



PHASE 2 PARTNERS, LLC

**Phase 2 Partners, LLC
44 Montgomery Street, Suite 2970
San Francisco, California 94104**

Form ADV Part 2A

March [29], 2023

Item 1 - Cover Page

This brochure ("Brochure") provides information about the qualifications and business practices of Phase 2 Partners, LLC, an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). Any reference to Phase 2 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 Phase 2. 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 us at 415-503-5712 or rachael@phase2partners.com. Additional information about Phase 2 is also available on the SEC's website at www.adviserinfo.sec.gov and at Phase 2's website at www.phase2partners.com.

Item 2 - Summary of Material Changes

Phase 2 Partners, LLC is submitting this annual amendment of its Brochure, which updates the previous Brochure dated March 25, 2022. In our opinion, the amended Brochure does not reflect any material changes since the prior version.

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Item 4 - Advisory Business

- A. Phase 2 Partners, LLC ("Phase 2" or the "Investment Manager") is a Delaware limited partnership that was formed August 27, 2020 and maintains its principal place of business in San Francisco, California. The Investment Manager provides investment advisory services on a discretionary basis to one or more pooled investment vehicles structured as private funds (each, a "Fund" or "Client"). P2 Nexxt GP LLC (together with the Investment Manager, "Phase 2"), a Delaware limited liability company, is the general partner or managing member of certain of the Funds. Phase 2 is principally owned by Justin Hughes and Andrew Del Medico. Any references to the "Firm," "us," "we," and "our" in this Brochure refer to Phase 2. 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.
- B. We pursue a long/short investment strategy on behalf of our Clients, focused primarily on the equity securities of issuers in the financial service industry. The Funds will invest predominately (but not exclusively) in U.S., Canadian, U.K. and European publicly-traded securities of finance companies including: banks, thrifts, brokers, asset managers, insurance, exchanges, mortgage, specialty finance, REITs, homebuilders, financial technology, related business services, and other financial intermediaries. Although the Fund has long-term views, when appropriate, the Fund will seek to enhance performance through short-term trading.

All discussions of the Funds in this brochure, including but not limited to their investments, the strategies used in managing the Funds, the fees and other costs associated with an investment in the Funds, and conflicts of interest faced by the Firm in connection with management of the Funds, are qualified in their entirety by reference to each Fund's respective offering memorandum and advisory agreement.

- C. With respect to each Fund that we manage, Phase 2 tailors its investment advisory services to the strategies and conditions set forth in the Fund's respective governing document(s). We provide and tailor our services to each Fund pursuant to the strategies and conditions set forth in the applicable governing documents, rather than to the individual needs of any Fund's underlying investors (each, an "Investor"). It should be noted that as a general matter, we do not tailor our services to take into account any specific conditions to any Investor, and Investors generally may not prescribe additional investment restrictions beyond those described in the applicable governing documents.

The Funds has entered into side letters and other agreements and arrangements with certain Investors, which may provide terms and conditions that are more advantageous than those set forth in the applicable Fund's governing documents. Such terms and conditions may include special rights to make future investments in the Funds or other investment vehicles or accounts managed by Phase 2, different transparency rights, reporting rights, different withdrawal/redemption rights and/or different fee terms.

- D. Phase 2 does not participate in any wrap fee programs.
- E. As of December 31, 2022, we managed approximately \$475,478,000 in regulatory assets under management on a discretionary basis. We do not currently manage any assets on a non-discretionary basis.

Item 5 - Fees and Compensation

Phase 2 charges Investors management fees and performance-based profit allocations (“Performance Allocations”). Those Investors are all “qualified purchasers” or “knowledgeable employees” as defined in the Investment Company Act of 1940 (the “1940 Act”). As a result, detailed information regarding the management fees and Performance Allocations are not required to be provided herein. Phase 2 may waive or reduce all or any portion of the management fees or Performance Allocations with respect to any Investor, including Investors who are members, partners, affiliates or employees of Phase 2, their immediate family members, or certain large or strategic investors, as well as any management fees or performance-based allocations or fees with respect to any other Client. Phase 2 deducts management fees and Performance Allocations directly from Client accounts.

In addition to the fees discussed above, Investors will share pro rata in the administrative, operating and investment costs incurred by the Funds based on their attributable invested amount, as set forth in the applicable Fund’s governing documents. Such costs and expenses include, but are not limited to, organizational expenses, trading costs and expenses (such as brokerage commissions, expenses relating to short sales, and clearing and settlement charges), research-related fees and expenses, ongoing legal, accounting, administrative, audit, tax and bookkeeping fees and expenses, and taxes governmental registrations and offering-related expenses. Phase 2 seeks to allocate expenses among its Clients in a fair and equitable manner, considering the extent to which each Client benefits from the product or services. Depending upon the nature of the expense, it could be allocated in proportion to the Clients’ relative assets under management or relative use of the product (or relative participation in an investment, if the expense is related to such investment), equally among all participating Clients or in another manner that Phase 2 deems fair and equitable.

Phase 2 renders its services to Clients 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.

The management fees payable by Clients are paid quarterly in advance based on the net asset value of the relevant assets as of the first business day of each calendar quarter. The management fees are prorated for periods less than a full quarter. A pro rata portion of the management fee will be paid on any capital contributions made by new or existing Investors in the Funds as of any date other than the first day of a fiscal quarter, based on the actual number of days remaining in such partial fiscal quarter (payable upon such capital contribution). In the case of a withdrawal/redemption by an Investor other than as of the last day of a fiscal quarter, a pro rata portion of the management fee shall be repaid by Phase 2 to the applicable Fund and distributed to the withdrawing/redeeming Investor.

Neither Phase 2 or any of its affiliates or its related persons receive commission or transaction-based compensation related to the sale of interests in the Funds.

It is very important that Investors refer to their respective Fund’s governing documents for a complete understanding of their withdrawal/redemption rights. 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 in Item 5, Phase 2 is eligible to receive Performance Allocations from Investors. It should be noted that the possibility for Phase 2 to receive Performance Allocations creates a potential conflict of interest in that it may create an incentive for Phase 2 to make investments that are riskier or more speculative than would be the case in the absence of such a performance-based fee. However, this incentive may be tempered somewhat by the fact that losses will reduce the Fund's performance and thus the fees earned. Investors are provided with clear disclosure as to how Performance Allocations are charged with respect to a particular Fund and the risks associated with such performance-based compensation prior to making an investment.

Phase 2 values the assets held by its Clients and is responsible for the determination of asset valuations for all purposes, including the determination of the management fees and the performance-based compensation. Phase 2 will calculate the value of Clients' assets in the manner set forth in each Client's offering materials or investment management agreement. The Funds generally have contracted with a third-party administrator to provide certain services, including independent price verification of the investments held by the Funds and independent verification of the calculation of management fees and Performance Allocations.

Additionally, Phase 2 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 consulting services to other accounts which may include their own accounts, and may in the future organize, manage and advise investment funds or other entities with objectives similar 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, Phase 2 recognizes that it is a fiduciary and, as such, must act in the best interests of Clients. Further, the Firm recognizes that it must treat all Clients fairly and must refrain from favoring one Client's interests over another. Phase 2 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 the Firm's personnel.

Item 7 - Types of Clients

Phase 2 provides investment advice to pooled investment vehicles organized as private investment funds and may provide investment advice to other types of Clients, which may include institutions, investment pools, trusts, endowments, sovereign wealth funds, pension plans, or charitable organizations, but excluding persons within the definition of "retail investors" under Rule 17a-14(e)(2) of the Securities Exchange Act of 1934.

Each Investor must meet certain eligibility provisions: interests/shares in the Funds are generally offered to Investors who are (i) accredited investors within the meaning of Regulation D of the Securities Act of 1933, as amended ("Accredited Investors") and (ii) "qualified purchasers" or "knowledgeable employees" under the 1940 Act. Additionally, Phase 2 requires a minimum initial capital contribution of \$500,000 and additional capital contributions in increments of \$100,000 but may waive these minimums at its discretion.

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

Phase 2 pursues a long/short investment strategy on behalf of our Clients, focused primarily on the financial services sector. We strive to view the financial sector through a non-traditional lens. Our objective is to generate long-term attractive risk-adjusted returns by focusing on multi-year thesis and investment ideas. We plan to do this by covering the full scope of financial services, related technology, and services and emerging companies.

The following is a general discussion of the methods of analysis, investment strategies and the risk of loss associated with Phase 2's overall investment strategy. These risk factors may change over time. An investment in a Fund is highly speculative, is not intended as a complete investment program, and is designed only for sophisticated persons who are able to risk losing their investment in the Fund and have limited need for liquidity. There can be no assurance that any Fund will achieve its objectives or that any Fund will not incur losses. Investors must be prepared to lose all or substantially all of their investment in a 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 FUNDS. POTENTIAL INVESTORS IN THE FUNDS 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 FUNDS.

Limited Operating History

The Fund has limited operating history upon which investors can evaluate their past performance. There can be no assurance that the Fund will achieve its investment objective. Although many of the Investment Manager's investment professionals have experience with other investment funds and accounts, the past performance of such other investment funds and accounts cannot be relied upon as an indicator of the Fund's success.

Limited Liquidity; No Market for Interests

An investment in the Fund is a relatively illiquid investment because Interests are not generally transferable without the consent of the General Partner and the withdrawal rights of the Limited Partners are restricted. In addition, transfer of the Interests may be affected by restrictions on resales imposed by federal and state securities laws. The Fund is not intended as a complete investment program and is designed only for persons who are able to bear the full economic risk of investment, including a complete loss of its investment, and are sophisticated persons in connection with financial and business matters who do not need liquidity with respect to their investments.

Institutional Risk and Custodial Risks

The institutions, including brokerage firms and banks, with which the Firm (directly or indirectly) does business, or to which securities have been entrusted for custodial and prime brokerage purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of the Fund. Brokers may trade with an exchange as a principal on behalf of the Fund in a "debtor-creditor" relationship, unlike other clearing broker relationships where the

broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of the Fund (for example, the transactions which the broker has entered into on behalf of the Fund as principal as well as the margin payments which the Fund provides). In the event of such broker's insolvency, the transactions which the broker has entered into as principal could default and the Fund's assets could become part of the insolvent broker's estate, to the detriment of the Fund. In this regard, Fund assets may be held in "street name" such that a default by the broker may cause the Fund's rights to be limited to that of an unsecured creditor. The Fund will rank as one of each Prime Broker's unsecured creditors in relation to assets which the Prime Broker borrows, lends, pledges or hypothecates and, in the event of the insolvency of a Prime Broker, the Fund might not be able to recover all or a portion of equivalent assets either permanently or for some years.

Legal and Regulatory Risks

Legal, tax and regulatory changes (both within and outside the United States) could occur that may adversely affect the Firm and its Clients. New (or revised) laws or regulations may be imposed by the U.S. Internal Revenue Service (the "IRS"), the SEC, the CFTC, the U.S. Treasury Department (the "Treasury"), the U.S. Federal Reserve or other banking regulators, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets that could adversely affect the Firm's Clients. The global financial markets have in the past several years undergone pervasive and fundamental disruptions that have led to extensive and unprecedented governmental intervention and rulemaking applicable to investment funds, investment managers, and derivatives. The Firm's Clients may also be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations. For example, there has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry. It is impossible to predict what, if any, changes in regulation may occur, but any regulation that restricts the ability of the Firm to trade in securities could have a material adverse impact on the Firm's Clients' performance.

The regulatory environment for private funds is evolving, and changes in the regulation or taxation of private funds may adversely affect the value of the investments held by the Firm and the ability of the Investment Manager to execute its investment strategy. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The Firm and its Clients may also be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations. For example, there has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry. It is impossible to predict what, if any, changes in regulation may occur, but any regulation that restricts the ability of the Firm and its Clients to trade in securities could have a material adverse impact on the Firm and its Clients' performance.

Availability of Investment Strategies

The success of the Firm's investment and trading activities will depend on the ability of the General Partner and the Investment Manager (including members of the investment team) to identify overvalued and undervalued investment opportunities and to exploit price discrepancies in the markets in which the Firm invests. Identification and exploitation of the investment

strategies to be pursued by the Firm involves a high degree of uncertainty. No assurance can be given that the General Partner and the Investment Manager (including members of the investment team) will be able to identify suitable investment opportunities in which to deploy all of the Firm's capital. A reduction in overall market volatility and liquidity, as well as other market factors, may reduce the pool of profitable investment strategies for the Firm and its Clients.

Data Protection

Federal, state and non-US privacy, data protection and information security laws may be applicable to certain aspects of data processing by the Fund, the Investment Manager, the Administrator, or a custodian or other third-party service provider. Ensuring compliance with these laws and regulations may significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data. Failure to comply with such laws could result in fines, sanctions or other penalties, which could materially and adversely affect results of operations and as have an impact on reputation.

Cybersecurity Risk

As part of its business, the Investment Manager processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Fund and personally identifiable information of the Limited Partners. Similarly, service providers of the Investment Manager or the Fund, especially the Administrator, and middle office provider may process, store and transmit such information. These systems are subject to a number of different threats or risks that could adversely affect the Fund and its investors, despite the efforts of the Investment Manager and the Fund's service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Fund and its investors. The Investment Manager has 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 Investment Manager may be susceptible to compromise, leading to a breach of the Investment Manager's network. The Investment Manager's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by the Investment Manager to the Limited Partners may also be susceptible to compromise. Breach of the Investment Manager's information systems may cause information relating to the transactions of the Fund and personally identifiable information of the Limited Partners to be lost or improperly accessed, used or disclosed.

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

Similar types of operational and technology risks are also present for the companies in which the Fund invests, which could have material adverse consequences for such companies, and may cause the Fund's investments to lose value.

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

Tax Risks

There are a number of tax considerations with respect to an investment in the Fund. Tax laws are subject to change, and tax liabilities could be incurred by Investors as a result of changes thereto. Investors may be subject to filing requirements and U.S. federal, state and local and non-U.S. taxes as a result of an investment in the Fund. The Fund itself may be subject to U.S. federal, state or local or non-U.S. taxes. Therefore, Investors should consult their own tax advisors to determine the tax effects of an investment in the Fund, especially in light of their particular situations.

The Fund is managed without regard to the tax consequences of its investment or trading activity. The investment strategies of the Fund, including certain investments and hedging transactions, may result in the Fund being subject to tax rules that defer or disallow taxable losses or accelerate taxable income, cause Investors to be taxed on amounts not representing economic income, cause adjustments in the holding periods of securities, convert long-term capital gains into short-term capital gains or ordinary income or convert short-term capital losses into long-term capital losses.

Investment Risks

An investment in the Fund involves a high degree of investment risk, including the risk that the entire amount invested may be lost. The Fund will make investments using strategies and financial techniques with significant risk characteristics. No guarantee is made that the investment objectives of the Fund will be realized. Below is a list of potential investment risk factors. There is no guarantee that this is a complete list of the risks, that the Fund will be able to control investment risks or that the risks will not aggregate in a manner adverse to the Fund. The risks associated with particular investments by the Fund include, but are not limited to, the following:

Concentration of Investments

Since a large portion of the Firm's portfolio will be concentrated in the financial services industry, the Firm will not be as diversified as many other investment advisers. Additionally, the Firm will participate in a limited number of portfolio investments and, as a consequence, the aggregate return of the Firm's Clients may be substantially adversely affected by the unfavorable performance of any single investment. Such concentration of the Firm's portfolio will make the Firm's Clients more susceptible to risks associated with a single economic, political or regulatory occurrence. Losses in one or more large positions, or a downturn in an industry in which the Firm is concentrated, could materially adversely affect the Firm's Clients performance and could have

a materially adverse effect on the Fund's overall financial condition. Investment in a concentrated Firm's Clients will generally entail greater risks than investments in a less concentrated fund.

Regulatory Oversight of Financial Companies

Financial services companies in the U.S. are subject to extensive regulation, supervision, an examination by various federal and state authorities, including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, State banking commissions, State Insurance Commissioners, the Securities and Exchange Commission, etc. This regulation and supervision establish a comprehensive framework of activities in which the financial services company can engage and is intended to ensure that there is a stable system of financial intermediation available. Generally, each institution must file regular reports with its regulators with respect to its activities and financial condition, and it must obtain regulatory approvals prior to entering into certain transactions that may be subject to certain minimum capital requirements, and may be subject to periodic examination to assess compliance with various regulatory requirements. Any change in the laws, regulations, or policies applicable to financial institutions, whether by Congress, the states or federal or state regulators, could have a material adverse impact on the industry or on institutions in which the Fund may have an investment.

Foreign Bank or Financial Company Related Laws and Regulations

The Fund may invest in banks or financial companies located outside the United States ("Foreign Financial Entities"). Foreign Financial Entities are subject to the laws and regulations of their jurisdictions of incorporation as well as the laws and regulations of other jurisdictions in which they conduct business or own assets. Such laws and regulations may, among other things, result in the Fund being subject to investment lock-up periods, heightened regulatory oversight or increased reporting requirements or compliance costs. Changes in foreign laws or regulations may reduce the profitability of the Fund's investments in Foreign Financial Entities or require the Fund to reduce its investments in or divest itself entirely from Foreign Financial Entities. Failure to comply with existing or future foreign laws or regulations could result in significant fines and penalties to Foreign Financial Entities and their directors and officers and could have an adverse effect on the Fund.

Risk Relating to the Size of Issuer

There is no limitation on the size or operating experience of the companies in which the Fund may invest. Some small companies in which the Fund may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

Equity Risk

The market price of securities owned by the Fund may go up or down, sometimes rapidly or unpredictably. A risk of investing in the Fund is that the equity securities in the Fund's portfolio will decline in value due to factors affecting equity securities markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding or other taxes, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which the Investment Manager believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Investment Manager anticipates. As a result, the Fund may lose all or substantially all of its investment in any particular instance.

Short Sales

The Fund will incur a loss as a result of a short sale if the price of the security, currency or other instrument increases between the date of the short sale and the date on which the Fund replaces the borrowed security, currency or other instrument. The Fund will realize a gain if the price of the security, currency or other instrument declines between those dates. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends or interest the Fund may be required to pay in connection with a short sale. Short selling exposes the Fund to unlimited risk with respect to that security, currency or other instrument due to the lack of an upper limit on the price to which an investment can rise. Purchasing securities, currencies or other instruments to close out a short position can itself cause the price of the securities, currencies or other instruments to rise further, thereby exacerbating any losses. Under adverse market conditions, the Fund may have difficulty purchasing securities, currencies or other instruments to meet its short sale delivery obligations, and may have to sell portfolio securities, currencies or other instruments to raise the capital necessary to meet its short sale obligations at a time when it would be unfavorable to do so. If a request for return of borrowed securities, currencies and/or other instruments occurs at a time when other short sellers of the securities, currencies and/or other instruments are receiving similar requests, a "short squeeze" can occur, and the Fund may be compelled to replace borrowed securities, currencies and/or other instruments previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities, currencies and/or other instruments short. In addition, the Fund may have difficulty purchasing securities, currencies and/or other instruments to meet its delivery obligations in the case of less liquid securities, currencies and/or other instruments sold short by the Fund such as certain emerging market country securities or securities of companies with smaller market capitalizations. Short sales of securities, currencies or other instruments the Fund does not own, and "short" derivative positions involve forms of investment leverage, and the amount of the Fund's potential loss is theoretically unlimited. The Fund is subject to increased leveraging risk and other investment risks to the extent it sells short securities, currencies or other

instruments it does not own or takes “short” derivative positions. The SEC and other regulators have in the past and may in the future adopt restrictions or other requirements on short sales.

As collateral for its return obligation, the Fund must leave the proceeds of its short sales with the lender—generally a Prime Broker. Ordinarily all the Fund’s assets held by a Prime Broker will serve as collateral not only for the Fund’s short sale return obligation, but also for any other credit such Prime Broker extends and any other obligations the Fund owes such Prime Broker. If the amount of the Fund’s return obligation were to increase significantly due to increases in a short sold security’s price, or if the value of collateral were to decrease, the Fund could be required to deliver additional cash or other collateral to the relevant Prime Broker. But, if substantially all the Fund’s assets were already serving as collateral, it is unlikely that the Fund would be able to meet such a demand, and the Prime Broker would likely cause the Fund to “buy-in” or “close” some or all of its short positions. Such a “buy-in” could well be at a time and on terms that are adverse to the Fund. Less dramatically, market-driven increases in short-sale-related liabilities and reductions in collateral value could also reduce the Fund’s ability to effect transactions or distribute cash to fund Limited Partner withdrawals. Lenders such as a Prime Broker have great discretion in their decisions regarding adequacy of collateral, and the Fund’s short-selling activities, and actions that depend on availability of assets not being relied on for collateral (e.g., distributing cash) could be curtailed, potentially significantly and without notice.

Investments in Emerging Markets

The Fund expects to invest in emerging markets. Investments in emerging markets involve a greater degree of risk than investing in developed countries. Among other things, emerging market investments may be subject to the following risks: less publicly available information; more volatile markets and unstable market conditions, changes in interest rates, availability of credit and inflation rates; less liquidity or available credit; uncertainty in enforceability of documents; changes in local laws and regulations (including nationalization of industries); political or economic instability (including wars, terrorist acts or security operations); the relatively small size of the securities markets in such countries and the low volume of trading and less strict securities market regulation; less favorable tax or legal provisions; price controls and other restrictive governmental actions; changes in or non-approval of tariffs or other fees or rates charged, potential severe inflation or other serious adverse economic developments; unstable currency; expropriation of property; confiscatory taxation; imposition of withholding and other taxes on income or gross sales proceeds or dispositions; fluctuations in the rate of exchange between currencies, non-convertibility of currencies which can result in the inability to repatriate funds, costs associated with currency conversion; and certain government policies that may restrict the Fund’s investment opportunities. The foregoing may result in lack of liquidity and in price volatility.

Risks of Derivative Instruments

The Fund expects to engage in a variety of derivative transactions. A derivative is a financial contract the market value of which depends upon, or is derived from, the value of underlying assets, reference rates or indices. Derivatives may relate to securities, commodities, currencies, currency exchange rates, interest rates, inflation rates and related indices, and include futures, non-U.S. currency contracts, swap contracts, options on securities and indices, options on futures contracts, options on swap contracts, forward contracts, contracts for differences, interest rate

caps, floors and collars, repurchase or reverse repurchase agreements and other over-the-counter contracts. The Fund may use derivatives for many purposes, including as a substitute for direct investment, as a way to adjust its exposure to various securities, markets and currencies without actually having to sell existing investments and/or make new investments, and as a means to hedge other investments and to manage liquidity and excess cash.

The use of derivatives involves the risk that their value may not change as expected relative to changes in the value of the assets, rates or indices they are designed to track. In addition, all derivative instruments involve risks that are in addition to, and potentially greater than, the risks of investing directly in securities and other more traditional assets, including:

- *Management Risks.* Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with equities and fixed income securities. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into and the ability to assess the risk that a derivative adds to the Fund's portfolio.
- *Counterparty Risks.* This is the risk that a loss may be sustained by the Fund as a result of the failure of the other party to a derivative (usually referred to as a "counterparty") to comply with the terms of the derivative contract. The Fund may post or receive collateral related to changes in the market value of a derivative. The Fund also may invest in derivatives that (i) do not require the counterparty to post collateral, (ii) require collateral but that do not provide for the Fund's security interest in it to be perfected, (iii) require significant upfront deposits unrelated to the derivatives' fundamental fair (or intrinsic) value, or (iv) do not require that collateral be regularly marked-to-market. When a counterparty's obligations are not fully secured by collateral, the Fund runs a greater risk of not being able to recover what it is owed if the counterparty defaults. Even when derivatives are required by contract to be collateralized, the Fund typically will not receive the collateral for one or more days after the collateral is required to be posted.
- *Documentation Risks.* Many derivative instruments are also subject to documentation risk, which is the risk that ambiguities, inconsistencies or errors in the documentation relating to a derivative transaction may lead to a dispute with the counterparty or unintended investment results. Because the contract for each over-the-counter derivative transaction is individually negotiated, the counterparty may interpret contractual terms (e.g., the definition of default) differently than the Fund, and if it does, the Fund may decide not to pursue its claims against the counterparty to avoid the cost and unpredictability of legal proceedings. The Fund, therefore, may be unable to obtain payments the Investment Manager believes are owed to the Fund under derivative instruments or those payments may be delayed or made only after the Fund has incurred the cost of litigation. Also, payment amounts calculated in connection with standard industry conventions for resolving contractual issues (e.g., ISDA Protocols and auction processes) may be different than would be realized if a counterparty were required to comply with the literal terms of the derivatives contract (e.g., physical delivery). In addition, the literal terms of an over-the-counter contract may be

applied in ways that are at odds with the investment thesis behind the decision to enter into the contract.

- *Illiquidity Risks.* If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many over-the-counter derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price. Less liquid derivative instruments also may fall more in price than other securities during market falls. During periods of market disruptions, the Fund may have a greater need for cash to provide collateral for large swings in the mark-to-market obligations arising under the derivative instruments used by the Fund.
- *Leverage Risks.* Because many derivatives have a leverage component (i.e., a notional value in excess of the assets needed to establish or maintain the derivative position), adverse changes in the value or level of the underlying asset, rate or index can result in a loss substantially greater than the amount invested in the derivative itself. In the case of swaps, the risk of loss generally is related to a notional principal amount, even if the parties have not made any initial investment. Notional amounts of swap transactions are not subject to any limitations, and swap contracts may expose the Fund to unlimited risk of loss. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.
- *Derivatives Regulation.* In addition, the U.S. government has enacted legislation that provides for more extensive regulation of the derivatives market, including clearing, margin, reporting, and registration requirements, which could restrict the Fund's ability to engage in derivatives transactions or increase the cost or uncertainty involved in such transactions. The European Union (and some other countries) are implementing similar requirements, which will affect the Fund when it enters into a derivatives transaction with a counterparty organized in that country or otherwise subject to that country's derivatives regulations. Because these requirements are new and evolving (and some of the rules are not yet final), their ultimate impact remains unclear.

Hedging, Generally

The Fund expects to utilize significant hedging in order to reduce market risk and volatility. Hedging strategies in general are usually intended to limit or reduce investment risk, but they can also be expected to involve transaction costs and may inherently limit or reduce the potential for profit. Hedges are often imperfectly inversely correlated with the underlying exposure the Fund seeks to hedge and, to the extent that is the case, can subject the Fund to additional risk, if prices involved in the hedging position move against the Fund. Other risks that may be involved in hedging include: (i) possible illiquidity in the market for closing out a hedging position; (ii) interest rate, spread, or other broad market movements not anticipated by the Investment Manager; (iii) the Fund's obligations to meet margin or other payment requirements; (iv) a counterparty's default or refusal to perform; and (v) impact that required segregation of the Fund's assets to cover hedge-related obligations may have on portfolio management or the Fund's ability to meet short term obligations. The Fund will not attempt to hedge all market or other risks inherent in its positions, and will hedge certain risks, if at all, only partially. Specifically, the Fund does not generally intend to hedge particular positions with short positions in the same security. Therefore, there is no assurance that the hedging positions that are selected will in fact reduce volatility and risk of loss. Also, the portfolio will always be exposed to certain risks that cannot be hedged.

Depository Receipts

The Fund expects to pursue non-U.S. investing through American Depositary Receipts (“ADRs”), Global Depositary Receipts (“GDRs”), European Depositary Receipts (“EDRs”) or other similar securities representing ownership of non-U.S. securities (collectively, “Depository Receipts”). Depository Receipts generally evidence an ownership interest in a corresponding non-U.S. security on deposit with a financial institution. Transactions in Depository Receipts usually do not settle in the same currency in which the underlying securities are denominated or traded. Generally, ADRs, in registered form, are designed for use in the U.S. securities markets and EDRs, in bearer form, are designed for use in European securities markets. GDRs may be traded in any public or private securities markets and may represent securities held by institutions located anywhere in the world. GDRs and other types of Depository Receipts are typically issued by non-U.S. banks or trust companies, although they may be issued by U.S. financial institutions, and evidence ownership interests in a security or pool of securities issued by either a non-U.S. or a U.S. corporation.

Because the value of a Depository Receipt is dependent upon the market price of an underlying non-U.S. security, Depository Receipts are subject to most of the risks associated with investing in non-U.S. securities directly. Depository Receipts may be issued as sponsored or unsponsored programs. Depository Receipts may also be subject to liquidity risk.

Securities of Stressed, Distressed or Defaulted Issuers Risks

Although investments in securities, claims, and obligations of issuers that are experiencing significant financial or business difficulties (including companies involved in bankruptcy or other reorganization and liquidation proceedings) may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable period of time.

Investments in distressed or defaulted or other low quality debt securities may trade significantly below par, generally are considered speculative, and may involve substantial inherent risks that are generally significantly higher than the risks involved in investing in companies that are not experiencing, or expected to experience, financial stress and not normally associated with investments in higher quality securities, including adverse business, financial or economic conditions that lead to payment defaults and insolvency proceedings on the part of their issuers.

In particular, defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments, and the Fund may incur additional expenses to seek recovery. The amount of any recovery may be adversely affected by the relative priority of the Fund’s investment in the issuer’s capital structure. The ability to enforce obligations may be adversely affected by actions or omissions of predecessors in interest that give rise to counterclaims or defenses, including causes of action for equitable subordination or debt recharacterization. In addition, such investments, collateral securing such investments, and payments made in respect of such investments may be challenged as fraudulent conveyances or to be subject to avoidance as preferences under certain circumstances.

Investments in securities issued by issuers under financial stress inherently have more credit risk than do investments in similar securities and instruments of non-distressed issuers, and the degree of risk associated with any particular security may be difficult or impossible for the Investment Manager to determine within reasonable standards of predictability. The level of analytical sophistication, both financial and legal, necessary for successful investment in securities issued by issuers under financial or business stress is unusually high.

If the Investment Manager's assessment of the eventual recovery value of a distressed or defaulted debt security proves incorrect, the Fund may lose a substantial portion or all of its investment or may be required to accept cash or instruments worth less than its original investment.

Investments in securities of issuers domiciled outside the United States involve additional risks. Bankruptcy law and creditor reorganization processes may differ substantially from those in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Over-The-Counter Derivatives

The Fund expects to trade principal-to-principal or "over-the-counter" (OTC) contracts between the Fund and third parties entered into privately, rather than on an established exchange. These could include security-based swaps, swaps, contracts for differences, forward contracts, and other OTC derivative arrangements involving or relating to, among other things, specific securities (including total return swaps), interest rates (including caps and floors), or currencies. In all these types of transactions, the Fund will be subject to the risk that a counterparty is unable or refuses to perform. The Fund will not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices. Over-the-counter derivatives may also expose the Fund to additional liquidity risks.

Swap Agreements. A swap is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, indices or prices, with payments generally calculated by reference to a principal ("notional") amount or quantity. Swaps and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, the Fund is subject to the risk that its counterparties will be unable or unwilling to perform their obligations. Swaps may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage: depending on their structure, Swaps may increase or decrease exposure to the markets for the underlying instruments (e.g., the markets for corporate credit, equity securities, long-term or short-term interest rates, foreign currency values). Swaps can take many different forms and are known by a variety of

names. Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio.

The most significant factor in the performance of a Swap is the change in the specific interest rate, currency, equity index or other factors that determine the amounts of payments due to and from the Fund. If a Swap calls for payments by the Fund, the Fund must be prepared to make those payments when due. The Fund may be required to maintain collateral with its swap counterparties. If the Fund were to fail to fulfill its payment obligations or to post any required collateral, the swap counterparty could declare an event of default and, as a result, the Fund could be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments. If a counterparty's creditworthiness declines, the value of a swap with the counterparty can be expected to decline, potentially resulting in losses by the Fund.

Over-the-Counter Derivatives Markets. The Reform Act mandates that a substantial portion of OTC derivatives must be executed in regulated markets and submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The Fund's OTC derivatives dealers may demand the unilateral ability to increase the Fund's collateral requirements for cleared OTC trades beyond regulatory and clearinghouse minima. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements will apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Fund is required to provide and the costs associated with providing it.

In cleared OTC derivatives, the Fund will not face a clearinghouse directly but rather will transact through an OTC derivatives dealer that is registered with the CFTC or SEC to act as a clearing member. The Fund may face the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. That could happen due to a default by the clearing member on its obligations to the clearinghouse, triggered by a customer's failure to meet its obligations to the clearing member. If the defaulting customer's clearinghouse margin account balance is insufficient to cover the defaulted obligation, the clearinghouse may have recourse to the margin of all of the clearing member's customers on deposit with the clearinghouse in order to cure the default, regardless of which customer "caused" the clearing member to default. The SEC and the CFTC are both considering proposals on the most effective methods to protect customer collateral posted to a clearing member that may change this analysis. Notwithstanding regulations or clearinghouse rules governing the recovery of collateral the Fund has posted to its clearing member, if the clearing member's affiliates have a lien on the assets posted to the clearing member, the Fund's recovery in the event of the clearing member's insolvency is likely going to be subject to resolution of claims against all affiliates of the clearing member.

Debt Instruments

The Fund may invest in debt instruments, including instruments of companies that are in financial difficulty, and may be in, or emerging from, bankruptcy proceedings or other legally mandated forms of liquidation proceedings. Such proceedings may be governed by U.S. or non-U.S. bankruptcy laws. The length and complexity of bankruptcy and other insolvency proceedings may make it difficult for the Fund to realize upon its investments when it desires.

In addition, particular types of debt instruments are subject to various risks that are specific to the ways in which they are structured, the industries and markets in which their issuers participate, the assets underlying the instruments, the impact of applicable tax or regulatory factors, and numerous other specific factors. But the values and prices of all debt instruments are subject, in substantially the same way (albeit with differing levels of sensitivity), to credit risk, market risk, and interest rate risk.

- Credit risk is the risk that a fixed income security will decline in price, or fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status.
- Market risk relates to the changes in the market perceptions of the risk of an issuer, country, or region. The market values of debt instruments, particularly non-investment grade debt, may be more volatile than the values of other investments and, during periods of economic uncertainty and change, the market price of these investments can decrease rapidly and dramatically.
- Interest rate risks include: (i) if interest rates increase, the value of fixed income securities will generally decline; (ii) during periods of rising interest rates, the average life of certain fixed income securities may be extended because of slower than expected principal payments, which may lock in a below market interest rate, increase the security's duration, and reduce the value of the security (i.e., extension risk); and (iii) during periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to invest in lower yielding securities (i.e., call or prepayment risk).

Debt instruments, particularly non-investment grade instruments, may be less liquid than equities.

Governmental Intervention; Wall Street Reform and Consumer Protection Act

Since 2008, financial crises and market disruptions have led to extensive new governmental intervention in financial markets and the structure and operation of financial institutions. Many governmental interventions have been unclear in scope and application and have included apparent inconsistencies, at times causing losses for market participants who assumed either no intervention or intervention consistent with past precedent, contributing to confusion and uncertainty as to important market forces, and in some cases contributing, at least temporarily, to illiquidity in some markets. In particular, in the United States the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") substantially altered the regulation of many markets, market participants and financial instruments. Many of its provisions require rulemaking by various governmental agencies before they become fully effective and, as of the date of this Memorandum, some required implementing rules that have not been adopted or become effective. Some of those rules, when adopted, may have significant effects on various financial market participants' costs of investing and providing services and on the availability and costs of certain types of investments and services. European and other non-U.S. governmental

entities have enacted and are still implementing their own regulations in response to the “credit crisis” and other market disruptions.

It is impossible to predict what additional interim or permanent governmental restrictions or other actions may be imposed on financial markets, particularly if new disruptions occur, and it is impossible to predict the effect those restrictions or other actions may have on the Investment Manager’s strategies or the Fund’s portfolio when implemented. Those effects could create or exacerbate market disruptions and further expose the Fund to risks of the kinds described above.

Market Conditions and Disruptions: Interconnected Markets

Developments and disruptions in financial and securities markets generally, including aspects and attributes such as interest rates, the availability of credit, the liquidity of particular types of investments, as well as changes in general economic conditions, including unemployment and inflation, can significantly affect the prospects of companies in which the Fund invests, the Investment Manager’s ability to assess those prospects and the Fund’s ability to adapt its portfolio and market exposures. In 2007 and 2008, a global “credit crisis” caused rapid and violent swings in all markets. In the summer and early fall of 2011, global economic disruptions caused additional dramatic swings in securities prices. In 2012, developments in Europe caused significant price swings. Other types of disruptions could emerge, including as a result of political or economic developments outside the markets in which the Fund mainly invests, that have similar, or even more dramatic, effects on the markets in which the Fund invests. Market disruptions could cause the Fund to incur major losses, particularly if they cause historical pricing relationships to become materially distorted or previously liquid positions to become illiquid. Market disruptions can result in otherwise historically low-risk strategies performing with unexpected volatility and risk.

No Current Income

The Fund’s investment policies should be considered speculative, as there can be no assurance that the Investment Manager’s assessments of the short-term or long-term prospects of investments will generate a profit. In view of the fact that the Fund will likely not pay dividends, an investment in the Fund is not suitable for investors seeking current income for financial or tax planning purposes.

Competition

The securities industry is extremely competitive. The Fund competes with firms, including many of the larger investment banking firms, which have substantially greater financial resources than does the Investment Manager and substantially greater research staffs and more securities traders than does the Investment Manager.

Risks of Special Techniques Used by the Investment Manager

The Fund may invest using special investment techniques that may subject the Fund’s investments to certain risks. Certain, but not all, of these techniques and the risks that they entail are summarized herein. The Fund, in any event, is not designed to correlate to the broad equity market and should be viewed as an alternative to instead of a substitute for equity investments.

Changes in Investment Strategies

The Investment Manager has broad authority to expand, contract or otherwise change the Fund's activities without notice to, or the consent of, the Limited Partners. The Investment Manager will opportunistically implement whatever strategies or discretionary approaches it believes from time to time may be best suited to prevailing market conditions. For some of these strategies, no specific "risk factors" are described in this Memorandum. Nevertheless, those strategies should be considered to be speculative, volatile and, in general, no less risky than other strategies more fully described in this Memorandum. Over time, the strategies the Fund implements can be expected to expand, evolve, and change, perhaps materially. The Investment Manager will not be required to implement any particular strategies and may discontinue employing any particular strategy, whether or not that strategy is specifically described in this Memorandum, and without notice to investors. Any change in strategies could expose the Fund's capital to additional risks, which may be substantial.

Reliance on Certain Information

The Investment Manager may elect to invest in securities on the basis of information and data filed by the issuers of such securities with the SEC or made directly available to the Investment Manager by the issuers of the securities and other instruments or through sources other than the issuers. Although the Investment Manager evaluates all such information and data and seeks independent corroboration when it considers it appropriate and when it is reasonably available, the Investment Manager is not in a position to confirm the completeness, genuineness or accuracy of such information and data.

Valuation Risks

For some of the Fund's securities the market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, resulting in unreliability of pricing information. Further, if an issuer's financial condition deteriorates, accurate financial and business information can become limited or entirely unavailable and prices for its securities may not be available from any source. Where third-party pricing information for a position is not available, or where the Investment Manager considers market-based pricing information not to be indicative of the position's value, the Fund may assign a different (less favorable) value. As a result of these and other factors, values reflected in financial reports and used in determining withdrawal proceeds, the Management Fee, and the Performance Allocation might not accurately reflect the amounts the Fund could obtain (or would be required to pay as to some types of derivatives positions) if it were to try to sell the security (or close the position). The Investment Manager faces conflicts of interest in making valuation decisions.

Securities that the Investment Manager believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Investment Manager anticipates. In particular, purchasing securities at prices that the Investment Manager believes to be distressed or below fair value is no guarantee that the price of such securities will not decline even further.

New Issues

The Fund may invest in “new issues”—initial public offerings of equity securities. Limited Partners who are “restricted persons” under the rules of FINRA, as well as executive officers and directors of certain companies that have or may have certain investment banking relationships with broker-dealers selling new issues, may be limited in the amount of profits (if any) that they may be allocated from new issues in which the Fund invests or prohibited entirely from participating in a new issue. To the extent a Limited Partner is subject to these limitations, an investment in the Fund may produce lower performance than that experienced by investors who are not so subject. Any Limited Partner who does not provide the Fund with information sufficient to show that he or she is not subject to FINRA-related limitations will be presumed to be subject to them.

Investment in Non-U.S. Securities

The Fund expects to invest in non-U.S. securities. Such investments may be subject to a greater risk than U.S. investments due to non-U.S. economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of non-U.S. tax-filing obligations and additional taxes on dividends, interest payments, capital gains, or other income, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities and other factors beyond the control of the Investment Manager.

Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive accounting, reporting or disclosure requirements than U.S. issuers. The securities markets of some countries in which the Fund may invest have substantially less volume than those in the United States, and securities of certain companies in these countries are less liquid and more volatile than securities of comparable U.S. companies. Accordingly, these markets may be subject to greater influence by adverse events generally affecting the market, and by large investors trading significant blocks of securities, than is usual in the United States. Brokerage commissions and other transaction costs on securities exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. securities settlements may in some instances be subject to delays and related administrative uncertainties. In some countries there are restrictions on investments or investors such that the only practicable way for the Fund to invest in such markets is by entering into swaps or other derivative transactions with its brokers or others. Such transactions involve counterparty risks which are not present in the case of direct investments and which may not be controllable by the Investment Manager.

Euro-Related Risks

On March 29, 2017, the UK formally notified the European Council of its intention to leave the European Union (“Brexit”). Under the process for leaving the European Union contemplated in article 50 of the Treaty on the Functioning of the European Union, the UK left the European Union on January 31, 2020 and entered an 11-month transitional period. During the transitional period, the UK and the European Union will negotiate the terms of their future relationship and during this period most European Union laws will continue to apply to the UK. There is no guarantee that an agreement between the UK and the European Union will be reached at the end of the transitional period.

Although one cannot predict the full effect of Brexit, it could have a significant adverse impact on UK, European and global macroeconomic conditions and could lead to prolonged political, legal, regulatory, tax and economic uncertainty. This uncertainty is likely to continue to impact the global economic climate and may impact opportunities, pricing, availability and cost of bank financing, regulation, values or exit opportunities of companies or assets based, doing business, or having service or other significant relationships in, the UK or the European Union, including companies or assets held or considered for prospective investment by the Fund.

The future application of European Union-based legislation to the private fund industry in the UK and the European Union will ultimately depend on how the UK renegotiates its relationship with the European Union. There can be no assurance that any renegotiated terms or regulations will not have an adverse impact on the Fund and its investments, including the ability of the Fund to achieve its investment objectives. Brexit may result in significant market dislocation, heightened counterparty risk, an adverse effect on the management of market risk and, in particular, asset and liability management due in part to redenomination of financial assets and liabilities, an adverse effect on the ability of the Investment Manager and its respective affiliates to manage, operate and invest the Fund and increased legal, regulatory or compliance burden for the Investment Manager, its respective affiliates and/or the Fund, each of which may have a negative impact on the operations, financial condition, returns or prospects of the Fund.

Political parties in several other member states of the European Union indicated at the time of the UK's referendum to leave the European Union that a similar referendum be held on their country's membership in the European Union. It is unclear whether any other member states of the European Union will hold such referendums, but if they do, further disruption can be expected.

Lack of Liquidity in Markets

The markets for many securities and other investments are thinly traded from time to time. This lack of liquidity and market depth could disadvantage the Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities. Also, U.S. and non-U.S. securities exchanges and the SEC and other regulatory authorities have authority to suspend trading in a particular security without notice.

Leverage

The Fund expects to use leverage in its investment program when deemed appropriate by the Investment Manager and subject to applicable regulations. At times, the amount of such leverage may be substantial. The Fund may leverage its investment positions by borrowing funds from securities brokers or dealers, banks, or others. It may also use derivatives to leverage its capital, as discussed below. Leverage creates an opportunity for greater yield and total return, but at the same time increases exposure to capital risk and higher current expenses. If the Fund purchases securities on margin and the value of those securities falls, the Fund may be obligated to pay down the margin loans to avoid liquidation of the securities. If loans to the Fund are collateralized with portfolio securities that decrease in value, the Fund may be obligated to provide additional collateral to the lender in the form of cash or securities to avoid liquidation of the pledged securities. Any such liquidation could result in substantial losses. Moreover, counterparties of the Fund, in their sole discretion, may change the leverage limits that they extend to the Fund.

Counterparty Risk

The Fund is exposed to counterparty risk to the extent it uses over-the-counter derivatives, enters into repurchase agreements, lends its portfolio securities or allows a broker, if any, or an over-the-counter derivative counterparty to retain possession of collateral. If a counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, the Fund could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for the Fund. The Fund is not subject to any limits on its exposure to any one counterparty nor to a requirement that counterparties maintain a specific rating by a nationally recognized rating organization to be considered for potential transactions. To the extent that the Investment Manager's view with respect to a particular counterparty changes (whether due to external events or otherwise), existing transactions are not required to be terminated or modified.

Custodial Risk

The Fund's brokers will have custody of the Fund's securities, cash, distributions and rights accruing to the Fund's securities accounts. SEC rules require brokers to maintain physical possession and control of fully paid securities held in the Fund's account and to establish certain reserves for the benefit of customers. However, subject to these limitations, the brokers generally have the ability to loan, pledge, and rehypothecate the securities in the Fund's account, as is typical market practice, and may have insufficient assets to meet all of its obligations to customers in the event of an insolvency of the brokers. In such an event, the Fund would typically not have a right to recover its securities held by the brokers, but would rather have only an unsecured claim against the brokers and participate pro rata with other customers of the brokers in the proceeds of the sale of customer securities. Also, even if the brokers do have sufficient assets to meet all customer claims, there could be a delay before the Fund receives assets to satisfy its claims. In order to manage the risks associated with broker insolvency, the Fund may establish relationships with multiple brokers. However, there can be no assurance that the Fund will be able to establish or maintain such relationships. In addition, the Fund may not be able to identify potential solvency concerns with respect to the Fund's brokers or to transfer assets from one broker to another broker in a timely manner.

The brokers may hold the Fund's securities through third parties such as clearing corporations, other brokers or banks. In addition, the Fund may hold securities, cash and other assets directly with banks or other third parties not associated with the brokers. As a result, the Fund may be subject to credit risk with respect to such third parties, as well as with respect to the brokers. In addition, certain of the Fund's assets may be held by non-U.S. affiliates of the Fund's brokers and entities other than the brokers. Assets held by such non-U.S. affiliates may be subject to legal regimes that provide fewer or different investment protections than the U.S. If the Fund has overcollateralized derivative contracts, it is likely to be an unsecured creditor of any such counterparty in the event of its insolvency. Also, even if the Fund's broker or such other third parties do have sufficient assets to meet all claims, there could be a delay before the Fund receives assets to satisfy its claims.

The Fund may change the brokerage arrangements described in this Memorandum at any time without notice to the Limited Partners. There are likely to be operational and other delays associated with changes in brokerage arrangements

Portfolio Turnover

The Fund has not placed any limit on the rate of portfolio turnover, and portfolio securities may be sold without regard to the time they have been held when, in the opinion of the Investment Manager, investment considerations warrant such action. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate, may act to reduce the Fund's investment gains, or create a loss for investors and may result in increased taxable costs for investors depending on the tax provisions applicable to such investors.

Broad Discretion

The Fund will have the discretion to supplement its principal investment strategy by making investments in any other securities or assets that the Investment Manager believes may offer attractive trading or investment opportunities. In implementing the Fund's investment program, the Investment Manager may utilize whatever techniques it deems to be advisable, regardless of whether any such technique is specifically described herein, is currently in existence or is hereafter created. In pursuit of its investment objective, the Fund reserves the right, upon notice to the Limited Partners to expand its investment focus and to modify its investment strategy described herein.

Conflicts of Interest

Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of Phase 2 and its Clients. The following are not exhaustive of all conflicts that may or are at risk of existing from the overall advisory, investment, and other activities of Phase 2 and its Clients.

Certain Risks Related to Parallel Funds. Client funds are managed in parallel by Phase 2. Interests in certain Funds will be beneficially owned by employees and other related persons of Phase 2, or large or strategic investors, and will be subject to more favorable investment terms than those available to external investors. For example, parallel fund investors generally will be subject to reduced or no management fee or performance allocation with respect to their investment. In certain cases, Phase 2 may determine to waive limitations on withdrawal or other provisions applicable to parallel fund interests and such determinations will give rise to conflicts of interest.

Strategic Investor. Phase 2 has received a significant investment in one of the Funds from an initial investor (the "Strategic Investor"). In exchange for the strategic investment, the Strategic Investor is entitled to receive, without limitation, an allocation of a portion of the management fees and Performance Allocations otherwise payable to Phase 2. Additionally, the Strategic Investor has received certain additional rights not available to other Investors, including, without limitation, consent rights over certain actions related to the Fund or Phase 2, advance notice with respect to certain events or actions related to the Fund or Investment Manager and their affiliates, transfer rights,

preferential reporting, information and transparency rights, special redemption rights, including in the case of the occurrence of certain events, waiver of the redemption charges, capacity rights, most favored nations rights, and other rights related to the Fund that are in addition to, and are more favorable than, the rights of other Investors.

The Strategic Investor is not a sponsor or promoter of any Fund and has no duties to other Investors and will not be liable to other Investors for exercising or not exercising any rights that it may have. The Strategic Investor will not have any management responsibilities with respect to Phase 2 or its Clients, including not having control over the day-to-day investment decisions of any Fund.

Management Risks Certain Trading Restrictions

From time to time, the Investment Manager may come into possession of material, non-public information, and such information may limit the ability of the Fund to buy and sell investments. In such cases, the Fund could be restricted indefinitely in transactions involving a particular issuer. Consequently, the possession of material, non-public information by the Investment Manager may limit the ability of the Fund to buy and sell investments. The Investment Manager may in limited circumstances erect information barriers to restrict the transfer of confidential information between business units, if deemed appropriate. Furthermore, the Investment Manager may agree from time to time to “cross” any such information barriers, and the Investment Manager may from time to time impose restrictions on transactions involving particular issuers in its sole discretion taking into account all factors it deems relevant in the collective interest of the Investment Manager. In addition, the Investment Manager may be restricted by contract from using confidential information that it has for the benefit of the Fund.

Trade Errors

On occasion, errors may occur with respect to trades executed on behalf of the Fund. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, or when the wrong quantity is purchased or sold. Trade errors frequently result in losses but may, occasionally, result in gains. To the extent an error is caused by a third party, such as a broker, the General Partner or the Investment Manager may seek to recover any losses associated with such error from such third party, although there may be contractual limitations on any third party’s liability with respect to such errors. The General Partner and the Investment Manager will establish internal policies regarding the manner in which such determinations are to be made, but investors should be aware that, in making such determinations, the General Partner and the Investment Manager will have a conflict of interest. Generally, the General Partner and the Investment Manager will not be held accountable for trade errors that do not breach the standard of care set forth in the Agreements.

Outsourced Service Providers

Services required by the Fund will, from time to time, for certain reasons including efficiency and economic considerations, be outsourced in whole or in part to third parties in the discretion of the General Partner or the Investment Manager. The General Partner, Investment Manager and their affiliates have an incentive to outsource such services at the expense of the Fund. Such

services may include, without limitation, trading desk, client relations, administration, custodial, back office, accounting, compliance, legal and tax support and other services. The decision by the General Partner, or the Investment Manager to initially perform a service for the Fund in-house does not preclude a later decision to outsource such services (or any additional services) in whole or in part to a third-party service provider in the future.

Compliance

The Fund must comply with various legal requirements, including requirements imposed by the securities laws, tax laws and pension laws in various jurisdictions. Should any of those laws change over the scheduled term of the Fund, the legal requirements to which the Fund and the Limited Partners may be subject could differ materially from current requirements. Investors that are employee benefit plans should consider certain factors discussed below under the heading “ERISA and Certain Other Considerations.”

European Union Alternative Investment Fund Managers Directive

Under the recently enacted AIFMD, if the Fund were to market Interests in the European Union, the Investment Manager and the Fund would have to comply with certain disclosure and reporting requirements set forth in the AIFMD. Because various member countries in the European Union are still implementing their own statutes and regulations in response to the AIFMD, these requirements are unsettled and still evolving. If the Investment Manager or the Fund were found not to have complied with the AIFMD and related laws, as implemented by any particular European Union country, the Fund may incur costs and expenses that could adversely affect Limited Partners’ return on their investments. Finally, the costs of compliance with the AIFMD and related laws, or the threat of penalties and sanctions for failure to comply, may cause the Fund to determine not to offer Shares in some or all European Union countries which could hinder the Fund’s ability to raise capital to fund its investment strategies.

Inflation

High rates of inflation and rapid increases in the rate of inflation generally have a negative impact on financial markets and the broader economy. In an attempt to stabilize inflation, governments may impose wage and price controls or otherwise intervene in a country’s economy. Governmental efforts to curb inflation, including by increasing interest rates or reducing fiscal or monetary stimuli, historically have had negative effects on the level of economic activity. Certain countries, including the United States, have recently seen increased levels of inflation, and persistently high levels of inflation could have a material and adverse impact on the GHC Fund’s investments and its aggregated returns. For example, if a portfolio company were unable to increase its revenue while the cost of relevant inputs were increasing, the company’s profitability would likely suffer. Likewise, to the extent a portfolio company has revenue streams that are slow or unable to adjust to changes in inflation, including by contractual arrangements or otherwise, the portfolio company could increase revenue by less than its expenses increase. Conversely, as inflation declines, a portfolio company may see its competitors’ costs stabilize sooner or more rapidly than its own. Additionally, because investment returns are not linked to the rate of inflation, as the rate of inflation increases the proportion of real returns (i.e., the nominal rate of return less the rate of inflation) decreases and the proportion of real returns subject to performance-based compensation increases.

Institutional Risk and Custodial Risks

The Funds may be subject to the risk of bank failure and the inability of, or refusal by, a bank to perform. The institutions, including brokerage firms and banks, with which the Funds (directly or indirectly) does business, or to which securities have been entrusted for custodial and prime brokerage purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of the Funds. Banking institutions are subject to liquidity, solvency, and similar required capital requirements that if not met pose a risk to financial markets. Where such institutions experience systematic failure, such as rapid deposit reductions (a "Run on the Bank") institutions such as the Federal Deposit Insurance Corp ("FDIC") may not be able to insure assets held in excess of the FDIC insured limits (\$250,000), if at all. Any such default would deprive the GHC Fund of profit potential, hedging opportunity, or force the GHC Fund to cover their commitments for resale, if any, at the current market price, and could result in a loss which may potentially be substantial.

Item 9 - Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an investor or potential investor's evaluation of Phase 2 or the integrity of Phase 2's management.

Phase 2 has no such facts to disclose.

Item 10 - Other Financial Industry Activities and Affiliations

- A. Neither Phase 2 nor any of our management persons are registered or applying to register as broker-dealers or representatives of any broker-dealer.
- B. Neither Phase 2 nor any of our management persons are registered or applying to register as futures commissions merchants, commodity pool operators, commodity trading advisors, or associated persons of the foregoing entities. To the extent a client trades or is deemed to trade in commodity interests, Phase 2 will maintain certain exemptions from registration with the U.S. Commodity Futures Trading Commission as a commodity pool operator or commodity trading adviser, as applicable, with respect to such clients.
- C. An affiliate of Phase 2 serves as general partner or managing member of certain Funds. Phase 2 does not have any arrangements with a related person who is a broker-dealer, securities dealer, government securities dealer or broker, investment company or other pooled investment vehicle, investment adviser, financial planning firm, banking or thrift institution, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships that are material to its advisory services.

Principals, employees and affiliates of Phase 2 may hold significant investments in the Funds from time to time.

Phase 2 intends to periodically share investment research publicly on its website www.phase2partners.com and on an anonymous basis on other online idea sharing platforms. From

time to time, there is a possibility a publication could generate nominal revenue based on views. This will create a conflict of interest between Phase 2 researching its own independently developed ideas for the Funds and the time and resources expended to provide a publication platform. Phase 2 is unable to restrict third parties from trading such investments in any reports published by Phase 2 in a manner that is adverse to the Funds. Phase 2 does not charge a fee to the recipients of published research reports shared with the broader investment public.

Phase 2 also submits investment ideas to an alpha capture platform sponsored by an unaffiliated registered investment adviser. Please see Item 14 of this Brochure for more information regarding Phase 2's participation in this platform.

Phase 2's employees and related persons may have close relationships with senior executives of public or private companies, the securities of which Phase 2 may recommend to Funds. Additionally, Phase 2's employees and related persons may serve on the board of directors, advisory boards, executive committees or in other management capacities at public or private companies and/or other organizations. The potential for such relationships may give rise to conflicts of interest. For example, given the potential for these relationships, it is possible that senior executives of the underlying companies could seek to exert influence on Phase 2 to invest in such a company or may give Phase 2 information that is not publicly known. As such, Phase 2 maintains insider trading procedures which forbid any employee 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, Phase 2 maintains internal compliance policies that require access persons and related persons to, among other things, obtain prior written approval from the Chief Compliance Officer ("CCO") before engaging in certain outside business activities and update disclosure on such activities on a periodic basis. Please also see Item 17 of this Brochure (below) for details related to how Phase 2 handles potential conflicts of interest related to proxy votes.

- D. Phase 2 does not have any arrangements or agreements to recommend or select other investment advisers for its clients.

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

Phase 2 is a fiduciary to its Clients, and therefore must serve their interests with the utmost loyalty and care. Phase 2 has adopted a Code of Ethics (the "Code"), which is designed to meet the requirements of SEC Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and to assist Phase 2 and its supervised persons in preventing violations of the Advisers Act and the rules promulgated under it. This Item 11 describes in summary manner certain provisions of the Code.

The Code applies to Phase 2's management and employees, and to any consultant or other non-employee who Phase 2's CCO determines to treat as a "supervised person" for purposes of the Code. The Code sets forth a standard of business conduct that takes into account Phase 2's status as a fiduciary to its Clients and requires supervised persons to place the Clients' interests above their own interests. The Code requires supervised persons to comply with applicable federal securities laws. Further, supervised persons are required to promptly bring violations of the Code to the attention of the CCO. Upon hire and at least annually thereafter, all supervised persons are required to acknowledge receipt of, and agreement to abide by, the Code.

The Code also sets forth reporting, restrictions and pre-clearance requirements for personal trading by Phase 2's officers, directors, employees and certain other persons associated with Phase 2 ("Access Persons"). Access Persons must provide the CCO with a list of their "covered accounts" (as defined in the Code) and an initial holdings report promptly after becoming an Access Person. In addition, Phase 2's Access Persons must provide annual holdings reports and quarterly transaction reports in accordance with Advisers Act Rule 204A-1.

Phase 2 is permitted, in appropriate circumstances, to cause Clients to purchase or sell securities in which Phase 2, its affiliates, Access Persons and/or Clients, directly or indirectly, have a position or interest. The Code contains certain qualifications on the ability of Access Persons to trade instruments held by Clients and 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 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 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 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 in an effort to prevent conflicts of interest between Phase 2 and its Clients.

Phase 2 also has adopted policies and procedures intended to prevent employees from being unduly influenced in their decisions by the receipt of gifts or other inducements from third parties, such as brokers, trading counterparties or vendors. Phase 2 employees are required to seek approval to keep certain business gifts and are required to seek pre-approval to give certain types of business gifts. In addition, Phase 2's policies set forth standards for receiving and providing business entertainment from or to certain third parties, using social media for business purposes and interacting with the government, among other things.

The Code also includes general provisions regarding professionalism in all aspects of management and employee conduct for Phase 2.

Clients or prospective clients may obtain a copy of the Code by contacting the CCO at 415-503-5712 or rachael@phase2partners.com.

Participation or Interest in Client Transactions

As explained in Item 10, Phase 2 has pecuniary interests in the Funds and receives fees for its services to the Client accounts. Also, as explained in Item 10 and elsewhere in this Brochure, Phase 2's affiliates, principals, and employees, and certain related persons (including vehicles that they manage) invest in one or more the Funds and the Adviser, 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 the Funds creates a potential conflict in that it could cause Phase 2 to make different investment decisions than if such parties did not have such interests. Further, Phase 2 receives fees from

Clients. The Fees are payable without regard to the overall success or income earned by Client accounts and therefore may create an incentive on the part of Phase 2 to raise or otherwise increase assets under management to a higher level than would be the case if Phase 2 were receiving no fees. Phase 2 addresses these potential conflicts through regular monitoring of the Client portfolios as described in Item 13. Further, the Funds' respective offering documents contain disclosure regarding the potential risks relating to an investment in the Funds, including material conflicts of interest. The Code notes that supervised persons are required to place the interests of Clients over their own and all supervised persons are required to acknowledge their receipt of, and agreement to abide by, the Code (among other things) upon hire and at least annually thereafter.

Phase 2, 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 purposes 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 or investment manager 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.

Item 12 - Brokerage Practices

Phase 2 has sole authority for selecting the broker-dealer used in each transaction for Clients and for negotiating the fees to be paid to the broker-dealer in connection with such transactions. Phase 2 recognizes its duty to obtain "best execution." Consistent with such duty, in determining best execution, Phase 2 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. Phase 2 does not select broker-dealers solely based on the lowest possible commission costs, but on the best qualitative execution and overall value. Moreover, Phase 2 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:

- historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions;
- the execution, clearance, and settlement and error correction capabilities of the transacting party generally and in connection with securities of the type and in the amounts to be bought or sold;
- the transacting party's willingness to commit capital;
- the transacting party's reliability and financial stability;
- the size of the transaction;
- the availability of securities to borrow for short sales;
- the market for the security;

- and the nature, quantity, and quality of research and other services and products provided by the transacting party.

Phase 2 is not required to select the broker-dealer that charges the lowest transaction cost, even if that broker-dealer can provide execution quality comparable to other broker-dealers. Although Phase 2 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, a Fund may at times pay more than the lowest transaction cost available in order to obtain for itself and/or the Investment Manager services and products other than the execution of securities transactions. Using brokerage commissions to obtain research or other products or services provides Phase 2 with a benefit because it does not have to produce or pay for research, products or services. Accordingly, Clients are sometimes deemed to be paying for research and other services with “soft” or commission dollars. Phase 2 has an incentive to select a broker-dealer based on its interest in receiving the research or other products or services, and not just the lowest-cost execution.

For example, the Investment Manager may have an incentive, in order to induce brokers and dealers to provide it with services or benefits to, among other things, cause the Fund to: (i) pay higher commissions and other compensation than it would otherwise pay broker-dealers that do not provide soft dollar services or products; (ii) place more trades than would be optimal for the Fund’s investment strategy; (iii) use broker-dealers that do not obtain for the Fund the best possible price on portfolio transactions; and (iv) use (and pay) broker-dealers in effect to act as intermediaries with other broker-dealers who actually execute transactions. The extent of the conflicts of interest arising out of the use of soft dollars depends in large part on the nature and uses of the services and products acquired with soft dollars. The Investment Manager may or may not use other Clients’ soft dollars to pay for services and products the Fund pays for and, if it does, that use may not be in proportion to account size, transaction volume, or uses of those services and products. Except for services that would be a Fund expense, or as otherwise described herein, the Investment Manager will use the Fund’s soft dollars for purposes, and in ways, that satisfy the requirements of the safe harbor in section 28(e) of the Securities Exchange Act of 1934.

In some instances, Phase 2 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, the Firm will make a good faith effort to determine the relative proportion of the product or service used to assist Phase 2 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 Phase 2 in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by Client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Investment Manager from its own resources.

Research and brokerage services obtained by the use of commissions arising from Clients’ portfolio transactions may be used by Phase 2 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. Phase 2 periodically reviews brokerage and soft dollar arrangements.

Phase 2 has no obligation to deal with any particular broker or dealer in executing transactions and does not have any directed brokerage arrangements.

Brokerage for Client Referrals

Phase 2 may elect to place Client orders with a broker-dealer that provides Phase 2 with the opportunity to participate in capital introduction events sponsored by the broker-dealer or refers investors to the Funds advised by Phase 2. Because such referrals, if any, could benefit Phase 2 and its affiliates, Phase 2 would have a conflict of interest with the Funds when allocating Client brokerage business to a broker who has referred investors to the Funds. To prevent client brokerage commissions from being used to pay for investor referral fees, Phase 2 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 Trade Orders

If Phase 2 determines to buy or sell the same security on behalf of more than one Client, Phase 2 may (but is not required to) place an aggregate order (in accordance with trade guidelines, as applicable) with the broker on behalf of all such accounts in order to ensure fairness for all accounts. It is Phase 2's policy, when purchasing securities for more than one of its Clients (i.e., bunching orders), to purchase the quantity of such securities necessary to supply all Funds and to then average the aggregate costs over all securities purchased. Related benefits to such Funds also will be averaged over the securities purchased.

In some circumstances, it may be appropriate for Phase 2 to buy or sell a security on behalf of more than one Client over a period of time. For example, if Phase 2 is buying a small capitalization and/or relatively illiquid security for more than one Client, Phase 2 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, Phase 2 still must allocate Clients' orders pursuant to the allocation guidelines (as applicable). However, in the event that Phase 2 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.

Phase 2's duty of loyalty to one Client may potentially conflict with its duty of loyalty to another particularly with respect to allocations of trades. In order to mitigate this inherent potential conflict of interest among Clients, Phase 2 has adopted a policy to provide equal and fair treatment to all Clients consistent with Phase 2's duty of loyalty. In particular, trades 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 Phase 2, or induce future services or benefits to be rendered to Phase 2; or (v) equalize performance among different Clients, or for any other similar reason.

While it is the policy of Phase 2 to allocate investment opportunities fairly and equitably over time — which means that investment opportunities will generally be allocated on a *pari passu* basis among those Client accounts for which participation in the respective opportunity is considered appropriate, in accordance with the relative sizes of the participating accounts' respective investment portfolios — Phase 2 may also consider other factors. Permissible reasons why *pari passu* allocations may not occur in every situation include, among others: (i) divergent tax situations and considerations; (ii) relative sizes of the buying accounts; (iii) different investment strategies; (iv) different risk parameters; (v) commission costs of allocating limited purchases or sales among several Advisory Clients; (vi) supply or demand for a security at a given price level; (vii) size of available position; (viii) liquidity requirements or availability of cash; (ix)

ability to margin the buying accounts; and (x) investment restrictions. Such considerations may result in differential performance among Clients.

Item 13 - Review of Accounts

Phase 2'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 should be maintained in view of current market conditions.

Apart from routine, periodic reviews, Client accounts may be reviewed in response to significant changes to the Client, the capital markets more broadly, or other exigent circumstances that we believe warrant additional review or consideration.

Each Investor 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, monthly unaudited performance reports which include unaudited performance of the applicable Fund.

The Funds may offer certain Investors additional information and reporting that other Investors may not receive should they request such information.

Item 14 - Client Referrals and Other Compensation

Phase 2, nor any of its related persons, directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.

Phase 2 submits investment ideas to an alpha capture platform sponsored by an unaffiliated registered investment adviser, who may use the information on behalf of itself or investment funds that it manages. The investment ideas submitted to the platform will include, but not be limited to, information about investments established for the Funds. For its participation, Phase 2 is entitled to receive cash compensation fixed at a contractually specified annual rate and may receive reporting from the platform sponsor on the data accumulated through the platform that Phase 2 may use to the benefit of its advisory activities. Furthermore, participation may result in potential future business arrangements with the platform sponsor. Phase 2 maintains compliance requirements surrounding participation in the platform in order to help mitigate any potential conflicts with Clients that might arise.

Item 15 - Custody

Phase 2 will maintain the assets of the Funds in accounts with "qualified custodians", with the exception of assets that are considered to be "privately offered securities" under Rule 206(4)-2(b) of the Advisers Act. The Adviser and/or its affiliate, as applicable, are deemed to have custody of the Funds by virtue of their status as investment manager and general partner, respectively.

To ensure compliance with Rule 206(4)-2 under the Advisers Act, Phase 2 reasonably believes that all Investors will be provided with audited financial statements, prepared by an independent accounting firm that is registered with, and subject to review by, the Public Company Accounting Oversight Board, in accordance with U.S. Generally Accepted Accounting Principles, within 120 days of the end of the Funds' fiscal years (i.e., generally by April 30th). Investors should carefully review such audited financial statements.

Item 16 - Investment Discretion

Phase 2 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 confidential private offering memoranda or investment management agreement. Investors do not have the ability to impose limitations on Phase 2's discretionary authority. Prospective investors in the Funds are provided with a confidential private offering memorandum (and any applicable supplements) prior to their investment and are encouraged to carefully review such confidential private offering memorandum, 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

We typically hold authority to vote our Clients' securities, including those held by the Funds. As a general matter, we seek to vote proposals ("Proxies") in a manner intended to maximize the value of a Client's securities or otherwise in observance of our proxy voting policy. We have developed a proxy voting policy which we believe is reasonably designed to ensure that Proxies are voted in the best interest of the applicable Client, in accordance with our fiduciary duties, and in compliance with Rule 206(4)-6 under the Advisers Act. In general, Clients may not direct the manner in which we vote a particular Proxy.

Our proxy voting policy includes provisions intended to identify and manage potential conflicts of interest between us and our Clients with respect to our voting of their Proxies. Such provisions include periodic attestations designed to identify potential conflicts of interest, and procedures for handling any that may be identified or suspected. If a conflict of interest is identified, Phase 2 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 Phase 2's proxy voting policies and procedures.

If you have any questions about Phase 2's proxy policy, its proxy record-keeping procedures or if you would like any detailed information about how proxies were voted, please contact us via e-mail or telephone.

Item 18 - Financial Information

Phase 2 is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to the Funds and has not been the subject of a bankruptcy petition at any time during the past ten years.