in North Reef.

#### *Investment Company Regulation*

The Firm’s Fund relies on Section 3(c)(7) of the Investment Company Act to avoid requirements that the Fund register as an “investment company”, and comply with the substantive provisions of, the Investment Company Act. If the Fund was required to be registered as an investment company, the Investment Company Act would require, among other things, that the Fund have a board of directors, some of whom were unrelated to the General Partner, compel certain custodial arrangements and regulate the relationship and transactions between the Fund and the General Partner or Adviser. Compliance with some of those provisions could possibly reduce certain risks of loss, although such compliance could significantly increase the Fund’s operating expenses and limit the Fund’s investment and trading activities. Interpretations of Section 3(c)(7) are complex and uncertain in several respects, and as a result, there can be no assurance that the Fund will remain entitled to rely on that Section. If the Fund were found not to have been entitled to such reliance, the Fund and the General Partner could be subject to legal actions by the SEC and others and the Fund could be forced to terminate its business under adverse circumstances.

#### *Registration Exemption*

North Reef offers Interests on a continuing basis without registration under the Securities Act in reliance on an exemption for “transactions by an issuer not involving any public offering”, and without registration or qualification of the Interests under state laws in reliance on related exemptions. While the General Partner believes reliance on such exemptions is justified, there can be no assurance that factors such as the manner in which offers and sales are made, concurrent offerings by other funds, the scope of disclosure provided, failures to file notices or renewals of claims for exemption, or changes in applicable laws, regulations, or interpretations will not cause North Reef to fail to qualify for such exemptions under Federal or one or more states’ laws. Failure to so qualify could result in the rescission of sales of Interests at prices higher than the current value of those Interests, potentially materially and adversely affecting the Firm’s performance and business. Further, even non-meritorious claims that offers and sales of Interests were not made in compliance with applicable securities laws could materially and adversely affect the General Partner’s ability to conduct the Firm’s business.

#### *Other Laws and Regulations*

The Clients, the General Partner, and the Firm are subject to various other securities and similar laws and regulations that could limit some aspects of the Firm’s operations or subject the Clients, the General Partner, or the Firm to the risk of sanctions for noncompliance.

**INVESTING INVOLVES RISK OF LOSS THAT INVESTORS SHOULD BE PREPARED TO BEAR. NORTH REEF DOES NOT REPRESENT OR GUARANTEE THAT ITS SERVICES OR METHODS OF ANALYSIS CAN OR WILL PREDICT FUTURE RESULTS, SUCCESSFULLY IDENTIFY MARKET TOPS OR BOTTOMS, OR INSULATE CLIENTS**

**FROM LOSSES DUE TO MARKET CORRECTIONS OR DECLINES. NORTH REEF CANNOT OFFER ANY GUARANTEES OR PROMISES THAT FINANCIAL GOALS AND OBJECTIVES WILL BE MET. PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE PERFORMANCE.**

#### **Item 9 - Disciplinary Information**

There are no legal or disciplinary events to report.

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

North Reef is not affiliated with any banks, broker-dealers or custodians. We serve as investment adviser or trading manager to the Fund, which is described above, and to the Sub-Advised Accounts. The General Partner serves as the general partner to the respective Fund. North Reef, its affiliates, employees and/or their related persons may invest directly in the Fund. It should be noted that investments in the Fund made by such persons may not be subject to the management fees and/or performance-based fees.

Neither North Reef nor any of its management persons are registered, nor have any an application pending to register as a futures commission merchant, commodity pool operator, a commodity trader advisor, or an associated person of such entities.

As noted below, the Firm has adopted a code of ethics that requires pre-clearance of certain transactions and requires that the interests of Clients be placed ahead of those of employees in their personal trading. The Firm's code of ethics in some circumstances permits certain employees to divest legacy securities in the same instruments as Clients. Personal trading is regularly monitored in an effort to prevent conflicts of interest between North Reef and its Clients. Please refer to "Item 11 – Code of Ethics, Participation or Interest in Client Transactions and North Reef Trading," for discussion of potential conflicts that may be raised by North Reef's policies and procedures that North Reef has adopted to address these conflicts.

North Reef's supervised and related persons occasionally have professional interactions with senior executives of public or private companies, the securities of which North Reef may recommend. Additionally, North Reef's supervised and related persons do not currently serve on the board of directors, advisory boards, executive committees or in other management capacities at public or private companies and/or other organizations but may do so in the future if such relationship is determined to be in the best interest of North Reef's Clients. The potential for such relationships gives rise to conflicts of interest. For example, it is possible that senior executives of the underlying companies could seek to exert influence on North Reef to invest in such a company or may give North Reef information that is not publicly known. As such, North Reef maintains insider trading procedures which forbid any access person from trading, either personally or on behalf of others, including Clients, on material non-public information or communicating material non-public information to others in violation of the law. Further, North Reef maintains internal compliance policies that require supervised persons to, among other things, obtain prior written approval from North Reef's Chief Compliance Officer before engaging in certain outside business activities and to update disclosure on such activities on a periodic basis. Please also see *Item 17 – Voting Client Securities* of this Brochure for details related to how North Reef handles potential conflicts of interest related to proxy votes.

North Reef advises clients that have financial or other incentives that may create an incentive to favor certain Client accounts over others (including, but not limited to, receiving greater compensation from such other accounts). Some Client accounts may significantly outperform others. However, North Reef

will not knowingly or deliberately favor one account over any other on an overall basis (although exact equality of treatment may not be possible in each particular circumstance), and we have designed an allocation policy to ensure that trading activity for all Client accounts is fair and equitable over time.

#### **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and North Reef Trading**

We have adopted a Code of Ethics that reflects our commitment to conducting our business in accordance with all applicable laws and regulations and in an ethical and professional manner. In addition, we recognize that we have a fiduciary duty to our Clients, and that all of our employees must conduct their business on our behalf in a manner that enables us to fulfill this fiduciary duty. In this regard, we have developed policies and procedures in our Code of Ethics that are premised on fundamental principles of openness, integrity, honesty and trust. In addition, among other things, our Code of Ethics governs North Reef investment transactions by our employees, our policies with respect to gifts and entertainment, compliance with applicable federal securities laws, the manner in which violations of our Code of Ethics are to be reported, and certain other outside activities of our employees. All supervised persons are required to acknowledge their receipt of, and agreement to abide by, the Code of Ethics (among other things) upon hire and at least annually thereafter. North Reef's Clients or prospective Clients may request a copy of the Code of Ethics by contacting North Reef's Chief Compliance Officer, at [IR@northreefcapital.com](mailto:IR@northreefcapital.com).

North Reef is permitted, in appropriate circumstances, to cause Clients to purchase or sell securities in which North Reef, its affiliates and/or Clients, directly or indirectly, have a position or interest. North Reef's officers, directors, employees and certain other persons associated with North Reef (collectively, "Access Persons") are required to follow the Code of Ethics, which includes certain qualifications on the ability of Access Persons to trade instruments held by Clients. Subject to satisfying this policy and applicable laws, Access Persons may, in certain circumstances, trade for their own accounts in securities and derivatives which are recommended to and/or purchased for Clients. The Code of Ethics is designed to assure that the personal transactions, activities and interests of Access Persons will not interfere with (i) making decisions in the best interest of Clients and (ii) implementing such decisions while at the same time allowing its Access Persons to invest for their own accounts. The Code of Ethics requires pre-clearance of certain transactions and requires that the interests of Clients be placed ahead of those of Access Persons in their personal trading. Nonetheless, because the Code of Ethics in some circumstances would permit Access Persons to invest in the same instruments as Clients, there is a possibility that Access Persons might benefit from market activity by a Client in an instrument held by an Access Person. Personal trading is regularly monitored under the Code of Ethics in an effort to prevent conflicts of interest between North Reef and its Clients.

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

As explained in *Item 10 – Other Financial Industry Activities and Affiliations*, the Adviser has pecuniary interests in Client accounts and receives fees for the advisory services it provides to Clients. North Reef's affiliates, principals, and employees, and certain related persons (including investment vehicles that they manage) invest in one or more of the Funds or other Clients and the Adviser, North Reef in its sole discretion, reserves the right to waive, reduce or calculate differently the fees for any such investments. The fact that the Adviser, its affiliates, partners and employees and their related persons have pecuniary interests in Client accounts creates a potential conflict in that it could cause North Reef to make different investment decisions than if such parties did not have such interests. Further, advisory fees payable to North Reef are payable without regard to the overall success or income earned by Client accounts and



therefore may create an incentive on the part of North Reef to raise or otherwise increase assets under management to a higher level than would be the case if North Reef were receiving no fees. North Reef addresses these potential conflicts through regular monitoring of the Client portfolios as described in *Item 13 – Review of Accounts*.

North Reef, its affiliates and its officers, directors, and employees may become aware of, and participate in, business opportunities and investments in which any of the Clients will not be given an opportunity to participate. The Adviser will use its best efforts in connection with the purposes and objectives of each Client and will devote as much of their business time and effort to the affairs of each Client as may, in their judgment, be necessary to accomplish the investment objectives of the Client. Affiliated persons may conduct other business activities, including any business within the securities industry, whether or not such business is in competition with a Client. Without limiting the generality of the foregoing, the Adviser or its affiliated persons may act as the investment adviser for others, may manage funds or capital for others, may have, make and maintain investments in their own name or through other entities, and may serve as officers, directors, consultants, partners or stockholders of one or more investment funds, partnerships, securities firms or advisory firms. It may not always be possible or consistent with the investment objectives of Clients for the same investment positions to be taken or liquidated at the same time or at the same price.

### **Cross and Principal Transactions**

North Reef does not cause Clients to effect transactions in which such Client purchases securities or derivatives from, or sells securities or derivatives to, North Reef or its principals or affiliates (i.e., principal transactions). Subject to applicable law, North Reef executes transactions between two of its Clients (i.e., cross trades), either directly or through open-market transactions, where North Reef believes that such transaction is in the best interests of both participating Clients. This typically occurs in the context of rebalancing market exposure. Effecting cross trades when executed through the open market increases brokerage commissions and may result in certain Clients holding less of a profitable investment, or more of an unprofitable investment, than would be the case if there were no cross trades.

### **Item 12 - Brokerage Practices**

North Reef has sole authority for selecting the broker-dealer used in transactions for the Fund and for negotiating the fees to be paid to the broker-dealers in connection with such transactions. North Reef recognizes its duty to obtain “best execution.” Consistent with such duty, in determining best execution, North Reef takes into account the full range and quality of a broker-dealer’s services, including such factors as the financial stability and reputation of brokerage firms, and the brokerage or other services provided by such brokers. North Reef does not select broker-dealers solely based on the lowest possible commission costs, but on the best qualitative execution and overall value. Moreover, North Reef does not measure best execution by the circumstances surrounding a single transaction but measures best execution instead over time.

Consistent with such policy, consideration is given to a variety of factors, including, but not limited to, one or more of the following:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)

- the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution
- the financial strength, integrity and stability of the broker
- the quality, comprehensiveness and frequency of available research services considered to be of value
- the competitiveness of commission rates in comparison with other brokers satisfying North Reef's other selection criteria.

Although North Reef will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker, commission rates are generally negotiable and thus, selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable.

Subject to applicable law and regulation, North Reef effects securities transactions with broker-dealers that provide brokerage or research services or pay for research services provided by third parties to us. These services are paid with soft dollar credits generated by our clients' brokerage commissions. These types of eligible transactions and benefits received are in accordance with Section 28(e) of the Securities Exchange Act of 1934. In some instances, North Reef may receive a product or service that may be used only partially for functions within Section 28(e) (i.e., an order management system, trade analytical software or proxy services). In such instances, North Reef will make a good faith effort to determine the relative proportion of the product or service used to assist North Reef in carrying out its investment decision making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting North Reef in carrying out its investment decision making responsibilities will be paid through brokerage commissions generated by advisory client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by North Reef from its own resources.

Research and brokerage services obtained by the use of commissions arising from Clients' portfolio transactions may be used by North Reef in its other investment activities and thus, Clients may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided. North Reef has no obligation to deal with any particular broker or dealer in executing transactions and will periodically review brokerage and soft dollar arrangements.

### **Brokerage for Client Referrals**

North Reef may elect to place Client orders with a broker-dealer that provides North Reef (or its affiliates) with the opportunity to participate in capital introduction events sponsored by the broker-dealer or refers investors to the Fund advised by North Reef (or an affiliate). Because such referrals, if any, could benefit North Reef and its affiliates, North Reef would have a conflict of interest with the Fund when allocating Client brokerage business to a broker who has referred investors to the Fund. To prevent Client brokerage commissions from being used to pay for investor referral fees, North Reef will not allocate Client brokerage business to a referring broker in sole recognition of the opportunity to participate in such capital introduction events or the referral of investors, but rather, will determine in good faith that the commissions payable to such broker is consistent with its obligation to seek best execution.

### **Allocation and Aggregation of Investments**

North Reef's duty of loyalty to one Client may potentially conflict with its duty of loyalty to another, particularly with respect to allocations of investments. In order to mitigate this inherent potential conflict of interest among Clients, North Reef has adopted a policy to provide equal and fair treatment to all Clients consistent with North Reef's duty of loyalty. In particular, investments may not be allocated to one Client over another in order to, among other things: (i) favor one Client at the expense of another; (ii) generate higher fees paid by one Client over another, or produce greater performance compensation; (iii) develop a relationship with an investor or prospective investor or client; (iv) compensate an investor for past services or benefits rendered to North Reef, or induce future services or benefits to be rendered to North Reef; or (v) equalize performance among different Clients, or for any other similar reason.

In the event North Reef determines to buy or sell the same security on behalf of more than one Client, when beneficial to Clients involved and subject to offering document limitations, North Reef places an aggregate order (in accordance with trade guidelines, as applicable) with the broker on behalf of all such participating accounts and in order to ensure fairness for all accounts allocates pursuant to its allocation policy. It is North Reef's policy, when purchasing securities for more than one Client (i.e., bunching orders), to purchase the quantity of such securities necessary to supply all Clients and to then average the aggregate costs over all securities purchased. Related benefits to such Clients also will be averaged over the securities purchased.

In some circumstances, it may be appropriate for North Reef to buy or sell a security on behalf of more than one Client over a period of time. For example, if North Reef is buying a small capitalization and/or relatively illiquid security for more than one Client, North Reef may wish to fill the order over a period of days or even weeks. In such instances, although it may not be possible to aggregate orders to be entered for all Clients, North Reef still must allocate Clients' orders pursuant to the allocation guidelines (as applicable). However, in the event that North Reef determines a need to buy or sell a security on behalf of more than one Client over a period of time, there can be no assurance of equality of treatment among all Clients.

### **Trade Errors**

Trade errors involving transactions effected by North Reef on behalf of its Clients may occur. North Reef will use reasonable efforts to detect such potential errors prior to settlement and promptly correct them. Trade errors may result in losses or gains. Losses caused by trade errors committed by North Reef will ordinarily be borne by Clients, except for losses caused by North Reef's bad faith or gross negligence, which losses would then be borne by North Reef. To the extent a trade error is caused by a counterparty, such as a broker-dealer, North Reef will use reasonable efforts to recover any losses associated with such error from the counterparty. Any gains resulting from such errors will be retained by the affected Client(s). The evaluation of the standard of care exercised in committing a trade error will be performed by North Reef, in its sole discretion, and may be conflicted in making such a determination.

### **Item 13 - Review of Accounts**

North Reef's portfolio managers continually review Client portfolios. The nature of the review involves, but is not limited to, analyzing certain performance and risk measures and whether security positions or other investments should be maintained in view of current market conditions.

Each investor in the managed Fund will receive annual audited financial statements within 120 days of the Fund's fiscal year-end, K-1s and other tax informational statements (as applicable) within the time period required by law, and monthly unaudited capital account statements disseminated by the fund administrator.

The Fund may offer, upon request, certain investors additional information and reporting that other investors may not receive.

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

North Reef does not receive any economic benefits from non-Clients for providing investment advice or other advisory services. Further, North Reef and its related persons do not directly or indirectly compensate any third-party for Client referrals.

#### **Item 15 - Custody**

North Reef may be deemed to have custody of assets of the Fund pursuant to Rule 206(4)-2 of the Advisers Act (the "**Custody Rule**"). North Reef itself may also be deemed to have custody of Fund assets due to broad contractual authority for account opening, cash management and fund expense payment granted by the Fund's offering documents.

The Custody Rule requires that an investment adviser advising pooled investment vehicles that are deemed to have Custody pursuant to the Custody Rule undergo an annual GAAP financial statement audit or be subject to a surprise custody examination by a Public Company Accounting Oversight Board-registered accounting firm. With the exception of assets that are considered to be "private offered securities" under Rule 206(4)-2(b), North Reef or its affiliates enter into agreements with qualified custodians to maintain custody of the Funds' assets as required by the Custody Rule. These qualified custodians generally include banks, registered broker dealers and potentially certain foreign financial institutions. The Fund is responsible for all costs of such qualified custodians.

North Reef has elected to undergo an annual GAAP financial statement audit of the Fund, copies of which are delivered to each underlying Fund investor within 120 days of the end of each fiscal year, satisfying the requirements of the Custody Rule.

North Reef urges all underlying investors of the Fund to carefully review all statements received from the Firm, its administrator and/or custodians.

#### **Item 16 - Investment Discretion**

North Reef has discretionary authority to manage Client accounts and is authorized to make purchase and sale decisions for Clients subject to the investment objectives and guidelines set forth in the respective Client's offering materials. Investors in the Fund do not have the ability to impose limitations on North Reef's discretionary authority. Prospective investors in the Fund are provided with offering materials (and any applicable supplements) prior to their investment and are encouraged to carefully review such documents, along with all other relevant Fund materials, and to be sure that the proposed investment is consistent with their investment goals and tolerance for risk. Prospective investors should also consult with their legal, tax, or other advisors prior to making any investment. Prospective investors must also

execute a subscription agreement, which constitutes a legal, valid and binding obligation of the investor, enforceable in accordance with its terms.

**Item 17 - Voting Client Securities**

North Reef (or an affiliate thereof) holds the authority to vote proxies on behalf of the Fund and has adopted proxy voting policies and procedures designed to ensure that such proxies are voted in its Clients' best interests. Pursuant to North Reef's proxy voting procedures, in the event that North Reef receives proxies sent to a Client, the portfolio manager for the applicable Client's account will be responsible for casting the proxy, consistent with North Reef's general voting guidelines and other applicable firm policies.

North Reef does not expect that there will be any material conflicts of interest with respect to any proxy vote between the Firm or its supervised persons and the Fund. However, the Chief Compliance Officer will monitor the potential for conflicts of interest on the part of the Adviser with respect to proxy voting as a result of personal relationships, significant Client relationships, potential conflicts of interests among the Fund or special circumstances that may arise during the conduct of the Adviser's business. If a conflict of interest is identified, North Reef will not make related proxy voting decisions until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented, in accordance with North Reef's proxy voting policies and procedures.

North Reef reserves the right to abstain from voting a specific proxy or proxy item when it concludes that the cost of voting outweighs the potential benefit, or when North Reef otherwise does not believe voting serves the best interests of the Fund.

Investors in the Fund may obtain a copy of North Reef's complete proxy voting policies and procedures and information about how North Reef voted any proxies on behalf of such Fund by contacting North Reef's Chief Compliance Officer at [IR@northreefcapital.com](mailto:IR@northreefcapital.com).

**Item 18 - Financial Information**

North Reef is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its Clients and has not been the subject of a bankruptcy petition at any time during the past ten years.