

**TRACE CAPITAL MANAGEMENT LP**

**BROCHURE**

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March 31, 2023

This brochure provides information about the qualifications and business practices of Trace Capital Management LP. If you have any questions about the contents of this brochure, please contact us at [Stephanie.Divin@tracecapital.com](mailto:Stephanie.Divin@tracecapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Trace Capital Management LP is also available on the SEC's website at <https://adviserinfo.sec.gov>.

Registration as an investment adviser with the U.S. Securities and Exchange Commission does not imply a certain level of skill or training.

## **Item 2. Material Changes**

Trace Capital Management LP routinely makes changes throughout its brochure in an effort to improve and clarify the descriptions of its and its affiliates' business practices and compliance policies and procedures or in response to evolving firm practices.

This is an annual amendment. This annual update to the firm's brochure, which was last updated on October 21, 2022, includes routine annual updating changes, certain enhanced risk and conflicts of interest disclosures, and updated regulatory assets under management.

In addition to reviewing the material changes, we recommend clients review the entire brochure.

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## **Item 4. Advisory Business**

### *Description of Advisory Business*

Founded in 2022, Trace Capital Management LP (“TCM”) is an investment advisory firm which specializes in investment management for private equity funds. The principal owner of Trace is Jordan Marye.

Trace offers investment advisory services to affiliated private equity funds making equity and/or debt investments in industries, companies and assets involving energy and infrastructure, in particular, oil & gas, midstream, downstream, energy transition, sustainability and other sustainable infrastructure (the “Energy Sector”). We advise our accounts in making investments globally across all industries relating to the Energy Sector, all stages of the corporate and asset lifecycle and all segments of the capital structure. The Trace team is made up of sector specialists with deep expertise in their specific areas and is led by an investment committee. The Trace team focuses on driving value creation within the Energy Sector. Trace believes this singular focus creates alignment of the deal team with our investors. Trace advises private funds and may in the future advise SMAs or other single investor vehicles.

Trace’s clients may also include certain co-investment vehicles that invest alongside the main private equity funds. Such co-investment vehicles might invest in a single investment or in all or a group of investments made by a particular fund.

As used in this brochure, (i) “we,” “us” and “our” refer to Trace and its investment advisory business; (ii) the “Trace funds” refers to the Trace private equity funds we advise at any time, including any co-investment vehicles we advise, except where noted; and (iii) the “accounts” or “clients” refers to the Trace funds and any SMAs we advise at any time.

### *Types of Advisory Services*

Trace’s advisory services include commercial structuring and negotiation, independent risk management, portfolio company services, limited back-office administration and investor relations. We maintain discretionary investment authority over our clients, and all investment decisions on behalf of our clients are made by our investment committees, which typically comprise certain of our senior professionals. Actions of our investment committees require the consensus of their voting members, and no individual investment committee member may take unilateral action on behalf of our clients. Trace generally applies a thematic investment approach, utilizing its knowledge of and experience in, and global relationships within, the Energy Sector to make investments. Trace also leverages the experience of its deal teams to drive operational improvements at portfolio companies.

The relationship between Trace and each Trace account is governed by the Investment Advisers Act of 1940, as amended, and the rules thereunder, as well as the governing documents of each Trace fund, and the terms of investment advisory agreements between each Trace fund and us. Investments in the Trace funds are privately offered to only qualified investors, which are typically institutional investors (for example, public and private pension funds) and eligible high-net-worth individuals.

The investment advice Trace provides to its clients includes the private equity investment program conducted by the Trace funds in the Energy Sector.

### *Tailoring of Advisory Services*

Trace tailors its advisory services to the mandate and descriptions included, as applicable, in the private placement memoranda, partnership agreements, investment management agreement, and other

governing agreements of each of its clients. These documents may include restrictions on investing in certain securities or types of assets, including as specifically negotiated with investors in the Trace funds. Trace provides advice to its private funds clients, not the investors in those funds, and investors are expected to participate in the applicable Trace fund's overall investment program, but may be excused from a particular investment due to legal, regulatory or other applicable constraints at the discretion of Trace.

Trace and its affiliates may enter into agreements, or "side letters," with investors whereby such investors may be subject to terms and conditions that vary from those applicable to other investors in the Trace funds. Any such terms and conditions, including with respect to (i) opting out of particular investments, (ii) reporting obligations, (iii) transfers to affiliates, (iv) co-investment opportunities (including the provision of priority allocation rights), (v) withdrawal rights, (vi) consent rights to certain governing document amendments, (vii) payment of management fees, carried interest and/or incentive allocation or (viii) any other matters, may be more favorable than those offered to other investors.

#### *Client Assets*

As of December 31, 2022, the amount of client assets that Trace manages on a discretionary basis is \$1,471,679,310. As of, December 31, 2022, Trace did not manage any client assets on a non-discretionary basis.

### **Item 5. Fees and Compensation**

#### *Fees*

Below is a general summary of how Trace is compensated by its clients. Existing and prospective investors should refer to a fund's offering documents, investment management agreements or other governing agreements for specific information related to that fund.

Trace is compensated for its private funds advisory services through a quarterly fee based on a percentage of assets under management of each of its fund clients, generally payable in advance. This management fee generally ranges from 1% to 2% per annum of capital commitments and generally is reduced upon the end of a fund's commitment period. Following expiration of the commitment period, the management fee is generally paid only on remaining invested capital, excluding investments that have been written off. Investors who participated in a fund after the initial closing of the fund are still responsible for payment of the management fee from the initial closing date of the fund. Investors of the Trace funds pay management fees via capital contributions called by Trace (or Trace deducts the applicable amount from distributions), based on their aggregate capital commitment to such Trace fund.

As explained in more detail in the offering documents of each client, the general partner typically receives 20% of distributions from investments ("carried interest") generally after 100% of capital contributions for investments and fund expenses are returned to investors of a client and investors receive a preferred return (typically, an 8% preferred return). In accordance with the funds' offering documents or other governing agreements, carried interest allocations are generally subject to general partner catch-ups, certain tax-related distributions, and a "clawback" obligation requiring Trace to return excess distributions to investors in the event that Trace receives more than its carried interest percentage of profits on an aggregate basis over the life of a fund. In the event that tax distributions exceed the actual amount of carried interest to which we are entitled, we are not obligated to return any such excess distributions.

Employees of Trace who are investors of our clients do not pay management fees or carried interest, and investors in our co-investment vehicles may also not pay a management fee or carried interest. After payment of all overhead and expenses, Trace principals and persons will receive residual portions of the management fee, carried interest or other compensation received by Trace and its affiliates. Trace may also reduce management fees and/or carried interest through side letter arrangements in certain instances, for example where certain investors have made an early commitment, a large commitment, multiple commitments or any other material concession to one or more of the funds.

Trace charges the management fee described above on a quarterly basis. The performance-based fee, or carried interest, is distributed to Trace in accordance with the terms of the applicable partnership agreement of a Trace fund.

#### *Other Fees and Expenses*

Other fees may be paid to Trace or to a Trace fund's general partner, managing member, or affiliates. In particular, we and our affiliates may receive certain fees from portfolio companies in which the Trace funds invest such as break-up, monitoring, directors', organizational, setup, advisory, underwriting, syndication and other similar fees in connection with the purchase, monitoring or disposition of investments or from unconsummated transactions, including warrants, options, derivatives and other rights in respect of securities owned by the Trace funds. Investors will receive the benefit from certain such fees only as set forth in a client's offering and governing documents. All or a portion of the fund's pro rata share of these other fees may offset the management fees otherwise payable by investors in such Trace fund. Co-investment vehicles may or may not pay management fees. For the avoidance of doubt, any management fees paid by a co-investment vehicle do not offset management fees paid by the Trace funds. Neither the Trace funds nor any of their limited partners will have any claim, through fee offsets or otherwise, to any amount of other fees received by Trace or its personnel that are allocable to the co-investment vehicle's pro rata share of such fees. Historically Trace has not taken such other fees, but reserves the right to do so.

The funds may fund the making of investments with proceeds from drawdowns under one or more revolving credit facilities prior to calling capital commitments. The interest expense and other costs of any such borrowings will be borne by the relevant fund and, accordingly, may decrease net returns of such fund. It is expected that interest will accrue on any such outstanding borrowings at a rate lower than the preferred return, which will begin accruing when capital contributions to fund such investments, or repay borrowings used to fund such investments, are actually made to the relevant fund. In light of the foregoing, Trace has an incentive to cause such vehicle to borrow in this manner in lieu of drawing down capital commitments, subject to the offering and operating documents of each fund.

From time to time, the funds may lend to portfolio companies or provide project financing on a short-term, secured or unsecured basis in anticipation of a future issuance of equity or long-term debt securities or other refinancing. Such bridge loans would typically be convertible into a more permanent, long-term security. However, for reasons not always in the funds' control, such issuance of long-term securities or other refinancing may not occur, and such bridge loans may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by the funds.

On occasion, Trace personnel or consultants retained by Trace may provide certain management services to (or with respect to) a portfolio company. In certain cases, such persons are employed or retained directly by the portfolio company. In other instances, Trace may initially pay these costs and subsequently

be reimbursed by the applicable fund or portfolio company for compensation paid and other fees and expenses incurred by Trace with respect to such persons. Such compensation or other fees and expenses may or may not offset management fees depending upon the client's offering and governing documents.

Trace may have a conflict of interest to the extent, for example, it is incentivized to make an investment to earn a transaction fee or provide a service to a particular portfolio company to earn a director or monitoring fee. However, Trace believes that this potential conflict of interest is mitigated by the management fee offset mechanic described above and the substantial equity commitment made by Trace and its principals in each of the main Trace funds.

A client will generally pay all expenses arising in connection with the organization or operations of the client whether arising prior to or following the initial closing date (collectively "Fund Expenses") including, without limitation, fees, costs and expenses related to the sourcing, investigation, identification, analysis, pursuit, negotiation, purchase, holding and sale of any actual or potential investments (whether or not such investments are subsequently consummated), fees, costs and expenses of any administrators, custodians, consultants, advisors, counsel and accountants (including the audit and certification fees and the costs of printing and distributing reports to investors), certain fees and expenses attributable to legal, compliance, accounting, reporting, tax and information technology services used in connection with the client and its activities, whether performed by personnel of Trace or by third parties, any insurance, indemnity or litigation expense, broken deal expenses, the out-of-pocket and legal and other advisory expenses of the advisory committee, certain taxes and any fees or other governmental charges levied against the client. Fund Expenses may include amounts paid to independent contractors (including, without limitation, operating partners, advisors and consultants of Trace) for consulting or advisory services rendered in respect of portfolio companies. Out-of-pocket expenses associated with completed transactions are generally expected to be reimbursed by counterparties or capitalized as part of the acquisition price of the transaction. Fund Expenses are paid via capital contribution by an investor of a client or netted from otherwise distributable proceeds. The general partner of a client may allocate Fund Expenses among the various related vehicles (including any alternative investment vehicles) in an equitable manner as determined in good faith by the general partner. Notwithstanding the foregoing, co-investment vehicles are generally not expected to pay broken deal expenses in which case the client (main fund) would bear such expenses.

Each investor in a client will generally pay its *pro rata* share (based on its capital commitments) of all legal, accounting, filing and other organizational expenses (the "Organizational Expenses") incurred in organizing and raising capital for a client and any related vehicles up to a maximum specified in the offering and governing documents of each client. To the extent Organizational Expenses exceed such maximum (such excess amount referred to as "Excess Organizational Expenses"), the general partner of a client will cause the investors (other than any investors included within the Trace commitment) to bear such excess, and such investors will receive a credit therefor (by way of a reduction) against the next management fee otherwise payable. In addition, fees and costs in respect of any placement agents or finders will be paid by a client and constitute Excess Organizational Expenses. Incremental additional legal, accounting, filing and other organizational expenses incurred in organizing certain related vehicles may be allocated to such relative vehicle with respect to which such amounts are incurred.

Trace may from time to time enter into arrangements with service providers that provide for fee discounts for services rendered to Trace and the accounts or portfolio companies of the funds. For example, a law firm may discount its legal fees for certain advice provided to Trace. To the extent such law firms provide services to the funds, the funds also enjoy the benefit of fee discount arrangements. In some cases

discounts may be based on volume and certain funds or portfolio companies may receive a greater discount than others depending on the timing of their transactions or other factors.

From time to time, Trace may recruit a management team (including via consulting arrangements) to pursue a new “platform” opportunity to lead to the formation of a future portfolio company. In other cases, a fund may form a new portfolio company and recruit a management team to build the portfolio company through acquisitions and organic growth. In both cases such fund will bear the expenses of the management team or portfolio company, as the case may be, including any overhead expenses, diligence expenses or other related expenses in connection with backing the management team or building out of the platform company. Such expenses may be borne directly by the applicable fund as a Fund Expense or indirectly as such fund bears the start-up and ongoing expenses of the newly formed platform portfolio company. None of these expenses will offset any management fee paid to Trace by the fund.

Trace and its personnel may receive certain intangible and/or other benefits arising or resulting from their activities on behalf of the accounts, which will not be subject to management fee offsets or otherwise shared with the accounts, fund investors and/or fund portfolio companies. For example, airline travel or hotel stays incurred as fund expenses may result in “miles” or “points” or credit in loyalty or status programs, and such benefits will accrue exclusively to Trace and its personnel (and not to the funds, their investors and/or portfolio companies) even though the cost of the underlying service is borne directly by the funds or their portfolio companies and indirectly by the investors.

To the extent permitted under the respective partnership agreement, Trace may elect to forego a portion of the management fee in favor of a right (a) to receive a priority interest in future distributions of fund profits equal to the waived amounts or (b) to cause the investors to contribute such waived amounts to the fund on Trace’s behalf, which reduces the amount of capital Trace would otherwise be required to contribute to the respective fund. As a result, the exercise of such waiver may result in an acceleration of investor capital contributions and will affect the management fee offset calculations.

#### *Refunds*

Investments in a fund are illiquid and investors of the Trace funds generally cannot redeem their interests. Upon termination of the investment advisory agreement with a Trace account, however, we will return to such Trace fund any paid but unearned portion of the management fee. In general, such fees are pro-rated from the date of termination to the end of the period to which the advance fee applied.

#### *Compensation for Sale of Securities*

Neither Trace nor its supervised persons accept compensation for the sale of securities or other investment products. However, as noted above, we and our affiliates may receive certain fees from portfolio companies in which the Trace funds invest. All or a portion of the fund’s pro rata share of these fees may offset the management fees otherwise payable by investors in the Trace funds.

### **Item 6. Performance Based Fees and Side by Side Management**

Trace typically receives performance based fees as outlined in Item 5, described as carried interest, although as noted above certain co-investment vehicles do not pay carried interest and Trace may waive or reduce carried interest with respect to certain investors. Carried interest is negotiated separately for each Trace fund and set forth in each Trace fund’s respective partnership agreement and offering documents.



Performance fee arrangements may create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We have designed and implemented procedures designed to ensure that all clients are treated fairly in the allocation of investment opportunities and to prevent this potential conflict of interest from influencing the allocation of investment opportunities among or between our clients.

Our investment allocations are documented as part of our regular investment processes, taking into account the size of the investment opportunity, the capital available for investment by each client, the potential need for follow on investments or reserves, the sharing rules set forth in the applicable governing agreements, the terms of the governing documents of the applicable Trace accounts and any other factors Trace may consider relevant.

Generally, Trace allocates investment opportunities to clients based on their specific sub-Energy Sector focus, as applicable, and other factors including available capital, portfolio construction, tenor of the investment, etc. Due to fundraising and timing issues, Trace may also, for a limited period of time, allocate opportunities to multiple clients. In all the above instances, Trace abides by all applicable provisions in the partnership agreement of each client and seeks consent of the limited partners or advisory committee, as necessary.

#### **Item 7. Types of Clients**

All of Trace's clients are private equity funds sponsored by Trace. We offer interests in the Trace funds only to "qualified purchasers" and "knowledgeable employees" (each as defined under the Investment Company Act of 1940, as amended). Investment advice is provided directly to the funds and not individually to the investors of the funds. Investors participating in the Trace funds may include high net-worth individuals, banks or thrift institutions, sovereign wealth funds, pension and profit-sharing plans, trusts, estates, charitable organizations or other corporations or business entities and also may include, directly or indirectly, past or current service providers, members of the management of a fund's portfolio company and principals or other employees of Trace.

Typically, the funds require minimum investment amounts ranging from \$1MM to \$5MM, but such amounts have been and in the future will be reduced with the prior agreement of Trace, subject to applicable legal requirements.

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

##### *Methods of Analysis and Investment Strategies*

In managing our clients, Trace employs methods of analysis and investment strategies suitable for each Trace client's investment objective and in accordance with the offering documents and other governing agreements of the applicable client. Trace uses its Energy Sector knowledge and experience to conduct a comprehensive analysis of each candidate investment. Investment analysis includes, without limitation, evaluation of:

- industry/sector dynamics and outlook;
- management team experience, background and capabilities;
- geopolitical, legal and regulatory risks;

- environmental, community, health and safety risks;
- quality and attributes of assets, equipment and/or services;
- competitive landscape;
- commodity and currency exposure; and
- potential technological developments and risks.

The summary above should not be interpreted to limit in any way Trace's investment activities. Potential investors of our clients should be aware that an investment in one of our clients involves a high degree of risk and a loss of investment is possible. Our clients are suitable only for those investors that have the financial sophistication and expertise to evaluate the merits and risks of an investment in such client and can bear a risk of loss of their investment and for which such fund does not represent a complete investment program. There can be no assurance that our clients' investment objectives will be achieved, that any client will otherwise be able to successfully carry out its investment program or that an investor of a client will receive a return of its capital. In addition, there will be occasions when the general partner and its affiliates may encounter potential conflicts of interest in connection with the client.

#### *Risk Factors*

Investing involves the risk of loss that an investor in a Trace account should be prepared to bear. While we believe that our investment processes, strategy and research techniques mitigate the investment risk through a careful selection of investment opportunities, no guarantee or representation is made that we will achieve a Trace account's investment objectives or that we will succeed. The discussion below enumerates certain, but not all, risk factors that apply generally to an investment in a Trace account. In addition, while the descriptions of a fund's investment strategies and methods of analysis are generally applicable to the co-invest vehicles, generally each co-investment vehicle participates in only one investment so certain risk factors will not apply and such vehicles might have other risks not described herein, such as a lack of diversification. Prior to making any investment in a Trace account, investors should carefully review the applicable offering documents for a more complete description of the risk factors and conflicts of interest relating to such account.

#### SECTOR RISK FACTORS

**Energy Resources.** Mineral-derived resource extraction, particularly oil or gas exploration and development is a speculative business involving a high degree of risk. Oil and gas drilling may involve unprofitable efforts, not only from dry holes, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Acquiring, developing and exploring for oil and natural gas involves many risks. These risks include encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents in completing wells and otherwise, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, fires, spills and other environmental risks. In addition, the process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. As a result, such estimates are inherently imprecise. Further, the development, operation and maintenance of oil and gas sector ("Energy Resources") projects involves various operational risks, which can include mechanical and structural failure, accidents, labor issues or the failure of technology to perform as anticipated. Events outside the control of a company, such as economic developments, changes in fuel prices or the price of other feedstocks, governmental policies, demand for energy and the like, could materially reduce the revenues generated or increase the expenses of constructing, operating, maintaining or restoring Energy Resources businesses. In turn, such developments could impair a

company's ability to repay its debt, conduct its operations or make distributions. In addition, events outside the control of a company, such as force majeure events, could significantly reduce the revenues generated or significantly increase the expense of operating, maintaining or restoring Energy Resources facilities. Energy Resources operations are subject to comprehensive United States and non-U.S. federal, state and local laws and regulations. Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect Energy Resources businesses. Energy Resources assets may be taxed or need to purchase offsets under proposed environmental legislation in the United States and existing or proposed environmental legislation in other parts of the world, which could affect economic viability. Energy Resources companies may involve significant construction risks, including the risk of substantial delay or increase in cost due to a number of unforeseen factors, including political opposition, regulatory and permitting delays, delays in procuring sites, strikes, disputes, or a failure of one or more investment participants to perform in a timely manner their contractual, financial or other commitments. A material delay or increase in unabsorbed costs could significantly impair the financial viability of an Energy Resources investment project.

**Infrastructure.** The development, construction, operation and maintenance of infrastructure sector ("Infrastructure") projects involves various risks. Development of Infrastructure projects may require significant time and expense dealing with numerous private and public counterparties to acquire property and other required rights of ownership, access and otherwise. In addition, numerous national, state, and local permits may be required, including environmental studies and permits. Infrastructure projects and operations are subject to comprehensive national, state and local laws and regulations. Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect Infrastructure businesses. Infrastructure assets may be taxed or need to purchase offsets under existing and proposed environmental legislation in relevant jurisdictions, which could affect economic viability. Infrastructure projects may involve significant construction risks, including the risk of substantial delay or increase in cost due to a number of unforeseen factors, including political opposition, regulatory and permitting delays, delays in procuring sites, strikes, disputes, or a failure of one or more investment participants to perform in a timely manner their contractual, financial or other commitments. A material delay or increase in costs could significantly impair the financial viability of an Infrastructure investment project. Infrastructure projects may depend on the availability of debt financing and other capital, which may not be available on favorable terms when needed. Infrastructure projects face operational risks, which can include mechanical and structural failure, accidents, labor issues or the failure of technology to perform as anticipated. Events outside the control of a company, such as economic developments, changes in fuel prices or the price of other feedstocks, governmental policies, demand for energy and the like, could materially reduce the revenues generated or increase the expenses of constructing, operating, maintaining or restoring Infrastructure businesses. In turn, such developments could impair a company's ability to repay its debt, conduct its operations or make distributions. In addition, events outside the control of a company, such as force majeure events, could significantly reduce the revenues generated or significantly increase the expense of operating, maintaining or restoring Infrastructure facilities. Government policies, including subsidies on which projects may depend, are reviewed and may change frequently. While Infrastructure projects currently enjoy support from governments and regulatory agencies, there is no assurance that such support will continue in the future and any reduction or elimination of governmental support may have an adverse effect on the development and construction of such projects.

**Exploration, Development and Exploitation.** Some of our clients will invest in businesses that engage in resource exploration, development and exploitation. Resource exploration, development and exploitation involve a high degree of risk, which cannot be fully mitigated, even with a combination of experience,

knowledge and careful evaluation. While the discovery of natural resource may result in substantial rewards, few properties that are explored are ultimately developed into production facilities. Substantial expenditures may be required to locate and establish natural resources and to construct processing facilities and infrastructure at a particular site. It is impossible to ensure that the exploration programs in progress or planned by a portfolio company will result in profitable operations. Even where natural resources are discovered, there can be no assurance that a property will be brought into production. Whether a resource will be viable depends on a number of factors, some of which are: (i) the particular attributes of the resource; (ii) proximity to infrastructure; (iii) commodity prices, which can fluctuate widely; (iv) currency fluctuations; (v) financing costs; (vi) production costs; and (vii) government regulations and any further changes thereto, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of resources and environmental protection. The exact effect of these factors cannot accurately be predicted, but the combination of these factors could make a portfolio company uneconomic and/or may result in a fund not receiving an adequate return on invested capital in a portfolio company, if any.

Sector businesses by their nature are subject to many operational risks, many of which are outside of the control of a client or its portfolio companies, and many of which are not covered fully, or in some cases even partially, by insurance. These operational risks, which could adversely affect a portfolio company's business, operating results and cash flow, include the following: (i) earthquakes, floods and other natural disasters or pandemics; (ii) the occurrence of unexpected weather or operating conditions and other force majeure events; (iii) the failure of equipment or processes to operate in accordance with specifications, design or expectations; (iv) accidents; (v) structural collapses; (vi) interruption of energy supply; (vii) lower than expected findings; (viii) processing problems; (ix) unanticipated ground and water conditions; (x) adverse claims to water rights, adverse outcomes of pending water adjudications and physical shortages of water; (xi) adjacent land ownership or usage that results in constraints on current or future operations; (xii) delays in the receipt of or failure to receive necessary government authorizations, approvals or permits; (xiii) delays in transportation and disruptions of supply routes; and (xiv) inability to obtain satisfactory insurance coverage.

All of the foregoing factors are beyond the control of a client and its portfolio companies. There can be no assurance that a portfolio company's resource exploration and future development activities will be successful and the occurrence of any of the foregoing factors could have a material adverse effect on a portfolio company's business, prospects, financial condition and operating results. In the event that commercial viability is never attained, a portfolio company may seek to transfer its property interests or otherwise realize value or may even be required to abandon its business and fail as a going concern.

***New Technologies and Markets.*** Our clients' investments may involve exposure to new and emerging technologies, markets and business strategies particularly in respect of the changing energy landscape as the world seeks to transition to lower-carbon-intensity energy supplies. These opportunities may be of unproven and speculative nature and may require significant capital investment to attain economic viability, if ever. It may be difficult to discern the extent of the technology, viability and similar risk in an investment opportunity. We may rely on others' judgments regarding such risk and their assessment of its mitigants, all or any of which may prove incorrect. Our clients may lose invested capital as a result of this uncertainty.

***Construction.*** Our clients' investments may involve significant construction risks, including the risk of substantial delay or increase in cost due to a number of unforeseen factors, including political opposition, regulatory and permitting delays, delays in procuring sites, strikes, disputes, or a failure of one or more

investment participants to perform in a timely manner their contractual, financial or other commitments. A material delay or increase in unabsorbed costs could significantly impair the financial availability of an investment project and result in a material adverse effect on our client's investment.

**Depletion.** The financial performance of energy companies in which some of our clients may invest will likely be adversely affected if they, or the companies who provide them service, are unable to cost-effectively acquire additional reserves sufficient to replace the depleted reserves. If an energy company fails to add reserves by acquiring or developing them or to sustain the life of its reserves through new methods its reserves and production will decline over time as the reserves are produced. If an energy company is not able to raise capital on favorable terms, it may not be able to add, maintain or further exploit its reserves.

**Key Inputs.** The operations of the businesses in which some of our clients invest may rely on access to certain key inputs such as strategic consumables, raw materials and drilling and processing equipment. The inability to obtain such key inputs in a timely manner could delay or reduce a portfolio company's production, which could have an adverse impact on its results of operations and financial condition. Periods of high demand for such supplies can result in periods when availability of supplies are limited and cause costs to increase above normal inflation rates. Any interruption to supplies or increase in costs could adversely affect the operating results and cash flows of a Trace account's investments and therefore of the account.

**Feasibility Studies.** Our clients' investment in a portfolio company may be based on a feasibility study related to one or more properties. Feasibility study activities involve estimates of capital expenditures, future production, revenues, operating costs and taxes. Failure to meet these estimates could have a material or other adverse effect on a portfolio company's profitability, cash flows and financial position. There can be no assurance that such estimates will be fully achievable. Variances between actual and estimates may occur for a variety of reasons, (i) including changes in capital costs due to market conditions or essential alterations in scope encountered during advanced engineering design work; (ii) actual recoverable resources; (iii) short-term operating factors; (iv) structural or equipment failures; (v) industrial accidents; (vi) natural phenomena such as inclement weather conditions, floods, droughts, rockslides and earthquakes; (vii) unusual or unexpected geological conditions; (viii) changes in power costs and potential power shortages; (ix) shortages of principal supplies needed for operation; (x) labor shortages or strikes; (xi) civil disobedience and protests; and (xii) restrictions or regulations imposed by governmental or regulatory authorities or other changes in the regulatory environments. Occurrences such as those above could result in damage to a portfolio company's properties, interruptions in construction or production, injury or death to persons, damage to property, monetary losses and legal liabilities. These factors may cause a portfolio company to cease construction or operating activities.

**Reliance on Estimates.** Trace accounts may rely on estimates of reserves in connection with an investment in a portfolio company. There is a degree of uncertainty to the estimation of reserves and resources. This process is necessarily subjective and the accuracy of estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting engineering and geological information. There is significant uncertainty in any such estimate, and the actual deposits encountered and the economic viability of harnessing a resource may differ significantly from any estimate. In addition, the quantity of reserves and resources may vary depending on, among other things, prevailing prices. Any material change in quantity of reserves or resources may affect the economic viability of a portfolio company's properties. In addition, there can be no assurance that recoveries in small scale tests will be duplicated in a larger scale tests under on-site

conditions or during production. Estimates may have to be recalculated based on changes in commodity prices or further exploration or development activity. This could materially and adversely affect estimates of the volume, estimated recovery rates or other important factors that influence estimates. Any material reductions in estimates of reserves and resources, or of a portfolio company's ability to extract these reserves, could have a material adverse effect on a portfolio company's financial condition, results of operations and future cash flows.

An investment by an account in a portfolio company may be based on categories of producing, proven, probable and possible reserves, which are recognized in order of increasing geological and engineering confidence. However, these resource classifications do not carry certainty or demonstrated economic viability. There can be no assurance that a portfolio company's reserve measures will be converted to an economic production and cash flow.

***Portfolio Company Development, Construction and Operational Risks.*** In connection with any new development project, expansion of a site or acquisition of a site in late-stage development, a portfolio company may also face development and construction risks including, but not limited to: (i) labor disputes, shortages of material and skilled labor or work stoppages; (ii) shortages of fuels or materials; (iii) slower than projected construction progress and the unavailability or late delivery of necessary equipment; (iv) delays caused by or in obtaining the necessary regulatory approvals or permits; (v) less than optimal coordination with public utilities in the relocation of their facilities; (vi) adverse weather conditions and unexpected construction conditions; (vii) accidents, breakdowns or failures of equipment or processes; (viii) difficulties in obtaining suitable or sufficient financing; and (ix) catastrophic events such as flooding, explosions, fires and terrorist activities and other similar events beyond a client's control, such as any event of force majeure. Events of this nature could severely delay or prevent the completion of, or significantly increase the cost of, construction or operation of portfolio company assets or businesses. Such delays or disruptions in the completion of any project may result in lost opportunities, lost revenues or increased expenses, including higher operation, maintenance and restoration costs related to a portfolio company. Portfolio investments under development or portfolio investments acquired to be developed may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change during the course of development that make such development less attractive than at the time it was commenced.

***Portfolio Company Insurance.*** While certain Trace fund portfolio companies maintain insurance to help protect against certain operational risks, such as business interruption insurance that is intended to offset loss of revenues during an operational interruption, such insurance is subject to customary deductibles and coverage limits and may not be sufficient to recoup all of a portfolio company's losses. In many cases, portfolio companies choose not to insure against a particular risk. In addition, events outside the control of the portfolio company, such as force majeure events, could significantly reduce the revenues generated or significantly increase the expense of operating, maintaining or restoring facilities. Such operational interruptions or the occurrence of such force majeure events could adversely affect the amount of revenues from operations, which in turn may impair a portfolio company's ability to repay its debt or make distributions to the Trace funds.

***New or Emerging Geographies.*** Our clients' portfolio companies may hold, or seek to hold, undeveloped properties and/or properties in new or emerging geographies. Undeveloped properties may not ultimately be developed or become commercially productive, which could have a material adverse effect

on its resource reserves and future production. As a result, results in these areas are uncertain, and the value of undeveloped properties will decline if results are unsuccessful.

In addition, results in new or emerging geographies are more uncertain than results in areas that are developed. Often, new or emerging properties are located in remote locations with difficult and mountainous terrain that requires specialized equipment and costly engineering solutions, additional security and increased health care personnel. These areas may be prone to natural disasters that insurance may not sufficiently cover. Further, new or emerging properties have limited or no production history, portfolio companies may be unable to use past results in those areas to help predict future results. As a result, costs in these areas may be higher than initially expected, and the value of undeveloped properties will decline if results are unsuccessful.

***Operating Pursuant to Complex Government Licenses, Leases, Concessions or Contracts.*** Trace portfolio companies are subject to substantial regulation by government agencies. In addition, a portfolio company's operations may rely on government licenses, concessions, leases or contracts that are generally very complex and may result in a dispute over interpretation or enforceability. If a portfolio company fails to comply with these regulations or contractual obligations, it could be subject to monetary penalties or may lose its right to operate, or both. Where a client's ability to operate a portfolio company is subject to a permit, license, concession or lease from the government, such requirements may restrict the portfolio company's ability to operate the business in a way that maximizes cash flows and profitability. The permit, license, lease or concession may also contain clauses more favorable to the government counterparty than a typical commercial contract. For instance, the government may be able to terminate or amend a permit, license, lease or concession in certain circumstances unilaterally, or without requiring payment of adequate compensation. In addition, government counterparties also may have the discretion to change or increase regulation of a portfolio company's operations, or implement laws or regulations affecting the portfolio company's operations, separate from any contractual rights they may have. Governments have considerable discretion in implementing regulations that could impact a portfolio company's business and governments may be influenced by political considerations and may make decisions that adversely affect a portfolio company's business. It may be subject to unfavorable price determinations that may be final with no right of appeal or which, despite a right of appeal, could result in its profits being negatively affected.

Additional regulatory approvals, including, without limitation, renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future, including due to a change in laws and regulations, a change in the portfolio companies' customer(s) or for other reasons. There can be no assurance that a portfolio company will be able to (i) obtain all required regulatory approvals that it does not yet have or that it may require in the future, (ii) obtain any necessary modifications to existing regulatory approvals or (iii) maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements could impair or prevent operation of a facility or sales to third parties or could result in additional costs to a portfolio company.

***Land Title Risks.*** Certain portfolio companies may require large areas of land to install and operate their equipment and associated infrastructure. The rights to use the necessary land may be obtained through freehold title, easements, leases and other rights of use. Different jurisdictions adopt different systems of land title, and in some jurisdictions it may not be possible to ascertain definitively who has the legal right to enter into land tenure arrangements with respect to investments. In addition, the grantor's fee

interests in the land which is the subject of such easements and leases are or may become subject to mortgages securing loans, other liens (such as tax liens) and other lease rights of third parties (such as leases of oil, gas, coal or other mineral rights). As a result, a portfolio company's rights under such leases or easements are or may be subject and subordinate to the rights of third parties. It is also possible that a default by the grantor under any mortgage could result in a foreclosure on the grantor's interest in the property and thereby terminate the investment's right to the leases and easements required to operate such investment. Similarly, it is possible that a government authority, as the holder of a tax lien, could foreclose upon a parcel and take possession of the portion of the investment located on such parcel. The rights of a third party pursuant to a superior lease (such as leases of oil, gas, coal or other mineral rights) could also result in damage to or disturbance of the physical assets of an investment or require relocation of portfolio company assets. If any portfolio company were to suffer the loss of all or a portion of their underlying real estate interests or equipment as a result of a foreclosure by a mortgagee or other lienholder of a land parcel, or damage arising from the conduct of superior leaseholders, such portfolio company's operations and revenues may be adversely affected. In addition, any declaration of native title or other indigenous rights in respect of land on which portfolio companies are located may adversely affect the owner or occupier of that land. It may not be possible to mitigate or remove a risk associated with indigenous claims.

***Volatility of Commodities Prices.*** The performance of certain investments of our clients may be dependent upon prevailing prices of certain commodities. Historically, the markets for certain commodities, especially oil and natural gas, have been volatile, and such markets are likely to continue to be volatile in the future. The market disruptions arising from the global impact of COVID-19 as well as geopolitical events, including ongoing conflict between Russia and the Ukraine, have caused significant price commodity price volatility both upward and downward in recent years. Prices for certain commodities are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for such commodities, market uncertainty and a variety of additional factors that are beyond the control of Trace or its clients. These factors include the level of consumer product demand, weather conditions, domestic and foreign governmental regulations, the price and availability of alternative commodities, political conditions, the price of foreign imports and overall economic conditions, and with respect to oil and gas specifically, refining capacity, actions of the Organization of Petroleum Exporting Countries and the foreign supply of oil and natural gas. In addition, governments from time to time intervene, directly and by regulation, in certain markets. Such intervention is often intended to influence price directly and may cause rapid movement in these markets. As commodities are highly cyclical, any economic downturn may have significant negative effects for the businesses that produce such commodities.

***Effects of Sector Regulation.*** The energy and commodities sector is subject to extensive regulation under a wide range of statutes, rules, orders and regulations. These regulations may have a significant adverse impact on the financial condition, prospects and profitability of the Trace accounts' investments. There can be no assurance that (i) existing regulations applicable to such portfolio companies will not be revised or reinterpreted; (ii) new laws and regulations will not be adopted or become applicable to such companies; (iii) the technology and equipment selected by such companies to comply with current and future regulatory requirements will meet such requirements; (iv) such companies' business and financial conditions will not be materially and adversely affected by such future changes in, or reinterpretation of, laws and regulations (including the possible loss of exemptions from laws and regulations) or any failure to comply with such current and future laws and regulations; or (v) regulatory agencies or other third parties will not bring enforcement actions in which they disagree with regulatory decisions made by other regulatory agencies.



***Midstream Capacity Constraints and Interruptions.*** Certain of our clients' portfolio companies may rely on various midstream facilities and systems, including facilities and systems operated by third parties. Regardless of who operates the midstream systems a portfolio company's business may be interrupted or shut-in from time to time due to loss of access to plants, pipelines or gathering systems. Such access could be lost due to a number of factors, including, but not limited to, weather conditions, accidents, field labor issues or strikes. Such interruptions or constraints could negatively impact a portfolio company's profitability.

#### **GENERAL RISK FACTORS**

***No Assurance of Investment Return.*** No assurance can be given as to the ability to choose, make and realize investments in any particular company or portfolio of companies. There can be no assurance that our clients will be able to generate returns for their respective investors or that the returns will be commensurate with the risks of investing in the type of companies and transactions described in each client's offering documents. Investments made by our clients are subject to a wide range of risks, including the impact of terrorist acts or threats thereof, economic trends and other externalities beyond the control of our clients or Trace that could cause such investments to lose value. There can be no assurance that any investor of our clients will receive any distribution from the client. Accordingly, an investment in the client should only be considered by persons that can afford a loss of their entire investment. There can be no assurance that projected or targeted returns for our clients will be achieved.

***Global Economic Conditions; Market Dislocation.*** General economic conditions may affect the client's activities. Interest rates, commodity prices, general levels of economic activity, inflationary pressures, fluctuations in the market prices of securities and participation by other investors in the financial markets may affect the value of investments made by the client. Instability in the securities markets may increase the risks inherent in portfolio investments made by the client. Recent and current market events globally as the world recovers from the COVID-19 pandemic, including stresses on supply chains, labor availability, commodity availability and the like have potential to cause significant and long-lasting disruption to businesses and markets in which we may be active. To the extent the client's portfolio companies participate in such markets, the results of their operations may suffer. In addition, to the extent that such marketplace events continue or worsen, this may have an adverse impact on the availability of credit and other capital to businesses generally and could lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect the financial resources of the client's portfolio companies and their ability to make principal and interest payments on, or refinance, outstanding debt when due. In the event of such defaults, the client could lose both invested capital in and anticipated profits from such portfolio companies.

In addition, current economic conditions may materially and adversely affect (i) the ability or willingness of certain counterparties to do business with a client or its affiliates; (ii) the ability or willingness of certain counterparties to do business with a fund or its affiliates, including due to labor shortages or supply chain disruptions; (iii) a client's exposure to the credit risk of others in its dealings with various counterparties (for example, in connection with joint ventures or the maintenance with financial institutions of reserves in cash or cash equivalents); (iv) demand for the products and services offered by a client's portfolio companies; (v) growth opportunities for a client's investments; (vi) a client's ability to exit its investments at desired times, on favorable terms or at all; (vii) availability of reliable insurance on favorable terms or at all; and (viii) the ability of a client's investors to meet their obligations to a client in a timely manner or at all.

**Supply Chain.** Our clients' portfolio companies' success depends on their ability to develop and operate projects in a timely manner, which depends in part on the ability of suppliers to supply adequate volumes of suitable construction materials and equipment. If any of the suppliers are unable to provide such construction materials or equipment that meets or exceeds the portfolio companies' expectations or satisfies their contractual commitments, the portfolio companies' reputation, business and operating results could be harmed.

**Highly Competitive Market for Investment Opportunities.** The activity of identifying, completing and realizing attractive private equity investments is highly competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions. Our clients will be competing for investments with other private equity investors, as well as companies, public equity markets, individuals, financial institutions and other investors. Over the past several years, an ever-increasing number of private equity funds have been formed, resulting in an unprecedented amount of capital available for private equity investment. Additional funds with similar objectives may be formed in the future by other unrelated parties. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of investment opportunities available to our clients and adversely affecting the terms upon which investments can be made. Even if investment opportunities are identified, there can be no assurance that the clients' bids to acquire interests in such investments will succeed; and, upon a successful bid, legal or contractual transfer restrictions, including rights-of-first-refusal, change-of-control, and similar provisions applicable to such investment may prevent a client from acquiring all or a portion of such investment. In addition, Trace may be unable to obtain as favorable terms as it would otherwise in a less competitive investment environment. The availability of investment opportunities generally will be subject to market conditions as well as the prevailing regulatory or political climate. In addition, the current private equity environment has become even more competitive as other market participants, including hedge funds and special purpose acquisition companies, have been competing for investment opportunities that have traditionally been targeted by private equity funds. Furthermore, additional Funds with similar investment objectives may be formed in the future by other unrelated parties. There can be no assurance that our client will be able to locate, consummate and exit investments that satisfy a client's rate of return objectives or realize upon their values, or that our clients will be able to invest fully their committed capital. Even so, investors will need to pay management fees based on aggregate commitments during the commitment period. The difficulty identifying and gaining access to attractive investment opportunities also applies to the management teams of portfolio companies, who may not be able to fully invest all the capital committed to those portfolio companies by a client. The clients and the portfolio companies may incur significant expenses investigating potential investments that are ultimately not consummated, including expenses relating to due diligence, transportation, legal expenses and the fees of other third-party advisors.

**Limited Number of Investments.** Our clients will participate in a limited number of investments, and as a result, the aggregate return of our clients may be substantially adversely affected by the unfavorable performance of even a single investment. In particular, our clients will only participate in investments in their particular sector, and as such a client's investments may not be diversified across the energy and commodities investment space. Further, investors have no assurance as to the degree of diversification of our clients' investments, either by number, geographic region, or asset type within the sector. Finally, to the extent that the total commitments to a client are less than the targeted amount, our clients may invest in fewer issuers and therefore be less diversified.

**Co-investment Opportunities.** There can be no assurance that co-investment opportunities will arise with respect to any given portfolio investment of a client. Any such opportunities will be allocated by the

general partner of the respective client solely in accordance with the governing agreement. As a result, there can be no assurance that any investor will be entitled to participate in co-investment. The performance of co-investments is not aggregated with that of a client, including for purposes of determining any carried interest that may arise under the governing agreement. Past performance is not necessarily indicative of future results and the actual number of co-investment opportunities made available to investors, if any, may be significantly higher or lower than those made available in connection with other Trace funds. Trace may or may not charge management fees, one-time funding fees and/or carried interest in respect of co-investments, as it determines in its sole discretion.

Co-Investors may purchase their interest in an investment at the same time as a Trace fund or may purchase their interest from a Trace fund after the relevant fund has consummated an investment structured in such case as a post-closing sell down or transfer. In addition, if a Trace-controlled vehicle is formed to effect any co-investment, such entity generally will bear expenses related to its formation and operation, many of which are similar in nature to those borne by a Trace fund, although, from time to time, the fund alongside which a co-investment vehicle is investing may bear such costs directly or indirectly. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction, ultimately is not consummated, all broken deal expenses relating to such unconsummated transaction are likely to be borne entirely by the relevant fund, and not by any prospective co-investors, that were to have participated in such transaction. In many cases no co-investment vehicle will have been formed at such time. However, to the extent that such co-investors have already invested in a co-investment or other vehicle in connection with such transaction, such vehicle may bear its share of such broken deal expenses.

***Documentation and Other Legal Risk.*** Energy and related projects are typically governed by other complex legal agreements. As a result, there can be a higher risk of dispute over interpretation or enforceability of the agreements. It is not uncommon for energy and related infrastructure assets to be exposed to a variety of other legal risks including, but not limited to, legal action from special interest groups. Interest groups may use legal processes to seek to impede the progress of particular projects to which they are opposed.

***Reliance on Portfolio Company Management.*** Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Although the general partner of each of our clients and Trace will be responsible for monitoring the performance of each investment and generally intends to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor, will be able to operate the portfolio company in accordance with our client's plans and/or objectives.

Past activities of portfolio company management teams are no assurance of future success. Additionally, portfolio companies will likely need to attract, retain and develop executives and members of their management teams. The market for executive talent can be, notwithstanding general unemployment levels or developments within a particular industry, extremely competitive. There can be no assurance that portfolio companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, the Trace funds could be adversely affected thereby.

***Use of Senior Advisors and Operating Partners.*** As described in detail in a client's offering document, Trace's operating partners and senior advisors may join a portfolio company's board of directors, assist in executing operational improvements, corporate development and M&A activities, and, when necessary, act as interim management. Such operating partners or senior advisors may, in accordance with a client's

governing agreement, be compensated by the client or by a portfolio company as an expense of the client for which the investors would be required to make capital contributions. As a result, other shareholders of a portfolio company may benefit from the activities of Trace's operating partners and senior advisers without sharing payment obligations. It should also be noted that, in accordance with the governing agreement, any amounts paid to independent contractors of Trace (including, without limitation, operating partners, advisors and consultants of Trace) typically will not comprise "other fees" and, in turn, will not reduce the management fee payable by a client.

**Non-U.S. Investments.** Our clients may invest a substantial portion of capital in portfolio companies located or operating principally outside of the United States. Non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, including risks relating to (i) currency exchange matters, such as fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which the client's non-U.S. investments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets; (iii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iv) certain economic and political risks, including potential exchange control regulations and restrictions on non-U.S. investment and repatriation of capital, nationalization of business enterprises, the risks of political, economic or social instability, the possibility of substantial rates of inflation and the possibility of expropriation or confiscatory taxation; (v) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities; (vi) less-developed laws regarding corporate governance, fiduciary duties and the protection of investors, and other differences in applicable legal systems, including the possibility that our clients may experience difficulty in asserting legal claims or obtaining legal remedies in non-U.S. jurisdictions; (vii) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (viii) political hostility to investments by foreign or private equity investors; and (ix) less publicly available information.

**Non-Controlling Investments; Investments with Third Parties.** Our clients may hold a non-controlling interest in certain portfolio companies and, therefore, may have a limited ability to protect its position in such portfolio companies, although as a condition of investment in a portfolio company, it is expected that appropriate shareholder rights generally will be sought to protect the client's interests.

Our clients may co-invest with third parties in consortia, through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have financial, legal or regulatory difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of the client or may be in a position to take (or block) action in a manner contrary to the client's investment objectives. In addition, the client may in certain circumstances be liable for the actions of its third-party co-venturers. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements.

**Investment in Restructurings.** Our clients may make investments in restructurings that involve portfolio companies that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause such portfolio companies to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject a client to certain additional potential liabilities that may exceed the value of a client's original investment therein. For

example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to a client and distributions by a client to the investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or recharacterize investments made in the form of debt as equity contributions.

**Early-Stage Investments.** Our clients may invest in portfolio companies that are at a conceptual or early stage of development or that may have little or no operating history; may offer services or products that are not yet developed or ready to be marketed or that have no established market; may be operating at a loss or have significant fluctuations in operating results; may be engaged in a rapidly changing business; and may need substantial additional capital to set up infrastructure, hire management and personnel, develop product prototypes, support expansion or achieve or maintain a competitive position. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

A client may invest a significant portion of its assets in the securities of smaller, less-established companies. Investments in such companies may involve greater risks than are generally associated with investments in more established companies. To the extent there is any public market for the securities held by a client, such securities may be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalization and fewer resources, and, therefore, often are more vulnerable to financial failure. Such companies may also have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. There can be no assurance that any such losses will be offset by gains (if any) realized on a client's other assets. Our clients have not established any minimum size for the companies in which it will invest.

**Expedited Transactions.** Investment analyses and decisions by Trace may be undertaken on an expedited basis in order for a client to take advantage of perceived investment opportunities. In such cases, the information available to the client at the time of an investment decision may be limited, and the client may not have access to the detailed information necessary for a full evaluation of the investment opportunity.

**Exclusivity Arrangements.** In connection with certain investments or potential investments, Trace may be required to enter into exclusivity arrangements with other transaction participants or a prospective portfolio company. These arrangements may restrict the client from participating in an investment with other parties or restrict the client from pursuing investments that are deemed competitive with a portfolio company or potential portfolio company. These restrictions may require the client to forgo desirable investments it would otherwise have made, or require the client to seek the consent of third parties to pursue such investments. Trace will seek to minimize the impact of any such exclusivity arrangements on the client's investment program, when and where practicable.

**Bridge Financings.** From time to time, a client may provide financing (whether as debt or equity) to portfolio companies on an unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge financings would typically be convertible into a more permanent, long-term security; however, for reasons not always in a client's control, such long-term securities issuance or other refinancing may not occur and such bridge financings may remain outstanding. In such event, the interest rate on such loans or the terms of such interim investments may not adequately reflect the risk associated with the unsecured position taken by a client.

**Leverage.** Our client's investments are expected to include portfolio companies whose capital structures may have significant leverage. Our clients may also employ leverage at the portfolio level where multiple portfolio companies' assets collateralize loans that are made for the benefit of one or more portfolio companies. Although the general partner of each of our clients will seek to use leverage in a manner it believes is prudent, the leveraged capital structure of such investments will increase the exposure of the portfolio companies to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the portfolio company or its industry. A decrease in the availability of financing (or an increase in interest rates or other costs) for leveraged transactions would impair our client's ability to consummate such transactions. In addition, if a portfolio company cannot generate adequate cash flow to meet its debt obligations, our client may suffer a partial or total loss of capital invested in such portfolio company. Our clients could also be forced to liquidate assets earlier than planned in order to repay borrowings.

These risks generally are expected to increase as interest rates rise, including in circumstances where a portfolio company's creditworthiness is such that it must borrow at higher interest rates than are available to the relevant client. Except where otherwise required by the relevant governing documents, a client will not be obligated to borrow on behalf of a portfolio company, even in circumstances where the client's creditworthiness would permit borrowing at a lower rate than is available to the portfolio company.

**Fund Borrowing.** As described in more detail in the governing agreements of our clients, a client may borrow funds or enter into other financing or credit arrangements, including a fund-level credit facility. Subject to the terms and conditions of any fund-level credit facility, the general partner of a client will have the ability from time to time to designate a holding company or portfolio company of a client as a borrower under such credit facility. The commitments (or client assets) may be pledged as collateral to support these arrangements, and a client may charge its portfolio companies fees (which may be received in cash or in kind) for providing any applicable credit support. The agreements for any of the foregoing may impose additional restrictions on a client and the general partner of such client. For example, the general partner may not be permitted to consent to certain transfers of Interests, or a client may be prohibited or restricted from making certain distributions to the investors. Borrowings under the fund-level credit facility will be used to finance a client's investment activities permitted under its governing agreement and to provide working capital and for other purposes permitted by the governing agreement.

**Certain Risks and Costs of Leverage Below a Fund.** Even though it presents many of the same risks as Fund-level borrowing, indebtedness of entities other than a Fund will not be treated as Fund-level borrowing for purposes of the Governing Documents, even if the special purpose vehicles or other entities incurring such leverage engage in borrowings that are cross-collateralized with or among multiple investments such that multiple investments and a substantial portion of a Fund's value are at risk. As a result, these borrowings will not be subject to any limitations on Fund-level borrowing in the Governing Documents. Since Trace has more flexibility to engage in these structures, Trace has an incentive to incur

significant leverage at the level of holding companies beneath a Fund. The negative performance of one asset may materially and adversely impact the performance of other investments or a Fund as a whole.

***Illiquid and Long-Term Investments.*** Our clients' investments require long-term commitment with no certainty of return. Although investments by our clients may generate some current income, the full return of capital and the realization of gains, if any, from an investment is generally not expected to occur until the partial or complete disposition of such investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the investment is made. It is unlikely that there will be a public market for the securities held by our client at the time of their acquisition. Our clients will generally not be able to sell the securities of portfolio companies publicly unless their sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases our clients may be prohibited by contract or regulatory reasons from selling certain securities for a period of time. There can be no assurances that private purchasers of our client's investments will be found.

***Investments Longer than Term.*** Our clients may make investments that may not be advantageously disposed of prior to the date a client will be dissolved, either by expiration of a client's term or otherwise. Although the general partners of our clients expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution and the general partners have a limited ability to extend the term of our clients, a client may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, a Trace fund reserves the right to consider various mechanisms to benefit from such long-life assets, in addition to seeking to sell, distribute in kind or otherwise dispose of one or more continuation funds within the Trace fund's term. Although upon the dissolution of each Trace fund, the general partner (or the relevant liquidator) will try to dispose of or distribute all fund assets within two years of dissolution, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the investors will occur. In the event a client is required to make in kind distributions that could consist of securities for which there is no readily available public market, there is a potential conflict of interest between a general partner (and its beneficial owners) and the relevant Trace fund's investors. For example, a Trace fund's general partner and its beneficial owners may intend to hold securities distributed in-kind for a different time period than Trace deems suitable for the client.

***Distributions in Kind.*** Although, under normal circumstances, the Trace funds intend to make distributions in cash or in publicly traded securities, it is possible that under certain circumstances (including the liquidation of a Trace fund) distributions could be made in kind and could consist of securities for which there is no readily available public market. In such circumstances, there is a potential conflict of interest between a general partner (and its beneficial owners) and the relevant Trace fund's investors. For example, the general partner and its beneficial owners may intend to hold securities distributed in-kind for a different time period than Trace deems suitable for the Trace fund.

***Recourse to a Fund's Assets.*** A Trace fund's assets, including any investments made by such Trace fund and any capital held by the Trace fund, are available to satisfy all liabilities and other obligations of the Trace fund. If a Trace fund itself becomes subject to a liability, parties seeking to have the liability satisfied could have recourse to the Trace fund's assets generally and not be limited to any particular asset, such as the investment giving rise to the liability.

***Secondary Transactions.*** Trace could propose to a Fund's Limited Partner Advisory Committee (the "Advisory Committee") or investors one or more transactions that would enable such investors to

monetize or restructure all or a portion of their interests in a Fund, including through the use of a continuation vehicle (each such transaction, a “Secondary Transaction”). The sale of an investment to a continuation vehicle could result in certain investors, the General Partner and/or members of Trace (including employees and affiliates) disposing of their investments in the underlying assets at a different time than some or all investors of such Fund and otherwise taking actions with respect to such investments that are different than the actions taken by other investors. Trace could be subject to other conflicts of interests in connection with a Secondary Transaction, including with respect to investment valuations, allocation of fees and expenses and the offering of investment opportunities to the Funds and co-investors.

***Early Termination of a Trace Fund.*** Pursuant to the partnership agreement (or similar agreement), a Trace fund is permitted to be dissolved and terminated prematurely, and as a result, may not be able to accomplish its objectives and could be required to dispose of its investments at a disadvantageous time or make an in-kind distribution (resulting in limited partners not having their capital invested and/or deployed in the manner originally contemplated).

***Uncertainty of Financial Projections.*** Trace will generally establish the capital structure of portfolio companies on the basis of financial projections for such portfolio companies. Projected operating results will normally be based primarily on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic, political and market conditions, which are not predictable, can have a material adverse impact on the reliability of such projections.

***Public Disclosure Obligations.*** A Trace fund in certain circumstances will be required to disclose confidential information relating to its portfolio investments and its financial results to third parties that could request such information if and to the extent required by federal, state or local law or regulation applicable to the Fund or any of its limited partners, including those limited partners that are public agencies or governmental bodies. There can be no assurance that such information will not be disclosed either publicly or to regulators, or otherwise. In addition, in order to comply with regulations and policies to which a Trace fund, the general partners, Trace, portfolio companies, or service providers (including financial institutions) are or could become subject, or to satisfy regulatory or other requirements in connection with transactions, the Trace fund, the general partners or Trace could be required to disclose information about the limited partners, including their identities. Such disclosure obligations in certain cases will adversely affect certain limited partners, particularly limited partners who are not otherwise subject to public disclosure of information relating to the private holdings of funds in which they invest. Such disclosure obligations in certain cases will adversely affect certain limited partners, particularly limited partners who are not otherwise subject to public disclosure of information relating to the private holdings of funds in which they invest.

***Freedom of Information Act.*** The general partner or Trace could withhold all or any part of the information otherwise to be provided to a limited partner (pursuant to the limited partnership agreement or otherwise) under certain circumstances in order to prevent public disclosure of such information under the U.S. Freedom of Information Act (“**FOIA**”), any governmental public records access law, any state, provincial or other jurisdiction’s laws similar in intent or effect to FOIA, or any other similar statutory or regulatory requirement.



**Accuracy of Third-Party Information.** Trace may select investments for our clients, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to Trace by third parties. Although Trace will evaluate all such information and data and will ordinarily seek independent corroboration when Trace considers it is appropriate and when such corroboration is reasonably available, Trace may not be in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information may not be available.

**Fraud.** There can be no assurance that the Trace accounts will be able to detect or prevent irregular accounting, employee misconduct or other fraudulent practices during the due diligence phase or during its efforts to monitor the investments on an ongoing basis. In the event of fraud by any portfolio company or any of its affiliates, our client may suffer a partial or total loss of capital invested in that portfolio company. An additional concern is the possibility of material misrepresentation or omission on the part of the portfolio company. Such inaccuracy or incompleteness may adversely affect the value of our client's securities and/or other investments in such portfolio company. In certain investments, the client will rely upon the accuracy and completeness of representations made by portfolio company and/or their former owners, if applicable, in the due diligence process to the extent reasonable when it makes its investments, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Trace account may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Financial Market Fluctuations.** General fluctuations in the market prices of securities may affect the value of our client's investments. Instability in the securities markets may also increase the risks inherent in such investments. The ability of portfolio companies to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise, or to raise capital in the leveraged finance debt markets, which are subject to cyclical variation.

**Banking System Volatility.** On Friday March 10, 2023, the U.S. Federal Deposit Insurance Corporation ("FDIC") was appointed receiver for Silicon Valley Bank ("SVB") and created the Deposit Insurance National Bank of Santa Clara to protect SVB's insured depositors. On Sunday March 12, 2023, the FDIC was appointed receiver for Signature Bank and created Signature Bridge Bank, N.A. to protect depositors of Signature Bank. On Sunday March 12, 2023, the U.S. Department of Treasury (the "U.S. Treasury"), the FDIC and the Board of Governors of the Federal Reserve System ("Federal Reserve") jointly announced that, upon recommendation from the board of the FDIC and the Federal Reserve, and in consultation with the President of the United States, U.S. Treasury Secretary Yellen approved actions enabling the FDIC to complete its resolution of SVB and Signature Bank in order to protect each bank's depositors. To that end, on Monday March 13, 2023, the FDIC announced that it had created Silicon Valley Bank, N.A.

The closing of SVB and Signature Bank will negatively impact the availability of certain financial services to their respective former clients, which could include Trace, general partners, Trace funds, portfolio companies or service providers and may require former clients to establish new bank relationships. These closures, and any additional closures that may occur within the banking system, may significantly increase certain costs for Trace, general partners and Trace funds, negatively impact a Trace fund's ability to execute on pending transactions, including with respect to the ability to draw down amounts under credit facilities, and divert Trace's time, attention and resources away from the pursuit of each Trace fund's investment strategy. Furthermore, these closures, and any additional closures that may occur within the banking system, may also increase counterparty risk, including raising the likelihood of defaults or bankruptcies by counterparties and their major customers that rely on such bank relationships. Depending on ongoing developments, regulatory guidance and timing, the closing of SVB and Signature Bank may

significantly exacerbate the normal risks associated with the Trace funds and result in adverse changes to, among other things: (i) general economic and market conditions; (ii) interest rates, currency exchange rates, and expenses associated with currency management transactions; (iii) demand for investments; (iv) availability of credit in certain markets; and (v) laws, regulations and governmental policies. Furthermore, the closing of SVB and Signature Bank may lead to financial system and participant regulatory reform, and such increased regulatory oversight may impose additional administrative burden on Trace, general partners and Trace funds. The foregoing could materially adversely impact a Trace fund's operations and its ability to realize its investment objectives in a timely manner, and it is currently unclear what the ultimate effect of the situation will be on the private equity industry and global markets as a whole.

**Public Company Holdings.** Our client's investment portfolio may contain securities issued by publicly held companies or their affiliates. Such investments may subject the client to risks that differ in type and degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the client to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members or significant shareholders, and increased costs associated with each of the foregoing risks.

**Additional Capital.** Certain of our client's portfolio companies, especially those in a development or "platform" phase, can be expected to require additional financing to satisfy their working capital requirements or acquisition strategies. The amount of additional financing needed will depend upon the maturity and objectives of the particular portfolio company. Each round of financing (whether from the client or other investors) is typically intended to provide a portfolio company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, a company may have to raise additional capital at a price unfavorable to the existing investors, including our client. In addition, our client may make additional debt and equity investments or exercise warrants, options or convertible securities that were acquired in the initial investment in such company in order to preserve its proportionate ownership when a subsequent financing is planned or to protect the initial investment when such portfolio company's performance does not meet expectations. The availability of capital is generally a function of capital market conditions that are beyond the control of Trace, the Trace funds or any portfolio company. There can be no assurance that the Trace funds will be able to fund all of their portfolio companies' needs or that they will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available.

**U.S. and International Trade Relations.** Trade tensions between the United States and China, as well as those between the United States and Russia, Canada, Mexico and other countries have been escalating recently. Four rounds of U.S. tariffs were placed on Chinese goods being exported to the United States, with such tariffs taking effect in July, August, and September 2018, May 2019, and August 2019. Each of these U.S. tariff impositions against Chinese exports (other than the August 2019 tariffs) were followed by a round of retaliatory Chinese tariffs on U.S. exports to China. In addition, the U.S. government has threatened to impose tariffs on all products imported from China. Additionally, the U.S. government has recently indicated its intent to alter its approach to international trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements and treaties with foreign countries, including the North American Free Trade Agreement, or "NAFTA." On September 30, 2018, the United States Trade Representative announced that the United States has agreed to a new trade deal between the NAFTA member countries (the "USMCA"), and on January 29, 2020, former President Trump signed the USMCA into law.

If the U.S. government takes action to materially modify other international trade agreements, treaties, policies, tariffs, quotas or any other trade restrictions, it has the potential to adversely impact the Trace accounts and their portfolio companies directly by disrupting trade and commercial transactions and/or indirectly by adversely affecting the U.S. economy or certain sectors thereof. Key aspects of a portfolio company's business could be negatively impacted by a withdrawal from or significant change to other international trade agreements. As such, if the U.S. withdraws from or negotiates material modifications to the terms of other significant trade agreements and/or treaties, or makes significant changes to its trade policies, such actions could materially adversely affect a portfolio company's business and consequently its financial condition and the results of its operations. For example, in November 2018, it was reported that the U.S. government was considering imposing quotas on steel imports from Canada and Mexico, in lieu of proposed changes in tariffs and, in May 2019, the U.S. government threatened to impose tariffs on all products imported from Mexico. Given the ongoing and developing nature of these issues, Trace cannot provide any assurance as to the ultimate impact to the Trace funds and their portfolio companies' businesses and their financial condition and results of operations.

***Russia-Ukraine Conflict.*** The Russian Federation invaded Ukraine on February 24, 2022. Geopolitical tensions have mounted in response and the United States ("US"), United Kingdom ("UK"), European Union ("EU") member states, and other countries have imposed economic sanctions on the Russian Federation, parts of Ukraine, as well as various designated parties. As further military conflicts and economic sanctions continue to evolve, it has become increasingly difficult to predict the effect of these events or how long they will last. Depending on direction and timing, the Russian Federation-Ukraine conflict may significantly exacerbate the normal risks associated with a Trace fund and lead to adverse changes to, among other things: (i) general economic and market conditions; (ii) shipping, energy and transportation costs and supply chain constraints; (iii) interest rates, currency exchange rates, and expenses associated with currency management transactions; (iv) demand for investments; (v) available credit in certain markets; (vi) import and export activity from certain markets; and (vii) laws, regulations, treaties, pacts, accords and governmental policies. Economic and military sanctions related to the Russian Federation-Ukraine conflict, or other conflicts, could affect markets, global supply and demand, import/export policies, and the availability of labor in certain markets. There is no guarantee that such sanctions and economic actions will abate or that more restrictive measures will not be put in place in the near term. It is also expected that the Russian Federation-Ukraine conflict could spark further sanctions or military conflicts which will impact other regions. The foregoing could seriously impact each Trace fund's operations and its ability to realize its investment objectives timely.

***Use of Derivatives and Other Specialized Techniques.*** Companies in the energy and commodities industries engage in derivative transactions to insulate against changes in commodities prices, and our clients or their portfolio companies may engage in other derivative or similar transactions. These transactions may involve the purchase and sale of commodities or commodity futures, the use of forward contracts, swap agreements, put and call options, floors, collars or other arrangements. Such instruments may be difficult to value, may be illiquid and may be subject to wide swings in valuation caused by changes in the price of commodities or other underlying assets. Derivative instruments may trade principally on markets organized outside the United States. Markets for such instruments may be illiquid, highly volatile and subject to interruption. Suitable hedging instruments may not continue to be available at reasonable cost. The investment and hedging techniques related to derivative instruments are highly specialized and may be considered speculative. Such techniques often involve forecasts and complex judgments regarding relative price movements and other economic developments. The success or failure of these investment techniques may turn on small changes in exogenous factors not within the control of portfolio companies, Trace or our clients. Exchange-traded futures and options on futures are subject to extensive statutes,

regulations and margin requirements, which may include without limitation position limits or accountability standards and daily priced limits. Over-the-counter (“OTC”) derivatives are also subject to regulatory requirements, including margin requirements. For all the foregoing reasons, the use of derivatives and related techniques can expose our clients and its portfolio companies to significant risk of loss.

***Hedging Policies and Commodities Price Risks.*** In connection with certain investments, a client or its portfolio companies are expected to employ hedging or other structuring techniques designed to reduce the risks of adverse movements in commodities prices, interest rates, securities prices and currency exchange. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. If a client or a portfolio company engage in any such hedging activities, it may be exposed to credit-related losses in the event of non-performance by counterparties to the physical or financial instruments. Additionally, if commodity prices, interest rates, or exchange rates increase above or decrease below those levels specified in any future hedging agreements, such hedging arrangements may prevent a Trace fund or a portfolio company from realizing the full benefit of such increases or decreases. In addition, any future commodity hedging arrangements could cause a Trace fund or a portfolio company to suffer financial loss if it is unable to produce sufficient quantities of the commodity to fulfill its obligations, if it is required to pay a margin call on a hedge contract or if it is required to pay royalties based on a market or reference price that is higher than a Trace fund’s or the portfolio company’s fixed ceiling price.

To the extent that risk management activities and hedging strategies are employed to address commodity prices, exchange rates, interest rates or other risks, risks associated with such activities and strategies, including counterparty risk, settlement risk, basis risk, liquidity risk and market risk, could impact or negate such activities and strategies, which would have a negative impact on the Trace fund’s overall performance.

***Currency and Exchange Rates.*** A significant portion of our clients’ investments, and the income received by our clients with respect to such investments, may be denominated primarily in foreign currencies. However, the books of our clients are maintained, and contributions to and distributions from are clients generally are made, in U.S. dollars. Accordingly, changes in currency exchange rates may adversely affect the dollar value of investments and the amounts of distributions, if any, to be made by our clients. In addition, our clients will incur costs in converting investment proceeds from one currency to another. The general partner of each of our clients may enter into hedging transactions designed to reduce such currency risks. With respect to investors of Trace accounts from any country in which U.S. dollars are not the local currency, changes in the exchange rate between U.S. dollars and such currency may have an adverse effect on the value, price or income of the investment to such investor. Each prospective investor of our clients should consult with its own counsel and advisors as to all legal, tax, financial and related matters concerning an investment in one of our clients.

***Inflation.*** Certain countries have experienced and could in the future experience substantial, and in some periods extremely high, rates of inflation. Inflation and rapid fluctuations in inflation rates have harmed and could continue to harm the economies and securities markets (both public and private) of certain countries in which the clients invest. There can be no assurance that high rates of inflation will not have a material adverse effect on the investments of the clients. For example, if a company were unable to increase its revenue while business expenses were increasing, the company’s profitability would likely suffer. Likewise, to the extent a company has revenue streams that are slow or unable to adjust to changes in inflation, including by contractual arrangements or otherwise, the company could increase revenue by

less than its expenses increase. Conversely, as inflation declines, a company may see its competitors' costs stabilize sooner or more rapidly than its own. Moreover, as inflation increases, the real value of the interests in the Trace funds and distributions therefrom can decline and increase the likelihood that the Trace fund will surpass its hurdle rate.

Depending on the inflation assumptions relating to anticipated cash flows from an investment of a fund, as well as the manner in which the asset revenue is determined with respect to such an investment, returns from an investment of each Trace fund may vary from those projected by Trace or its general partner as a result of changes in the rate of inflation and any corresponding changes in the price of commodities. In addition, the market value of investments by the funds may decline in times of higher inflation rates given that the most commonly used methodologies for valuing such investments (*e.g.*, discounted cash flow analysis) are sensitive to rising inflation and real interest rates

***Due Diligence Risks.*** Before making investments, the general partners of our clients and Trace intend to conduct due diligence that they deem appropriate based on the facts and circumstances applicable to each investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, and legal and regulatory issues. Outside consultants, legal advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment. Such involvement of third-party advisors or consultants may present a number of risks primarily relating to the general partner's reduced control of the functions that are outsourced. In addition, if Trace is unable to timely engage third-party providers, its ability to evaluate and acquire more complex targets could be adversely affected. When conducting due diligence and making an assessment regarding an investment, Trace will rely on the resources available to it, including information provided by the issuer and, in some circumstances, third-party investigations.

The due diligence investigation that Trace carries out with respect to any investment opportunity may be limited and may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful. Additionally, among the other risks inherent in investments, particularly so in companies experiencing financial distress, is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. There can be no assurance that attempts to provide downside protection with respect to investments will achieve their desired effect.

***Environmental Matters.*** Environmental laws, regulations and regulatory initiatives play a significant role in the energy and commodities industries and can have a substantial impact on investments in such industries. For example, many jurisdictions have complex regulations that can change abruptly, making it difficult to estimate closure and reclamation costs. Required expenditures for environmental compliance have adversely impacted investment returns in a number of segments of the industry. Certain rules and regulations require that investments address prior environmental concerns, including soil and groundwater contamination caused by the spillage of fuel, hazardous materials or other pollutants. The energy and commodities industries will continue to face considerable oversight from environmental regulatory authorities, and Trace will seek to evaluate carefully the expected impact of environmental compliance on all potential investments. Our clients may invest in portfolio companies that are subject to changing and increasingly stringent environmental and health and safety laws, regulations and permit requirements.

There can be no guarantee that all costs and risks regarding compliance with environmental laws and regulations can be identified. New and more stringent environmental and health and safety laws,

regulations and permit requirements or stricter interpretations of current laws or regulations could impose substantial additional costs on portfolio companies or potential investments. Compliance with such current or future environmental requirements does not ensure that the operations of the portfolio companies will not cause injury to the environment or to people under all circumstances or that the portfolio companies will not be required to incur additional unforeseen environmental expenditures. Moreover, failure to comply with any such requirements could have a material adverse effect on a portfolio company, and there can be no assurance that portfolio companies will at all times comply with all applicable environmental laws, regulations and permit requirements. Past practices or future operations of portfolio companies could also result in material personal injury or property damage claims.

Portfolio companies risk exposure to the liabilities and obligations associated with and arising from environmental hazards, such as oil spills, gas leaks, ruptures and discharges of petroleum products and hazardous substances, mining accidents and historic disposal activities and other contamination from historic operations. These environmental hazards could expose portfolio companies to material liabilities (including litigation) for property damage, personal injury or other environment-related losses, including the cost of investigating and remediating contaminated property. Any of these events may have a material adverse effect on the financial condition and business operations of the portfolio companies.

Our clients also may be liable for environmental damage caused by previous owners or operators of any property it or any of its issuers may purchase. Additionally, environmental claims with respect to a specific investment may exceed the value of such investment, and under certain circumstances, subject the other assets of the portfolio company to such liabilities. Even in cases where a Trace account or a portfolio company is indemnified by a third party with respect to an investment against liabilities arising out of violations of environmental laws and regulations or other environmental conditions, there can be no assurance as to the financial ability of such third parties to satisfy such indemnities or the ability of the client to achieve enforcement of such indemnities.

Under certain circumstances, environmental authorities and other parties may seek to impose personal liability on the limited partners of a partnership (such as our clients) subject to environmental liability. However, a limited partner investor in one of our clients may reduce its risk of such personal liability by avoiding activities with respect to the client's portfolio investments other than as specifically contemplated by the governing agreement.

***Climate Change Laws.*** In response to findings that emissions of carbon dioxide, methane and other greenhouse gases ("GHGs") present an endangerment to public health and the environment, the EPA has adopted regulations under existing provisions of the federal Clean Air Act that, among other things, establish Prevention of Significant Deterioration ("PSD") construction and Title V operating permit reviews for certain large stationary sources that are potential major sources of GHG emissions. Facilities required to obtain PSD permits for their GHG emissions also will be required to meet "best available control technology" standards that will be established by the states or, in some cases, by the EPA on a case-by-case basis. These EPA rulemakings could adversely affect a portfolio company's operations and restrict or delay its ability to obtain air permits for new or modified sources. In addition, the EPA has adopted rules requiring the monitoring and reporting of GHG emissions from specified onshore and offshore oil and gas production sources in the United States on an annual basis.

While U.S. Congress has from time to time considered legislation to reduce emissions of GHGs, there has not been significant activity in the form of adopted legislation to reduce GHG emissions at the federal level. However, the EPA announced that it will propose regulations to directly regulate and require

reductions to methane emissions from the oil and gas industry. In the absence of federal climate legislation, a number of state and regional efforts have emerged that are aimed at tracking and/or reducing GHG emissions by means of cap and trade programs that typically require major sources of GHG emissions, such as electric power plants, to acquire and surrender emission allowances in return for emitting those GHGs. If U.S. Congress undertakes comprehensive tax reform, it is possible that such reform may include a carbon tax, which could impose additional direct costs on operations and reduce demand for refined products. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions would impact each Trace account's investment program, any such future laws and regulations imposing reporting obligations on, or limiting emissions of GHGs from, a portfolio company's equipment and operations could require it to incur costs to reduce emissions of GHGs associated with its operations. Substantial limitations on GHG emissions could also adversely affect demand for the oil and natural gas. Finally, it should be noted that some scientists have concluded that increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events; if any such effects were to occur, they could have an adverse effect on a portfolio company's exploration and production operations.

***Catastrophic and Force Majeure Events; Availability of Insurance.*** While portfolio companies may maintain insurance to protect against certain operational risks, such as business interruption insurance, such insurance is not subject to customary deductibles and coverage limits and may not be sufficient to recoup all of a portfolio company's losses. In addition, our clients' investments may be subject to catastrophic events and other force majeure events, in the construction, technical and operational phases, such as fires, earthquakes, adverse weather conditions, changes in law, eminent domain, war, riots, terrorist attacks and similar risks. These events could result in the partial or total loss of an investment, significant down time resulting in lost revenues, and injury or loss of life, as well as litigation related thereto, among other potentially detrimental effects. Losses from such catastrophic events may be either uninsurable or insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. To the extent losses related to such events are insurable at all, they may have high deductibles and other important limitations on coverage, or pricing may make coverage not practical. As a result, not all investments may be insured against such events, or such insurance may be obtained notwithstanding the high cost.

***Natural Disasters, Terrorist Acts and Similar Dislocations.*** Upon the occurrence of a natural disaster such as flood, hurricane, or earthquake, pandemic, or upon an incident of war, riot or civil unrest, the impacted country may not efficiently and quickly recover from such event, which can have a material adverse effect on portfolio companies and other developing economic enterprises in such country. Terrorist attacks and related events can result in increased short-term economic volatility. U.S. military and related actions in Afghanistan and Iraq, other events in the Middle East, and terrorist actions worldwide could have significant adverse effects on U.S. and world economies and securities markets. The effects of future terrorist acts (or threats thereof), military action or similar events on the economies and securities markets of countries cannot be predicted. Such disruptions of the world financial markets could affect interest rates, ratings, credit risk, inflation and other factors relating to our client's investments. These disruptions may also expose our client to significant construction risks, including the risk of substantial delay or increase in cost due to the factors noted in this paragraph. A material delay or increase in unabsorbed costs could significantly impair the financial availability of an investment project and result in a material adverse effect on the client's investments.

**Cybersecurity Risks.** Cybersecurity incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. Information and technology systems at Trace and its respective portfolio companies may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons, security breaches and usage errors by their respective professionals. There can be no guarantee that Trace or the Trace funds will be able to prevent or mitigate such incidents. The failure of these systems for any reason could cause significant interruptions in the operations of Trace, its funds and their portfolio companies and could result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). A cybersecurity incident could have numerous material adverse effects, including on the operations, liquidity and financial condition of the Trace funds. Cyber threats and/or incidents could cause financial costs from the theft of fund assets (including proprietary information and intellectual property) as well as numerous unforeseen costs including, but not limited to: litigation costs, preventative and protective costs, remediation costs and costs associated with reputational damage, any of which could be materially adverse to the Trace funds.

Trace, its funds, their affiliates, service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Trace funds and its investors, despite the efforts of each Trace 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 Trace funds and their investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to these systems of the fund service providers, counterparties or data within these systems.

Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of systems to disclose sensitive information in order to gain access to data or that of a Trace fund's investors. A successful penetration or circumvention of the security of systems could result in the loss, theft or corruption of an investor's data, a loss of fund data, a loss of funds, the inability to access electronic systems, overall disruption in operations systems, loss, theft or corruption of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. These threats may also indirectly affect the Trace funds through cyber incidents with third-party service providers or counterparties. Data taken in such breaches may be used by criminals in identity theft, obtaining loans or payments under false identities and other crimes that could affect the a Trace fund's investors directly as well as affect the value of assets in which a Trace fund invests. These risks can disrupt the ability to engage in transactional business, cause direct financial loss and reputational damage, lead to violations of applicable laws related to data and privacy protection and consumer protection or incur regulatory penalties, all or part of which may not be covered by insurance. Cybersecurity risks also result in ongoing prevention and compliance costs. In addition, the Trace funds may incur substantial costs related to forensic analysis of the origin and scope of a cybersecurity breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information and adverse reputational reaction or litigation.

Similar types of operational and technology risks are also present for the portfolio companies in which the Trace funds invest, which could have material adverse consequences for such companies and may cause fund investments to lose value. Trace has limited ability to control these risks at the portfolio-company level because of the nature of such risks.



**Systems and Operational Risk.** Trace relies on certain financial, accounting, data processing and other operational systems and services that are employed by Trace and by third party service providers, including prime brokers, third-party administrators, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, Trace and its clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the clients' operations. In addition, despite certain measures established by Trace and third-party service providers to safeguard information in these systems, Trace, clients and their third-party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, liability under applicable law, regulatory intervention or reputational damage.

**Diseases, Pandemics and Epidemics.** The impact of disease and epidemics, including coronavirus, may have a negative impact on our business, the funds, their portfolio companies and their performance and financial position. Coronavirus, renewed outbreaks of other epidemics or the outbreak of new epidemics could result in health or governmental authorities requiring the closure of offices or other businesses and could also result in a general economic decline. For example, such events may adversely impact economic activity through disruption in supply and delivery chains. Moreover, our operations and those of our funds or portfolio companies could be negatively affected if personnel are quarantined as the result of, or in order to avoid, exposure to a contagious illness. Similarly, travel restrictions or operational issues resulting from the rapid spread of contagious illnesses may have a material adverse effect on business and results of operations. A resulting negative impact on economic fundamentals and consumer confidence may negatively impact market value, increase market volatility and reduce liquidity, all of which could have an adverse effect on our business, our funds and underlying portfolio investments.

**Business Continuity Plans.** In the event of unforeseen catastrophic events such as natural disasters, terrorist attacks and epidemics, Trace will initiate its business continuity plan to safeguard that its employees have the resources and technology necessary to continue their responsibilities and meet portfolio company and investor needs. The business continuity plan is tested to ensure that appropriate measures are put in place to manage any such catastrophic events. However, Trace is not able to predict the level of disruption that such catastrophic events may have on its operation or the ability of the plan to succeed in a time of crisis. Thus, its business continuity plan may be insufficient to continue operating Trace's business as usual. The failure of the business continuity plan for any reason could cause significant interruptions in a general partner's, Trace's, the accounts' and/or a portfolio company's operations. Similar types of operational risks are also present for the portfolio companies in which the accounts invest, which could have material adverse consequences for such companies and may cause the accounts' investments to lose value. While Trace has limited ability to control these risks at the portfolio-company level, Trace will work with portfolio companies to implement their own business continuity plans.

Trace initiated its business continuity plan in response to the spread of COVID-19. Trace's offices are now generally open, but Trace's employees may continue to work remotely. Trace employees have the necessary technology to continue meeting investor and portfolio company needs, including access to laptops with remote working capabilities and audio and video conferencing technology, and Trace's servers are capable of handling its workforce working remotely. While the implementation of the business continuity plan has not impaired Trace's operations to date, the ongoing implementation of the business continuity plan could affect in the future the ability of Trace to operate effectively, including the ability of

personnel to function, communicate and carry out the accounts' investment strategies and objectives. For example, Trace's ability to conduct due diligence on potential portfolio company investments and monitor its current investments will be limited until its operations and the operation of portfolio companies and potential portfolio companies are no longer disrupted by the COVID-19 pandemic.

**Valuation Risks.** World financial markets have experienced extraordinary market disruptions recently, including, among other things, extreme losses and volatility in securities and energy markets. In reaction to these events, regulators in the U.S. and several other countries have undertaken exceptional regulatory actions, including interest rate cuts and halting market trading. Recent volatility in the world financial markets and depressed commodity prices may negatively affect the valuation of the account and its investments and impair Trace's ability to accurately value portfolio investments. Valuation estimates may cause uncertainty in the performance of investments and the account.

Trace will value the account's assets. Trace may cause a client to engage qualified valuation experts to assist in these determinations, however, it is not required to do so. Given that the assets of a client may at any time include investments that are very thinly traded, for which no market exists or which are restricted as to their transferability under applicable laws or regulations, a client's investments may be extremely difficult to value accurately. Furthermore, because of overall size or concentration in the energy and commodities sector, the value at which a client's investments can be liquidated may differ, sometimes significantly, from the assigned valuation of such investments. There may be a relative scarcity of market comparables on which to base the value of a client's investments. Accordingly, the carrying value of an investment may not reflect the price at which the investment could be sold in the market, and the difference between carrying value and the ultimate sales price could be material.

Trace may cause a client to make a distribution in-kind of investments and Trace may be entitled to carried interest distributions in connection with such in-kind distribution based on a valuation determined by Trace. The valuation of investments will affect the amount and timing of the Trace's carried interest and, under certain circumstances, the amount of Management Fees payable to the Trace. The valuation of investments may also affect the ability of Trace to raise a successor account to a client. As a result, there may be circumstances where Trace is incentivized to determine valuations that may be higher than the actual fair value of investments.

**U.S. Taxation of Carried Interest.** U.S. federal income tax law treats certain allocations of capital gains to service providers by partnerships such as the clients as short-term capital gain (taxed at higher ordinary income rates) unless the partnership has held the asset that generated such gain for more than three years. Additionally, Congress has considered proposed legislation that would treat certain income allocations to service providers by partnerships such as a client (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law are treated as an allocation of the partnership's income (and which could be taxed at lower rates than ordinary income). Such rules, as well as any such legislation that could be enacted in the future, could apply to reduce the after-tax returns of individuals associated with a client, its general partner, or Trace who were or may in the future be granted direct or indirect interests in carried interest, which could make it more difficult for the relevant general partner and its affiliates to incentivize, attract and retain individuals to perform services for a client. This creates potential incentives for Trace to cause a client to hold investments for a longer period than would be the case if such greater-than-three-year holding period requirement did not exist.

**Risk Management.** Our client's methods to minimize investment strategy and market risks, may not accurately address future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted. In certain situations the accounts may be unable to, or may choose not to, implement risk management strategies because of the costs involved or other relevant circumstances or business judgments, and even if risk management strategies are utilized, such strategies cannot fully insulate the accounts from the risks inherent in its planned activities. No risk management system is fail-safe.

**Material, Non-Public Information.** By reason of their responsibilities in connection with other activities of Trace, including the management of other investment accounts that may be organized or managed by Trace, certain Trace personnel may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. Our clients will not be free to act upon any such information. Due to these restrictions, our clients may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

Despite the maintenance of restricted lists and other internal controls relating to the management of material non-public information, such procedures could fail and lead to Trace, or one of its investment professionals, buying or selling a security while, at least constructively, in possession of material non-public information. Inadvertent trading on material non-public information could harm Trace's reputation, lead to the imposition of regulatory or financial sanctions, and harm Trace's ability to perform its investment management services on behalf of a client.

**Broken Deal Expenses.** Our client's investments often require extensive due diligence activities prior to acquisition, including feasibility and technical studies, preliminary engineering costs and marketing studies, environmental review and legal costs. In the event that an investment is not consummated, some or all of such third-party expenses will be borne by a particular client and its investors and may be significant.

**Allocation of Investment Opportunities.** The objective of Trace with respect to allocations of investment opportunities is to ensure that all Trace accounts are treated in a fair and equitable manner under the particular circumstances. Accordingly, Trace has established allocation policies and procedures in an effort to ensure that investment opportunities are allocated among advisory clients in a fair and equitable manner. These policies and procedures seek to provide consistent treatment, to the extent possible and consistent with legal, regulatory and contractual restrictions, of accounts that have similar investment objectives and guidelines. There can be no assurance that the application of these policies and procedures will result in fair or equivalent allocation of, or participation in, investment opportunities, or comparable performance of investments allocated to one advisory client as compared to another.

**Foreign Interests in U.S. "Critical Infrastructure" and "Critical Technology".** Since the funds may invest in portfolio companies that produce, design, test, manufacture, fabricate, or develop critical infrastructure or critical technology in the United States, the funds' acquisition of portfolio companies may be reviewed by the Committee on Foreign Investments in the United States. This may have a material adverse effect on the participation in the funds by the investors or may limit the market of potential buyers and increase deal uncertainty for any sale, which could have a negative impact on the price realized. Recently passed regulations could also have the effect of restricting the percentage of such infrastructure or technology

investments that can be owned (directly or indirectly) by non-U.S. investors. If such limitations on non-U.S. ownership cannot be addressed by insulating non-U.S. investors, then Trace may be required to impose additional restrictions or take remedial measures to prevent the percentage of non-U.S. investors in certain fund assets from exceeding such restrictions.

**OFAC Considerations.** Economic sanction laws in the United States and other jurisdictions may prohibit Trace, Trace's professionals and some of Trace's accounts from transacting with or in certain countries and with certain individuals and companies. In the United States, the U.S. Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces laws, Executive Orders and regulations establishing U.S. economic and trade sanctions. Such sanctions prohibit, among other things, transactions with, and the provision of services to, certain non-U.S. countries, territories, entities and individuals. These entities and individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanctions and embargo programs. In addition, certain programs administered by OFAC prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on the lists maintained by OFAC. These types of sanctions may restrict some of our client's investment activities.

**Anti-Corruption Laws and Regulations.** Conducting business on a worldwide basis require our client's portfolio companies to comply with the laws and regulations of the U.S. government and various international jurisdictions, and their failure to comply with these rules and regulations may expose both our client and such portfolio companies to liabilities. These laws and regulations may apply to companies, individual directors, officers, employees and agents, and may restrict our client's portfolio companies' operations, trade practices, investment decisions and partnering activities. In particular, our client's international portfolio companies are subject to U.S. and foreign anti-corruption laws and regulations, such as the Foreign Corrupt Practices Act ("FCPA") and the U.K. Bribery Act 2010 (the "Bribery Act"). In particular, the FCPA prohibits U.S. companies and their officers, directors, employees and agents acting on their behalf from corruptly offering, promising, authorizing or providing anything of value to foreign officials for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. The FCPA also requires companies to make and keep books, records and accounts that accurately and fairly reflect transactions and dispositions of assets and to maintain a system of adequate internal accounting controls. As part of their business, our client's portfolio companies are expected to deal with state-owned business enterprises, the employees and representatives of which may be considered foreign officials for purposes of the FCPA. The Bribery Act contains similar restrictions. In addition, some of the international locations in which our client's portfolio companies operate may lack a developed legal system and have elevated levels of corruption. As a result of the above activities, our client's portfolio companies may be exposed to the risk of violating anti-corruption laws. Violations of these legal requirements are punishable by criminal fines and imprisonment, civil penalties, disgorgement of profits, injunctions, debarment from government contracts as well as other remedial measures. A portfolio company's employees, subcontractors and agents could take actions that violate these requirements, which could adversely affect our client's portfolio companies' reputation, business, financial condition and results of operations.

**Side Letters.** The general partner, on behalf of the respective client, may from time to time enter into side letters with one or more investors, which provide such investors with additional or different rights (including with respect to access to information and liquidity terms) than such investors have pursuant to the governing agreements, in connection with their admission to a client as limited partners therein without the approval of any other investor. As a result of such side letters, certain investors may receive additional benefits that other investors will not receive. The general partner, on behalf of the respective

client, may enter into such side letters with any party as the general partner may determine, in its sole and absolute discretion, at any time. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) fee or carried interest arrangements with respect to such investors; (ii) excuse rights applicable to particular investments (which may increase the percentage interest of other investors in, and contribution obligations of other investors with respect to, such investments); (iii) reporting obligations of the general partner; (iv) waiver of certain confidentiality obligations; (v) consent of the general partner to certain transfers by such investor; (vi) special rights with respect to co-investment; (vii) withdrawal rights; (viii) limits on indemnification obligations; or (ix) rights or terms necessary in light of particular legal, public policy or regulatory characteristics of an investor. Any rights or terms so established in a side letter with an investor will not require the approval of any other investor notwithstanding any other provision of the governing agreement.

**Indemnification.** Our clients will be required to indemnify its respective general partner, Trace and any sub-advisors, their affiliates and each of their respective members, officers, directors, employees, stockholders, shareholders or partners and other persons who serve at the request of the general partner on behalf of a client for liabilities incurred in connection with the affairs of a client. Members of a client's advisory committee will also be entitled to the benefit of certain indemnification and exculpation provisions as set forth in the governing agreement. Such liabilities may be material. For example, in their capacity as directors of portfolio companies, the partners, managers or affiliates of the general partner may be subject to derivative or other similar claims brought by shareholders of such companies. The indemnification obligation of our clients would be payable from the assets of our clients, including the unpaid capital commitments of investors. If the assets of our clients are insufficient, the general partners may recall distributions previously made to the investors, subject to certain limitations set forth in the governing agreements.

**No Market for Limited Partner Interests; Restrictions on Transfers.** Interests in our clients have not been registered under the 1933 Act, the securities laws of any U.S. state thereof or the securities laws of any other jurisdiction; and, therefore, cannot be resold unless they are subsequently registered under the 1933 Act and other applicable securities laws or unless an exemption from registration is available. It is not contemplated that registration of the Interests under the 1933 Act or other securities laws will ever be effected. There is no public market for the interests, and one is not expected to develop. An investor will not be permitted to assign, sell, exchange or transfer any of its interests, rights or obligations with respect to its interests without the prior written consent of the general partner of the respective client, which consent may be given or withheld in the sole and absolute discretion of such general partner. Except in extremely limited circumstances, withdrawals from our clients will not be permitted. Investors must be prepared to bear the risks of owning Interests for an extended period of time.

**Environmental, Social & Governance ("ESG") Matters.** ESG matters have been the subject of increased focus by certain regulators in the United States and EU, among other jurisdictions. While Trace strives to implement ESG practices, there can be no assurance that Trace will be able to identify all ESG issues or will be able to successfully implement its ESG policies. The use of ESG metrics in the investment process may be subjective and are not subject to uniform standards, and, as such, there is no guarantee that Trace will be able to accurately assess and measure the ESG risks and ESG compliance of its investments and potential investments. ESG-based exclusionary criteria may result in a Trace account foregoing opportunities to make certain investments when it might otherwise be advantageous to do so, and/or selling certain investments due to their ESG characteristics when it might be disadvantageous to do so. The use of ESG criteria may affect a Trace account's investment performance and, as such, a Trace account may perform differently compared to similar accounts that do not use such criteria.

***Special Purpose Acquisition Vehicles (“SPACs”).*** From time to time, certain principals of Trace may serve as board members of or organize or sponsor SPACs for the purposes of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or other similar business combination with one or more businesses. Although these principals will continue to devote their time and attention to the investment activities of the funds, they will have other obligations with respect to the SPACs as board members. In addition, the principals may regularly obtain confidential information regarding various target companies and other investment opportunities which would be imputed to all of Trace. Therefore, if a principal receives confidential information with respect to a company, the Trace funds may face certain restrictions on their ability to pursue a transaction with that company or dispose of an investment.

***Increased Regulatory Scrutiny of Private Fund Advisers.*** The regulatory environment for private funds and other financial entities is evolving. The SEC has recently increased its scrutiny of the private fund industry, including conducting numerous examinations and bringing a number of enforcement actions against private fund managers. The SEC has also recently proposed a number of new rules and regulations that, if finalized, will affect Trace and our operations.

Changes in law or regulations may adversely affect the value of instruments held (directly or indirectly) by the funds, may affect the ability of a fund to pursue its investment strategies, or may restrict or prevent Trace from continuing to perform services for the funds in the manner currently contemplated. The SEC, as well as other regulators, self-regulatory organizations and exchanges, have taken various extraordinary actions and may take additional actions in the future. For example, on February 9, 2022, the SEC proposed rules for certain private fund advisors under the Advisers Act, including new (i) prohibitions on certain conflicted activities (including the charging of certain fees and expenses), (ii) prohibitions on preferential treatment relating to investment information and increased transparency on certain types of preferential treatment, (iii) requirements to issue quarterly statements to investors on performance, fees and expenses, and adviser and related person compensation, (iv) enhanced annual audit requirements, and (v) requirements relating to adviser-led secondary transactions. If adopted, these rules would prohibit private fund adviser activities that had previously been addressed through disclosure and significantly expand the information disclosed to investors and the SEC. The effect of any future regulatory changes on Trace, any fund, and/or any investor, could be substantial and result in material amendments to the terms of the fund documents.

## **Item 9. Disciplinary Information**

There are no legal or disciplinary matters that would be material to the evaluation of our advisory business or integrity of our management by a client, prospective client or investor in a Trace account.

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

Trace is affiliated with the general partner of each fund and these general partners are also investment advisers in accordance with SEC guidance under the Advisers Act pursuant to Trace’s registration. These affiliated investment advisers operate as a single advisory business together with Trace, are under common control with Trace, and are subject to Trace’s code of ethics and compliance programs adopted pursuant to the requirements of the Advisers Act. Trace and the affiliated investment advisers may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

Trace is affiliated with Denham Capital Management LP (“Denham”), an SEC registered investment advisor. Trace and Denham are considered to be under common control, given that Mr. Stuart Porter’s ownership in both Trace and Denham exceeds 25%.

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

##### *CODE OF ETHICS*

Trace maintains a Code of Ethics which sets forth standards of conduct that are expected of Trace’s principals, employees and their family members living in the same household and addresses conflicts that may arise from association with Trace. Such topics include potential conflicts of interest, personal securities trading, insider trading, outside activities, gifts and entertainment and political contributions.

In accordance with applicable federal and state securities regulations, Trace’s Code of Ethics is designed to ensure that no Trace representative employs any device, scheme or artifice to defraud a client or an investor of a client, makes any untrue statements of a material fact to a client or an investor of a client, engages in any act, practice or course of business that operates as a fraud or deceit on a client or an investor of a client or engages in any manipulative practice with respect to a client or an investor of a client. Conflicts of interest and potential of conflicts of interest are required to be reported to the Chief Compliance Officer (“CCO”) of Trace. Trace conducts ongoing training and has active discussions with its employees to ensure understanding of potential conflicts and the avenues to report them to the proper management individuals.

Trace prohibits insider trading by any employee or related person in possession of Trace information. Through its evaluation of potential investment opportunities for its clients, Trace may, from time to time, come into possession of material nonpublic information regarding outside companies and businesses. Under applicable law, Trace and its employees are prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of Trace. Trace maintains internal procedures designed to ensure information is kept confidential and prohibits trading in such companies by its employees. Similar restrictions may be applicable as a result of Trace’s employees serving as directors of public companies and may restrict trading on behalf of clients, including the Trace accounts. Due to these restrictions, the Trace accounts may not be able to initiate a transaction that they otherwise might have initiated and may not be able to sell an investment that they otherwise might have sold.

Further to the Code of Ethics, Trace requires its employees to pre-clear the purchase or sale of securities for which they have beneficial ownership. Excluded from the preclearance requirements are open-ended mutual funds, open-ended funds, exchange traded funds and notes, direct obligations of the United States, banker’s acceptances, bank certificates of deposit, high-quality government short-term debt instruments, employees stock option purchase plans of spouses, shares issued by money market funds and unit investment trusts. Additionally, Trace employees are required to pre-clear the purchase of any initial public offering or private placement.

Trace’s Code of Ethics additionally places restrictions on employees’ outside activities, requiring them to pre-clear employment by another entity, board or officer membership of an outside entity, holding an official position for a candidate seeking public office or being a candidate for public office, or operating a

fund or group formed to invest in securities. Trace employees must also seek approval from the CCO or his or her designee prior to making a political contribution on any level.

Trace monitors gifts and entertainment both received and given by its employees, requiring reporting over a threshold of \$500 for gifts.

Trace provides a copy of the Code of Ethics to any client or prospective client upon request to at 713-217-2700.

If a violation of Trace's Code of Ethics is found to have occurred, the CCO in his or her sole discretion shall determine what appropriate actions are to be taken. Such actions may include disgorgement of personal trading profits, letter of censure or suspension, termination of employment and/or referral to civil or criminal authorities.

#### *PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS*

Trace provides ongoing portfolio management and advisory services for the Trace accounts. Investment decisions are made by the investment committee for the applicable Trace account. The investment committee is responsible for monitoring and managing the investment portfolio of the applicable Trace account in accordance with its particular investment objectives, limitations and guidelines, and as set forth in the applicable governing agreements. Trace also complies with restrictions provided in the applicable governing agreements relating to principal transactions or other affiliated transactions, in which we or our personnel may have interests that are not aligned with the interests of one or more of our clients.

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliate, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser acts as broker for both the advisory client and for another person on the other side of the transaction. Trace does not currently engage in such transactions, and, if it does so in the future, will follow all requirements applicable under its relevant agreements with its clients and the Advisers Act.

Client cross transactions occur where an adviser executes a transaction between two (or more) of its managed client accounts. These can create conflicts of interest because, by not exposing such buy and sell transactions to market forces, clients may not receive the benefits of best price, or an adviser might seek to prop up the performance of one fund by selling under-performing assets to another fund in order, for example, to earn higher fees in the aggregate. Client cross transactions are conducted either (i) in accordance with the governing agreements of the involved clients or (ii) pursuant to policies approved by the advisory committees or consented to by the limited partners of the Trace funds. For example, Trace's funds may permit the sharing of portfolio company personnel among portfolio companies of the Trace funds, without the consent of the applicable advisory committees or applicable limited partners. Related costs and expenses are then shared among the applicable Trace funds in accordance with the governing documents of the Trace funds (or other applicable procedures).

Additionally, a fund may invest in the same projects or portfolio companies with another Trace fund, subject to limitations set forth in the applicable fund partnership agreements. Such investments, or investments within a single Trace fund, may be in different parts of the capital structure of a company in which one or more Trace fund has an investment in a debt and/or equity tranche. Given the differing



tranches and corresponding priorities in the capital structure of a single company, Trace may in certain circumstances face a conflict of interest in respect of the advice they have given to, and the actions they take on behalf of, the funds. In addition, where one or more fund invests in different parts of the capital structure, the respective interests may diverge significantly in the case of financial distress of the company. Trace will determine allocations of investment opportunities in a manner that it believes is fair and equitable to the funds consistent with its obligations to each such fund, including as set forth in relevant fund agreements and Trace's allocation policy. Where necessary, Trace will consult and receive consent to conflicts from an advisory committee consisting of limited partners of the funds subject to any conflict of interest.

To the extent that one or more Trace investment vehicles invest in the same securities of the same issuer, Trace will generally seek to ensure that all participants in such investment participate on comparable terms. This may not be practicable or appropriate in all circumstances, however, and one or more Trace investment vehicles may participate in such investments on different and potentially less favorable terms than other participants if Trace deems such participation as being otherwise in the best interests of the participating Trace clients. This may have an adverse impact on one of the participating Trace clients.

#### *PERSONAL TRADING; INVESTMENT ALONGSIDE CLIENT FUNDS*

Conflicts of interest may arise between a Trace fund and Trace personnel when we invest on our own behalf in the same securities that we recommend to the Trace funds. The governing documents for the Trace funds contain specified procedures for managing or obtaining client consent with respect to potential or actual conflicts of interests, including, in some cases, obtaining consent from an advisory committee comprised of investor representatives.

In addition, we have established internal procedures to identify and manage such conflicts. Pursuant to our Code of Ethics, each of our employees is required to submit to the CCO a report of the employee's securities holdings (which must be updated annually), as well as provide to the CCO a report of any personal securities transactions on a quarterly basis. In addition to these reports, our employees have an obligation to report any personal conflict of interest to the CCO as such conflict becomes known. Our employees must obtain the CCO's prior approval before buying or selling any security for their own account with limited exceptions.

We are also subject to the following potential conflicts of interest, although the discussion below does not describe all of the conflicts that may potentially be faced by Trace.

#### *CONFLICTS OF INTEREST*

##### *Interests in the Funds*

Each Trace fund's general partner (or its affiliates) is required by the fund's governing documents to commit capital to such Trace fund, either as an investor or through a parallel vehicle. This capital requirement is intended to further align the general partner's interest – i.e., Trace's interest – with that of the client fund's investors.

Trace, its employees, and certain business associates and other "friends and family" of key professionals currently invest and may in the future invest directly or indirectly in one or more Trace funds. Such investments generally are not subject to the management or performance-based fees described in Items 5 and 6 above. The fact that Trace and its employees have financial ownership interests in certain funds

creates a potential conflict in that it could cause Trace to make different investment decisions than if such parties did not have such financial ownership interests. Trace carefully considers the risks involved in any investments and Trace provides to investors disclosure in the Trace funds' offering documents regarding the potential risks that come with an investment in the Trace funds.

#### *Interests in Service Providers*

Mr. Stuart Porter owns a passive minority interest in Petra Funds Group ("Petra"), the parent company to Petra Services, which is Trace's third-party fund administrator that provides back office services to certain Trace funds, including with respect to drawdowns and cash management, investor reporting, fund accounting, tax reporting, fund compliance support, and other back office services. To the extent provided under a fund's governing documents, a fund may engage Petra directly on terms to be negotiated on an arm's length basis, with the associated administrative fees to be borne by such funds.

Investors should be aware that Mr. Porter's non-controlling interest in Petra, and Trace's engagement of Petra as a service provider, presents a potential conflict of interest. Mr. Porter and Petra have addressed this potential conflict of interest by excluding from Mr. Porter's interest in Petra any economics generated by the Trace funds. Any revenues or other compensation Mr. Porter receives in connection with his interest in Petra will not offset management fees paid by the Trace funds and accounts. Mr. Porter's passive minority interest in Petra is exclusive of any activity associated with Trace and held separate and apart from any of his ownership interest in Trace.

#### *Trace-Denham Relationship*

Trace and Denham currently share the same office space until approximately August 2023, which presents additional risks of which investors should be aware. While Trace maintains information barriers that include among other practices, the segregation of data and computer systems, as well as physical separation of certain businesses (and supervised persons), a breach or failure of such information barriers could occur. While Trace and Denham pursue investments in different sectors and maintain distinct investment strategies, a breach of such information barriers could present certain conflicts of interest in the event that certain investment opportunities overlap or conflict. Additionally, a breach or failure of such information barriers that result in the exchange of certain material non-public information could render Trace and/or its supervised persons unable to engage in certain transactions they would otherwise find attractive, or being able to engage in such transactions only during limited periods of time.

#### *Receipt of Performance Fees ("Carried Interest")*

The existence of the performance-based fees (i.e., carried interest) charged by Trace creates an incentive for Trace to make investments that are riskier or more speculative than in the absence of such fees. In addition, the terms applicable to carried interest distributions incentivize Trace to make decisions regarding the timing and structure of realizations of investments that are not in the best interests of a Trace fund. Further, Trace is incentivized to hold on to investments that have poor prospects for improvement to receive, potentially, a more likely or larger carried interest distribution if such asset's value appreciates in the future.

For gains that are attributable to the carried interest to qualify as long-term capital gain for U.S. federal income tax purposes, the holding period for the asset giving rise to such gains generally must exceed three years. For investors, gains in respect of assets held for more than one year will generally qualify as long-term capital gain. Long-term capital gain recognized by non-corporate U.S. taxpayers is generally subject to U.S. federal income tax at preferential rates. These disparate holding period requirements give rise to conflicts of interest. A general partner has an incentive to take actions intended to maximize the amount

of gains from assets held for more than three years, even though investors will not necessarily derive any additional U.S. federal income tax benefit from the longer holding period. For example, the general partner will have an incentive to (i) refrain from making investments expected to generate gains within three years, (ii) refrain from selling or engaging in other transactions with respect to investments that would give rise to capital gain if the investment has not been held for more than three years or (iii) structure follow-on investments in a manner intended to maximize the amount of gain attributable to a Trace fund's existing interests in such investments. Such actions could reduce the amount realized from a Trace fund's investments and adversely affect the amount and timing of distributions to a Trace fund's investors.

In certain limited circumstances, the amount of carried interest could be calculated based on the fair market value of non-cash distributions, which could result in a valuation for purposes of determining the carried interest that exceeds any cash value ultimately achieved. The carried interest can be distributed prior to the final liquidation of all of a Trace fund's investments and prior to returning all of the capital invested by the investors. If a Trace fund experiences significant losses after having made distributions of the carried interest to a general, then it is possible that the aggregate cumulative amount distributed to all of a fund's investors upon final liquidation of a Trace fund would be less than the investors' aggregate capital contributions plus the cumulative unpaid amount of the preferred return thereon. In such a case, a general partner could be required to contribute to a Trace fund all or a portion of the carried interest distributions previously received to restore the deficiency; however, such clawback obligations will be computed on an "after-tax" basis. Accordingly, such calculated amounts would not be sufficient to return to an investor its capital contributions or any return thereon.

#### *Receipt of Other Fees*

Trace or its affiliates may, from time to time, receive fees or other payments in respect of investments completed by certain Trace funds, such as deal fees, monitoring fees or transaction fees. Such parties may also receive "break-up" fees and other compensation with respect to portfolio company investments (including unconsummated investments). Such fees are not dependent on the performance of the investment and may create a conflict of interest between Trace and its clients. To address this potential conflict, some or all of a client's pro rata share of these fees generally offset the management fees otherwise payable by clients to Trace, if any. In addition, as described herein, Trace has internal policies and procedures designed to address conflicts of interest, and each Trace fund has a limited partner advisory committee which, in accordance with the governing agreements of the respective Trace fund or on a voluntary basis, the general partner of a fund may consult in seeking to resolve any conflicts of interest.

#### *Portfolio Company Representation*

Employees of and related persons of Trace and consultants affiliated with Trace may serve on the boards of, serve as employees of, or otherwise be retained as consultants by portfolio companies of Trace clients. Since Trace may be reimbursed for certain compensation and other fees and expenses that relate to the employment of certain expected portfolio company employees or retention of certain consultants, Trace could have a conflict of interest in connection with the applicable fund's initial investment in such portfolio company and the resulting reimbursement of such amounts. In addition, as a result of the funds' controlling interests in portfolio companies, Trace typically has the right to appoint board members to such portfolio companies, or to influence their appointment, and to determine or influence a determination of compensation for board members, portfolio company employees and/or consultants retained by portfolio companies. Serving on a portfolio company board may give rise to conflicts to the

extent that a Trace employee's (or consultant's) fiduciary duties to a portfolio company as a director may conflict with the interests of the Trace clients that are invested in such portfolio companies.

Trace may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Trace clients. Additionally, Trace and/or its personnel may maintain relationships with (or may invest in) financial institutions or other service providers, some of which may invest (or may be affiliated with an investor) in, engage in transactions with and/or provide services to, Trace, and/or Trace's clients. From time to time, situations may arise where Trace is in the position of recommending one portfolio company's services to other portfolio companies. Trace will generally have a conflict of interest in making such recommendations, in that Trace has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for the funds, while the products or services recommended may not necessarily be the best available or the lowest priced for the other portfolio companies. The benefits received by a portfolio company providing a service may be greater than those received by the fund(s) and its portfolio companies receiving the service. Trace seeks to mitigate any such conflicts where possible.

The funds may invest in a company that competes with, is a customer of, or a service provider or supplier to a portfolio company of another fund. In addition, as noted above, principals and employees of Trace may serve as directors and officers of companies that are competitors of portfolio companies of certain funds. These circumstances may give rise to certain conflicts of interest. A fund or its portfolio company may take actions for commercial reasons that have adverse consequences for another Trace fund or its portfolio company, such as seeking to increase market share, withdrawing business in favor of a competitor, or commencing litigation. A Trace fund could obtain information while investigating investment opportunities or dealing with existing portfolio companies that it is prohibited from acting on or disclosing to anyone, including another Trace fund or portfolio company, as a result of confidentiality requirements or applicable law, regardless of whether acting on or disclosing such information would be in the interest of a Trace fund or portfolio company.

#### *Co-Investment Vehicles*

Trace serves as investment advisor to certain co-investment vehicles that invest alongside the funds in certain portfolio companies and also, from time to time, may offer certain investors or other persons the opportunity to co-invest directly in a portfolio company. In certain instances, a co-investment vehicle or other co-investor may evaluate a potential investment alongside a fund. If the potential investment or co-investment is not consummated, the full amount of any expenses relating to such potential but not consummated investment will typically be borne entirely by the fund allocated such investment rather than the co-investors. Generally, Trace in its sole discretion will select which investors or other persons are permitted to co invest based on various factors as disclosed in each fund's offering and governing documents. In addition, Trace may grant certain investors the opportunity to evaluate specified amounts of possible co-investments, and may give priority to such investors when allocating potential co-investment opportunities. Co-investment opportunities typically will be offered to some and not to other fund investors. Investors that participate in co-investments, whether directly or through a co-investment vehicle, may be in a position to obtain additional information regarding the applicable portfolio company that may not generally be available to investors in the fund. In addition, co-investors' interests are not always aligned with the funds' interests.

In circumstances where an entire investment could be made by a fund, Trace may still allocate a portion of such investment to one or more co-investment vehicles or other co-investors in accordance with such fund's partnership agreement and Trace's allocation policy if, for example, Trace believes in its good faith

judgment that the full investment would unreasonably limit the diversification of the applicable fund or that a particular co-investor would add value to the fund or the investment.

Trace may make investments on behalf of the funds with the expectation that co-investors will participate in the investment. In the event that Trace does not successfully offer a co-investment opportunity to potential co-investors, in whole or in part, one or more funds will consequently hold a greater concentration and have a larger exposure in the related investment opportunity than was intended, which could make such funds more susceptible to fluctuations in value resulting from adverse economic and/or business conditions with respect thereto. Moreover, an investment by the fund which is not syndicated to co-investors as anticipated could significantly impact the fund's overall investment returns.

#### *Allocation of Shared Expenses*

Trace and its affiliates expect from time to time to incur fees, costs and expenses on behalf of more than one Trace fund and/or Trace or its affiliates. In that event, expenses will typically be allocated among all relevant funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made in Trace's discretion with a view to being fair and reasonable and having regard to all relevant and available information, including the extent to which the relevant entity(ies) or group(s) required or benefitted from the good or service giving rise to the expense and whether all or a portion of a multiple-purpose expense should be viewed as overhead and absorbed by Trace. The allocations of such expenses will not always be proportional, and any such determinations involve inherent matters of discretion (e.g., in determining whether to allocate *pro rata* based on the number of funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Trace fund or Trace).

The Trace funds generally have different expense reimbursement terms, including with respect to management fee offsets, which is expected from time to time to result in the Trace funds bearing different levels of expenses with respect to the same investment. Additionally, a Trace fund could be required to bear all costs, expenses, liabilities and obligations relating to any unconsummated investment that might have been allocated to one or more persons co-investing in such proposed investment had the proposed investment been consummated, irrespective of whether any such co-investor or potential co-investor had been identified prior to such time that such proposed investment was not consummated or any determination had been made by Trace regarding any co-investment opportunities with respect to such proposed investment.

The use of any particular expense allocation methodology will in certain cases lead the Trace fund to bear relatively more expense in certain instances and relatively less in other instances compared to what the Trace fund would have borne if a different methodology had been used. Trace, in its discretion, is permitted to revise or change previously determined allocation methodologies in an effort to ensure that such expenses remain fairly and reasonably allocated among the Trace fund and other funds, Trace and its respective affiliates (as applicable).

#### *Side Letters*

Trace and/or its respective affiliates will enter into a side letters or other similar agreements with certain investors in connection with their investments without the approval of any other investor. Side letters subject Trace to potential conflicts of interest. This will generally have the effect of establishing rights under or supplementing the terms of the relevant partnership agreement with respect to such investor in a manner beneficial to such investor and more favorable to such investor than those applicable to other

investors. Such rights or terms in any such side letter or other similar agreement can include, without limitation, (i) rights to designate a member of the advisory committee; (ii) excuse or exclusion rights applicable to particular investments (which would increase the percentage interest of other investors in, and contribution obligations of other investors with respect to, such investments); (iii) reporting obligations of Trace; (iv) waiver of certain confidentiality obligations; (v) consent of Trace to certain transfers by such investor; (vi) rights or terms necessary in light of particular legal, regulatory, or public policy characteristics of an investor; (vii) adjustments to fees or other economics (including, without limitation, the management fee, carried interest, or distributions); (viii) access to certain information; (ix) consent rights of the investor; (x) co-investment rights; (xi) tax and structuring matters; and (xii) other representations, warranties or diligence confirmations. Certain side letter rights are likely to confer benefits on the relevant investor at the expense of the relevant Trace fund or of investors as a whole, including in the event that a side letter confers additional reporting, information rights and/or transfer rights, the costs and expenses of which are expected to be borne by the relevant Trace fund. Trace and/or its respective affiliates will enter into such side letters with any party as Trace determines, in its sole and absolute discretion, at any time. Except where required by the relevant partnership agreement, Trace will generally not be required to disclose to or otherwise notify the other investors of any such side letters or of any of the rights or terms or provisions thereof, and some or all of the other investors will generally not be entitled to receive such additional benefits or other rights. In addition, Trace will not be required to offer such additional or different rights or terms to any or all of the other investors, and investors will not necessarily have most-favored-nation rights in respect of all or any of the more favorable terms provided to others. investors will have no recourse against the Trace fund, Trace or Trace or any of its respective affiliates in the event that certain investors receive additional benefits or other rights pursuant to side letters that are more favorable than the terms received by other investors.

As a result of certain side letters, investors holding the same interests will have different returns, or receive different information, depending on any arrangements applicable to a given investor's interest in the Trace fund. In addition, if Trace enters into a side letter entitling an investor to be excused or excluded from a particular investment or withdraw from the Trace fund, (a) any election to be excused or excluded or to withdraw by such investor will increase the percentage interest of other investors in, and contribution obligations of other investors with respect to, future investments, and reduce the overall size of the Trace fund and/or (b) the Trace fund's ability to consummate certain investments could be inhibited. Co-investment rights granted to an investor in a side letter or other similar agreement will, in certain cases, result in fewer co-investment opportunities (or reduced or no allocations) being made available to other investors.

It is also expected that Trace will from time to time confirm factual matters to incoming investors, make statements of intent or expectation to such investors or acknowledge statements by such incoming investors that relate to the Trace fund and/or Trace's activities pertaining thereto in one or more respects. As a result, side letters or other similar agreements could enable such investors to take actions on the basis of information not available to other investors that do not have the benefit of such agreements. Any such statements, confirmations agreements or acknowledgements will not involve the granting of any legal right or benefit, and therefore generally will not be subject to any "most-favored-nations" process or election by the investors, and as a result investors will not typically receive notice thereof or copies of the documentation (if any) in which they are contained. There can be no assurance that any such arrangements will not have an adverse effect on the Trace fund or that such arrangements will not influence Trace's activities or the operation of the Trace fund.

In addition, Trace and its affiliates are permitted to enter into agreements with investor's involving an investor's (or its affiliates') overall relationship with Trace and its respective affiliates, including one or more strategies in addition to the Trace fund's strategy, with terms and conditions applicable solely to such investor and its investment in the Trace fund and other funds. Such an agreement will generally involve an investor agreeing to make a capital commitment to multiple vehicles or strategies sponsored by Trace and/or its respective affiliates, one or more of which could include the Trace fund or a separate account pursuant to an overall integrated arrangement. Investors will be unable to elect any rights or benefits granted to such multi-strategy investor. Specific examples of such additional rights and benefits could include specialized reporting, more favorable or different economic arrangements, secondment of personnel from the investor to Trace or its affiliates (or vice versa), rights to participate in the investment process, as well as priority rights or targeted amounts for co-investments alongside the Trace fund or other vehicles or strategies sponsored by Trace and/or its affiliates.

## **Item 12. Brokerage Practices**

### **A. Broker-Dealer Recommendations**

Due to the nature of investments made by Trace's clients (mostly negotiated equity investments in private companies), Trace rarely executes trades on behalf of its clients through broker-dealers. When Trace does execute a trade on behalf of its clients through a broker-dealer, Trace will seek to obtain best execution. Trace considers a variety of factors in seeking to obtain best execution, including, among other things:

- available price and compensation to broker;
- financial standing of broker;
- efficiency and documentation needed to execute such trade; and
- past experience with any such broker.

Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services. As a result, the client may not necessarily pay the lowest commission or commission equivalent.

When selling a private company on behalf of an account, Trace may retain a broker-dealer or investment bank, the costs of which will be borne by the relevant account and/or portfolio company. In doing so, Trace considers a variety of factors, including:

- broker fees to be charged;
- networking ability and relationships of broker;
- financial integrity of broker; and
- past success of broker in similar transactions.

As a result, although Trace generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Trace accounts may not necessarily pay the lowest commission or fee for such services.

*Research and Soft dollars.* Trace occasionally may receive unsolicited research and information from brokers, often referred to as "soft dollar benefits", which benefit Trace because we do not produce or pay for the research or related services. Thus, we may have an incentive to select a broker-dealer based on this interest, rather than on our clients' interest in receiving most favorable execution. However, Trace does not currently participate in any soft dollar arrangements, and soft dollar benefits do not influence Trace's decisions on brokerage selection.

*Brokerage for Client Referrals.* Trace does not receive referrals for clients from any broker-dealers.

*Directed Brokerage.* As Trace's clients are all private investment funds and SMAs, Trace selects all broker-dealers. Trace's clients do not direct brokerage.

**B. Aggregation of Securities for various Trace accounts**

Trace's clients are private equity funds with differentiated sets of upstream investors, and therefore Trace does not typically aggregate the purchase or sale of securities for various Trace funds (with the exception of a parallel or co-investment fund with its main fund). On the occasion when two separate Trace accounts share an investment, trades in connection with such investment would be executed and allocated separately to each account.

**Item 13. Review of Accounts**

A. Trace's investment professionals routinely review the accounts of its clients and their underlying portfolio investments. Trace reviews financial performance, exit strategy, operations and management during its routine reviews. Additionally, Trace's professionals review each quarter the valuation and performance of the client accounts, and a valuation committee approves all final information distributed.

B. There are no specific triggers to launch a portfolio review on a non-periodic basis.

C. In accordance with the applicable partnership agreement of each client (other than certain co-investment vehicles), Trace delivers to the investors of each client written quarterly financial statements and annual statements, which annual statements are audited by an independent auditor and prepared in accordance with GAAP. In addition to the information provided to all investors, Trace may provide certain investors with additional information or more frequent reports that other investors will not receive.

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

A. Trace does not receive economic benefits from persons who are not clients for providing investment advice or advisory services to our clients. Trace may, on occasion, receive management fees, monitoring fees or similar fees, or reimbursements of certain expenses, from portfolio companies in which a Trace fund has invested. To address this potential conflict, a certain portion of the client's pro rata share of these fees may offset the management fees otherwise payable by investors in the Trace funds. These potential fee arrangements are disclosed in the private offering materials for each particular private offering and governed by the Trace fund's governing documents. Co-investment vehicles generally do not pay a management fee and therefore do not participate in such offsets or otherwise receive a share of such fees.

B. We or our affiliates may, from time to time, enter into arrangements in which persons will assist in the capital raising efforts of one or more of the Trace funds in exchange for a fee. This fee may be a flat fee or based on a percentage of commitments to a particular fund. These relationships will affect the independence of the placement agent in connection with the placement agent's recommendations of a particular Trace fund. These types of arrangements are disclosed to investors of the Trace funds in the funds' private offering materials.



**Item 15. Custody**

Due to Trace's access to clients' funds and discretion to deduct fees and expenses from the client accounts and services by our affiliates as general partners of the Trace funds, we are deemed to have custody of our clients' funds. Trace generally holds all client assets with a bank or other qualified custodian, unless not otherwise required in accordance with SEC guidance. Trace's professionals review custodial statements regularly to ensure agreement with positions stated therein. Trace's clients are generally subject to audit at least annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounts Oversight Board. Trace distributes audited financial statements to all investors of the audited Trace funds within 120 days of the end of the fiscal year of each such client. For any clients that are not audited, Trace complies with other provisions of the custody rule, such as confirming quarterly account statements are being sent by a qualified custodian and being subject to a surprise custody examination.

**Item 16. Investment Discretion**

Trace has discretionary authority to manage accounts on behalf of its clients pursuant to the accounts' governing documents. Such discretion is subject to the investment strategy and guidelines as set forth in the offering document and partnership agreement of the applicable client. As a general matter, Trace does not allow clients to place limits on this discretionary authority. Trace and its affiliates, however, have entered (and may in the future enter) into agreements, or "side letters," with investors whereby such investors may be subject to terms and conditions that vary from those applicable to other investors in the Trace funds, including rights to opt out of particular investments.

**Item 17. Voting Client Securities****A. Policies and Procedures**

Pursuant to rule 206(4)-6 of the Advisers Act, investment advisers who exercise authority over client securities are required to implement proxy voting policies and procedures. To the extent Trace exercises or is deemed to be exercising voting authority of client securities, it will vote those securities in accordance with such policies. Notwithstanding the foregoing, a client's ownership of securities may be subject to a voting agreement or shareholders' agreement, in which case, any such voting agreement or shareholders' agreement will control in the event of a conflict between the terms of such voting agreement and the terms of Trace's proxy policies. Trace's policy is to vote proxy proposals, amendments, consents or resolutions relating to its clients as determined by Trace in its discretion and at all times in the best interests of its clients.

Trace's CCO or his or her designee will maintain written or electronic copies of each proxy statement received and of each executed proxy. Investors of the Trace accounts may receive a copy of Trace's proxy policies and procedures at any time upon request to 713-217-2700.

**Item 18. Financial Information**

Trace does not require or solicit prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the brochure. There is no financial condition

that is reasonably likely to impair Trace's ability to continue to meet its contractual commitments and provide services to its clients and we have not been the subject of a bankruptcy petition at any time during the past decade.