

**Form ADV Part 2A**

**Rock Harbor Partners LLC**

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This “Brochure” provides information about the qualifications and business practices of Rock Harbor Partners LLC (“Rock Harbor”). If you have any questions about the contents of this Brochure, please contact our Chief Executive Officer, Eric Arnold, by phone at (914) 215-1058 or email at [info@rockharbor.io](mailto:info@rockharbor.io). Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Rock Harbor intends to be registered as an investment adviser with the SEC. Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

**Item 2: Material Changes**

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This Brochure is Rock Harbor's initial Form ADV Part 2A Brochure.

### Item 3: Table of Contents

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Item 2: Material Changes .....	2
Item 3: Table of Contents .....	3
Item 4: Advisory Business .....	4
Item 5: Fees and Compensation .....	5
Item 6: Performance-Based Fees and Side-By-Side Management .....	5
Item 7: Types of Clients .....	6
Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss .....	6
Item 9: Disciplinary Information .....	32
Item 10: Other Financial Industry Activities and Affiliations .....	32
Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading .....	32
Item 12: Brokerage Practices .....	33
Item 13: Review of Accounts .....	33
Item 14: Client Referrals and Other Compensation .....	34
Item 15: Custody .....	34
Item 16: Investment Discretion .....	34
Item 17: Voting Client Securities .....	34
Item 18: Financial Information .....	34

#### **Item 4: Advisory Business**

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Rock Harbor Partners LLC (“Rock Harbor”) is an “Investment Adviser” with its principal place of business in Larchmont, New York. Eric Arnold is the principal owner of Rock Harbor and its Chief Executive Officer and Chief Investment Officer.

Rock Harbor provides investment advisory services to certain high net worth individuals, family offices, and other sophisticated investors, and privately offered pooled investment vehicles (the “Funds,” and together with the other Clients,” the “Clients”). Investors in the Funds are referred to herein as the “Fund Investors.”

Clients may also engage Rock Harbor for all or some of the family office services described below.

*Discretionary Advisory Services:* Rock Harbor has discretionary authority to make investments in a Client’s account in a manner consistent with agreed upon investment objectives and reasonable restrictions for the particular Client account. We have the authority to determine, in some cases after obtaining specific Client consent, the “Securities” (or singularly, “Security”) that Client accounts will buy or sell and/or the managed strategies invest or redeem from, and implementing the applicable transactions.

*Non-Discretionary Advisory Services:* Clients engage Rock Harbor to advise on their investments, but the Client remains responsible for funding, liquidating and effecting Securities transactions in their managed non-discretionary accounts.

*Investment Planning:* Asset allocation design and recommended implementation.

Investment administration. Performance reporting. Alternative investment planning (private equity, real estate, and hedge funds). Coordination of multiple investment relationships and advisors.

*Trustee Services and Estate Planning:* Sophisticated wealth transfer planning. Summary and analysis of estate plan. Testamentary document reviews and tailored advice regarding estate planning documents.

*Philanthropy Advisory:* Foundation formation and administration. Donor advised fund planning. Use of appreciated Securities for charitable purposes. Pledge design and maintenance.

*Insurance Advisory:* Ongoing planning and analysis of life, health, disability and property and casualty insurance. Evaluation of overall risk issues.

*Cash Flow Management and Budgeting:* Long-term and short-term cash flow planning and analysis. Cash flow projections. Expense forecasting and budgeting. Ongoing review of net free cash flow.

Rock Harbor establishes bespoke relationships with each Client and will tailor its advisory services to the individual needs of Clients in accordance with the investment mandate for the Client and the investment and other Client tools and needs.

Clients establish individual investment restrictions on the management of their accounts by Rock Harbor, and Clients may modify these restrictions by providing notice to Rock Harbor from time to time. Client-imposed investment restrictions will not apply to investments held through investments in mutual funds and other comingled investment vehicles, which have their own stated investment objectives and policies.

Rock Harbor’s investment advisory services with respect to the Clients are subject to the terms of the investment management agreement entered into with each Client and the offering documents with respect to the Funds (“Offering Documents”). Rock Harbor does not tailor its advisory services to the individual needs of Fund Investors. Rock Harbor does not participate in Wrap Fee Programs.

As a newly formed investment adviser, Rock Harbor currently does not have regulatory assets under management. Rock Harbor expects to have regulatory assets under management sufficient to be

eligible for registration with the SEC within 120 days of the effective date of its initial registration with the SEC as an investment adviser.

#### **Item 5: Fees and Compensation**

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The fees applicable to Clients are set forth in detail in the Client's investment management agreement and/or Offering Documents. A general summary of the fee structures used by Rock Harbor is provided below.

##### ***Fixed Fee and Discretionary Bonus***

Rock Harbor expects to charge Clients individually negotiated fees. Clients may also pay Rock Harbor an annual discretionary bonus based in part on the performance of the Funds and the Client portfolios managed by Rock Harbor. Rock Harbor also expects to receive certain carried interest amounts on specific investments or portfolios of investments that it manages directly for Clients or through a Fund.

##### ***Other Types of Fees or Expenses***

In addition to any management fees or any performance fees it receives from Clients, Clients may bear, or reimburse Rock Harbor for, certain of Rock Harbor's operating expenses pursuant to budgeting procedures set forth in its investment management agreements with Clients. These expenses will include, without limitation, rent; charges for furniture and fixtures and other capital expenditures; all salary (including annual or other performance bonuses as applicable), taxes and benefits expenses related to Rock Harbor's executive, administrative, research, investment and other personnel (such amounts collectively, "Manager Overhead").

Certain expenses may require approvals by the Clients.

In addition to paying managed fees, performance fees, and Manager Overhead, as applicable, Client accounts will also be subject to other investment expenses in accordance with the Client's investment management agreement or Fund Offering Documents such as custodial charges, brokerage fees, commissions and related costs; interest expenses; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; other portfolio expenses; and costs, expenses and fees (including, investment advisory and other fees charged by investment advisers with, or funds in, which the Client's account invests) associated with products or services that may be necessary or incidental to such investments or accounts. In addition, Client accounts will incur brokerage and other transaction costs. Please refer to Item 12 of this Firm Brochure for a discussion of Rock Harbor's brokerage practices.

The allocation of expenses by Rock Harbor between it and any Client and among Clients represents a conflict of interest for Rock Harbor. To address this conflict, Rock Harbor will adopt and implement policies and procedures that address the allocation of expenses.

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

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Clients may pay Rock Harbor amounts based on the performance of the Funds and certain investments or portfolios of investments it manages for its Clients. Such performance-based compensation may create an incentive for Rock Harbor to make investments that are riskier or more speculative than would be the case in the absence of such bonus payments.

Rock Harbor will provide investment management services to multiple Clients. The management of multiple Client accounts creates a conflict of interest because Rock Harbor may have an incentive to favor one Client account over another. Accordingly, Rock Harbor will adopt and implement policies and procedures intended to address conflicts of interest relating to the management of multiple Client accounts, including the allocation of investment opportunities among Client accounts. Rock Harbor reviews investment decisions to seek to ensure that accounts with the same or substantially similar investment objectives are treated equitably.

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

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Rock Harbor provides investment advisory services to various types of Clients including ultra-high net worth and high net worth individuals, their families, family offices and related entities like trusts, estates, endowments, and foundations, as well as charitable organizations, corporations and other business entities. Rock Harbor also expects to act as sub-adviser to U.S. and non-U.S. investment advisers, including firms that manage investments on behalf of variable life insurance policies, variable annuity policies and other variable contracts.

Rock Harbor does not have an established minimum account size requirement and instead considers a number of factors when determining if it will accept a new Client relationship, including but not limited to the scope and complexity of the relationship, servicing requirements and expected revenue generation.

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

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Rock Harbor will seek to achieve each Client's investment objectives by assisting Clients to develop a diversified investment program through which Clients' assets will be allocated, directly and/or indirectly, within the primary asset classes of fixed income, equities, real estate and commodities, as well as various alternative investments as determined appropriate for each Client.

The investment programs that we pursue on behalf of our Clients are speculative and entail substantial risks. There can be no assurance that our Clients' investment objectives will be achieved. The investment programs are designed for sophisticated investors who are able to bear a substantial loss of capital. Rock Harbor provides advice with respect to a variety of investment techniques, each of which can involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which our Clients' investment portfolios may be subject. The following risk factors and other relevant risks could have a material adverse effect on our Clients. Prospective Clients should carefully consider the risks involved in a Client relationship with Rock Harbor, including those discussed below, and consult their own legal, tax and financial advisers with respect to such risks. The following list of risk factors cannot be and is not intended to be exhaustive. Additional or new risks not addressed below may affect Client investments.

Client assets may be invested, directly or indirectly, on margin or otherwise, in: interests commonly referred to as Securities and other financial instruments issued by, entered into by or referenced to U.S. or non-U.S. entities and other assets, including capital stock; shares of beneficial interest; partnership interests and similar financial instruments; interests in real estate and real estate-related assets, including real estate partnerships and real estate investment trusts ("REITs"); bonds, notes and debentures (whether subordinated, convertible or otherwise); currencies; commodities; digital assets and cryptocurrencies; physical and intangible assets; interest rate, currency, commodity, equity and other derivative products, including (i) futures contracts (and options thereon) relating to stock indices, currencies, U.S. government securities and securities of non-U.S. governments, other financial instruments and all other commodities, (ii) swaps, options, swaptions, warrants, caps, collars, floors and forward rate agreements, (iii) spot and forward currency transactions; and (iv) agreements relating to or securing such transactions; repurchase and reverse repurchase agreements; loans; structured finance instruments; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; contract and other claims; executory contracts; participations; mutual funds, exchange-traded funds and similar financial instruments; money market funds; private funds; obligations of the United States or any non-U.S. government, or any country, state, governmental agency or political subdivision thereof; commercial paper; certificates of deposit; bankers' acceptances; trust receipts; and any other obligations and instruments or evidence of indebtedness of whatever kind or nature that exists now or are hereafter created; in each case, of any person, whether or not publicly traded or readily marketable.

No guarantee or representation is made that a Client's investment program, including such Client's investment objectives, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of the

Investment Adviser (or investments made by the investment professionals of the Investment Adviser) are not necessarily indicative of future performance.

***Material Risks (Including Significant, or Unusual Risks) Relating to Investment Strategies***

We do not limit our recommendations to Clients to a particular type of investment instrument, but rather, we recommend and invest in multiple investment instruments. Given the broad discretion we have in managing our Client portfolios, any one or more of the risks listed in the previous section may be incurred by our Clients. While we do not limit our recommendations to Clients to a particular type of investment instrument, we advise certain Clients (e.g., Co-Investment Vehicles) with respect to an investment in a single Security.

However, because it may be useful in understanding our investment program, set forth below is a non-exclusive list of certain risks related to Securities and other instruments that may be utilized within our Client portfolios:

***Equity Securities Generally***

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, Clients may suffer losses if Rock Harbor causes them to invest in equity instruments of issuers whose performance diverges from the Rock Harbor's expectations or if equity markets generally move in a single direction and Rock Harbor has not hedged Client portfolios against such a general move. Clients also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

***Illiquid Securities***

Certain Securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such Securities. Valuation of such Securities may be difficult or uncertain because there may be limited information available about the issuers of such Securities. The market prices, if any, for such Securities tend to be volatile and may not be readily ascertainable and the Investment Adviser may not be able to sell them on behalf of its Clients when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid Securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Investment Adviser may not be able to readily dispose of such illiquid investments held in Client portfolios and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, Clients may be required to hold such Securities despite adverse price movements. Even those markets which the Investment Adviser expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

***Initial Public Offerings***

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

***Currencies***

A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the Investment Adviser on behalf of its Clients are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

#### *Preferred Stock*

Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

#### *Restricted Securities*

Restricted securities cannot be sold to the public without registration under the Securities Act of 1933 (the "Securities Act"). Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (e.g., under Rule 144A of the Securities Act). Although these Securities may be resold in privately negotiated transactions, because there is often little liquidity for these Securities, they may be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by Clients. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.

#### *Undervalued Securities*

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

#### *Unlisted Securities*

Unlisted Securities may involve higher risks than listed Securities. Because of the absence of any trading market for unlisted Securities, it may take longer to liquidate (as compared to publicly traded Securities), or it may not be possible to liquidate, positions in unlisted Securities. Companies whose Securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded Securities.

#### *Non-U.S. Exchanges*

The Investment Adviser causes its Clients to trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks of investments in non-U.S. Securities may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of Securities and markets, higher brokerage commissions and custody fees.



### *Non-U.S. Investments*

Investing in the Securities of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in Securities of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Investment Adviser may be unable to structure Client transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce Clients' rights in such markets. For example, Securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC, the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to Clients under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

### *Investment in Emerging Markets*

Investing in the Securities of companies (and, from time to time, governments) in emerging markets, specifically, involves additional risks and special considerations not typically associated with investing in more established economies or markets. Such risks may include, in addition to the risks listed above in connection with non-U.S. investments generally, some if not all of which are heightened in the case of investments in emerging markets: higher dependence on exports and the corresponding importance of international trade; greater risk of substantial inflation; greater controls on foreign investment and preferential treatment for particular domestic industries or companies or other protectionist acts; increased likelihood of governmental involvement in and control over the economy; governmental decisions to cease support of economic reform programs or to impose centrally planned economies; longer settlement periods for transactions and less reliable clearance and custody arrangements; and less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors. In addition, both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many emerging markets countries, and the tax systems of some emerging market economies have been marked by rapid change, which has sometimes occurred without warning and has been applied with retroactive effect, and in some cases, there is widespread non-compliance with tax laws, insufficient personnel to deal with the problem and inconsistent enforcement of the laws by inexperienced tax inspectors. All of such risk factors could potentially affect the Investment Adviser's ability to conduct effective due diligence in connection with Clients' investments and to monitor investments or otherwise impact returns on any such investment.

### *Convertible Securities*

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Client is called for redemption, the Investment Adviser, acting on behalf of its Client, will be required to permit the issuer to redeem the Security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Investment Adviser's ability to achieve the Client's investment objectives.

### *Warrants*

Warrants are generally exercisable for a certain period of time at a certain purchase price that is based on the valuation of a certain Security as of a certain date. In the event that the price per share

of such Security does not exceed the exercise price of a warrant during the period when such warrant is exercisable, the warrants may not have any value. Additionally, until a Client acquires such Security upon exercise of all or a portion of the warrant, such warrant will generally not provide the Client with any rights of a holder of such Security. Furthermore, upon exercise of such warrant, Client portfolios will generally be entitled to exercise the rights of a holder of such Security only as to matters for which the date to exercise such rights occurs on or after the exercise date.

#### *When-Issued and Forward Commitment Securities*

The purchase of Securities on a “when-issued” basis involves a commitment by Clients to purchase or sell Securities at a future date (typically one or two months later). No income accrues on Securities that have been purchased on a when-issued basis prior to delivery to Clients. When-issued Securities may be sold prior to the settlement date. If the Investment Adviser causes Clients to dispose of the right to acquire a when-issued Security prior to its acquisition, Clients may incur a gain or loss. In addition, there is a risk that Securities purchased on a when-issued basis may not be delivered to Clients. In those circumstances, such Clients may incur a loss.

#### *Private Investments*

##### *Risk of Early-Stage Investments*

Clients’ private investments will primarily be later-stage, minority stakes in companies. However, the Investment Adviser may also cause Clients to make early-stage investments. Investments in the private equity of companies at an early stage of development involve a high degree of business and financial risk. Early-stage companies often experience unexpected problems in the areas of product development, manufacturing, marketing, financing and general management, which, in some cases, cannot be adequately solved. Early-stage companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss.

Client investments in start-ups or other early-stage companies may depend significantly on an entrepreneur or management team that the Investment Adviser has selected. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses. There can be no assurance that such companies will ever be profitable or have assets or products that generate meaningful revenue.

Investments in companies in a later-stage of development also involve substantial risks. These companies typically have obtained capital in the form of debt and/or equity to expand rapidly, reorganize operations, acquire a business or develop new products and markets. These activities by definition involve a significant amount of change, which can give rise to significant problems in sales, manufacturing and general management of business activities.

Furthermore, the marketplace for such “venture capital investing” has become increasingly competitive. Involvement by financial intermediaries has increased, substantial amounts of funds have been dedicated to making investments in the private sector and the competition for investment opportunities is at high levels. There can be no assurances that the Investment Adviser will locate an adequate number of attractive investment opportunities. To the extent that Client’s experience increased competition for investments, returns to Client portfolios may vary.

##### *No Maximum Holding Period*

The Investment Adviser has discretion as to whether to determine to designate an investment as a Private Investment and as to whether to designate any hedging or similar position as a Corresponding Hedging Position or as Corresponding Assets. For such purposes, “Corresponding Hedging Position” means any hedging or similar position that is determined

by the Investment Adviser in its sole discretion to correspond or relate to such Private Investment, and “Corresponding Assets” means any cash or other assets that are determined by the Investment Adviser in its sole discretion to be required to serve as collateral for or cover the costs of such Private Investment (such as any associated Management Fees, hedging costs, collateral call costs and legal expenses). The Investment Adviser also has discretion as to whether and when to cause Clients to realize or deem realized all or a portion of any Private Investment, and will not be obligated to effect a realization or deemed realization upon the occurrence of a liquidity event in respect of a Private Investment or an event that causes a Private Investment to become freely tradeable, even if the Investment Adviser determines to purchase such investment in the open market for a portfolio. Such discretion gives rise to certain conflicts of interest. In addition, the Investment Adviser’s determination to realize or deem realized a Private Investment may be influenced by a variety of factors that it determines are in the best interests of Clients. Such factors may include, without limitation: the valuation of the Private Investment, the price at which the Private Investment can be disposed, the projected future returns of the Private Investment, reputational considerations and the benefits of a longer-term relationship with portfolio companies.

The terms of Clients do not limit the holding period of a Private Investment. Clients may hold a given Private Investment for a long period, e.g., five years or longer.

### *Control Issues*

Although the Investment Adviser may seek protective provisions, including, at times, board representation, in connection with certain of its private investments, to the extent Clients take minority positions in companies in which they invest, the Investment Adviser may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect its position in such companies.

### *Fees*

Client investments in the private equity of companies may be subject to substantial fees charged by third-party investment advisers to manage such investments. Such fees may include management or asset-based fees (fees that compensate an investment adviser on the basis of a share of net assets under management) and performance-based fees or allocations (fees or allocations that compensate an investment adviser on the basis of a share of capital gains upon or capital appreciation of the assets under management). The payment of such fees may adversely affect the return of the capital of Client portfolios. For example, considering that investments in the private equity of companies will only make up a portion of Client portfolios, such third-party advisers may receive performance-based compensation in respect of such private equity investments during a period when a Client’s overall capital depreciated.

### *Highly Leveraged Companies*

Investments in highly leveraged companies (particularly in their private equity) involve a high degree of risk. The use of leverage may increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In using leverage, these companies may be subject to terms and conditions that include restrictive financial and operating covenants, which may impair their ability to finance or otherwise pursue their future operations or otherwise satisfy additional capital needs. Moreover, rising interest rates will, unless such rates are fixed pursuant to the terms of any such indebtedness, significantly increase such companies’ interest expense, causing losses and/or the inability to service debt levels. In the event any such company cannot generate adequate cash flow to meet debt service, Clients may suffer a partial or total loss of capital invested in the company, which, depending on the size of the applicable Clients’ investments, could adversely affect the return on the capital of Client portfolios. The leveraged capital structure of such companies will increase the exposure of investments in Client portfolios to any deterioration in a company’s condition or industry, competitive pressures, an adverse economic environment or rising interest rates.

### *Debt Securities*

Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

#### *Market Making by Dealers*

The value of Clients' fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair the profitability of Client portfolios or result in losses.

#### *Interest Rate Risk*

Changes in interest rates can affect the value of Clients' investments in fixed-income instruments. Increases in interest rates may cause the value of Clients' debt investments to decline. Clients may experience increased interest rate risk to the extent that the Investment Adviser causes such Clients to invest, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

#### *Prepayment Risk*

The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" Securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" Securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact Client portfolios in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Investment Adviser may have constructed for these investments, resulting in a loss to Clients' overall portfolios. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

#### *Zero-Coupon and Deferred Interest Bonds*

Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of

interest reflecting the market rate of the Security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

### *High-Yield*

Bonds or other fixed-income securities that are “higher yielding” (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these Securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer’s inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding Securities and obligations of the issuer, which may be secured by substantially all of the issuer’s assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such Securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the Investment Adviser may cause Clients to invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

The Investment Adviser may cause Clients to invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer’s obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted Security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

### *Corporate Debt*

Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, Clients may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to Clients in connection with a debt investment may be increased by the amount of interest owed on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, Clients may experience substantial losses.

### *Mezzanine Debt*

Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. To the extent that the Investment Adviser causes Clients to acquire mezzanine debt, the ability of the Investment Adviser (acting on behalf of its Clients) to influence a company’s affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency

of a portfolio company of a Client or similar event, the Client's debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

#### *Stressed Debt*

Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

#### *Non-Performing Nature of Debt*

Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

#### *Troubled Origination*

When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

#### *Sovereign Debt*

Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"), including Securities that the Investment Adviser believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

#### *Equitable Subordination*

Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). If the Investment Adviser (acting on behalf of its Clients) engages in such conduct, certain Clients may be subject to claims from creditors of an obligor that debt held by the applicable Clients should be equitably subordinated.

#### *Structured Notes*

Structured notes, variable rate mortgage-backed securities and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

## *Digital Assets*

Rock Harbor may invest client assets in cryptocurrencies as well as digital tokens, coins or similar assets that are issued in respect of certain blockchain initiatives (collectively, “Digital Assets”). Ongoing and future regulatory actions by U.S. and foreign jurisdictions may have a materially adverse effect on the value of Digital Assets. For example, future regulatory actions or policies may limit the ability to exchange Digital Assets or utilize them for payments. Many Digital Assets operate using a “private key,” which are a randomized set of numbers and/or letters that are similar to a password. The loss of a private key would lead to a complete loss of access to the corresponding Digital Assets. Digital Assets are an appealing target to hackers or malware distributors seeking to destroy, damage or steal Digital Assets. Digital Assets held in accounts at Digital Asset exchanges are not deposit accounts and these accounts are not insured by the Federal Deposit Insurance Corporation.

## *American Depositary Receipts and Global Depositary Receipts*

American Depositary Receipts (“ADRs”) are receipts issued by a U.S. bank or trust company evidencing ownership of underlying Securities issued by non-U.S. issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts (“GDRs”) are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U.S. company’s publicly traded Securities that are traded on non-U.S. stock exchanges or non-U.S. over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited Security or to pass through voting rights to the holders of depositary receipts in respect of the deposited Securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale of disposition proceeds, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

## *Bankruptcy Claims*

Clients’ investments may include debt and equity of financially distressed companies. In the event that such an issuer files for bankruptcy protection, the Investment Adviser will likely be unable to sell Clients’ claims without realizing a significant loss and may be unable to recover current interest on such claims during the course of the bankruptcy case. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. To the extent debt investment is unsecured (*i.e.*, has no collateral securing repayment), such claims may have a lower priority than secured claims (which have first recourse to the collateral securing such claim). In addition, the debt of an issuer in bankruptcy may be adversely affected by an erosion of the issuer’s business and overall value. Accordingly, there can be no guarantee that a debtor will be able to satisfy all of its liabilities or that the Investment Adviser will be able to recover the entire amount of the Clients’ bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Clients (in its role as a creditor). Furthermore, there are instances where creditors lose their priority under Title 11 of the United States Code (the “Bankruptcy Code”) (*i.e.*, are equitably subordinated) if, for example, they have engaged in misconduct that harms other creditors. In those cases where Clients are found to have engaged in such misconduct, such Clients may lose their priority.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, the approval of the plan by creditors and confirmation of the plan by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Investment Adviser's Clients; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the issuer may not be able to reorganize and may be required to sell its assets either as a going concern or as part of a liquidation. As a result, even in those circumstances where Clients may recover the entire amount of their bankruptcy claim, Clients may be adversely impacted by any costs incurred by Clients in representing their interests in a debtor's bankruptcy case.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that Clients' influence with respect to a class of Securities can be lost by virtue of the size of their claim relative to the claims of the entire class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for certain taxes) may impair the recovery of an investment in a bankruptcy claim.

The Investment Adviser expects to cause Clients to invest some of their assets in Securities of issuers domiciled, or assets located, globally. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

The Investment Adviser, on behalf of its Clients, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of Clients' positions as a creditor or equity holder. A member of any such committee or group may owe a fiduciary duty and be subject to certain obligations to all members the committee represents and/or to other similarly situated parties. The Investment Adviser may resign from that committee or group for any reason, including, for example, if the Investment Adviser concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to Clients. In such case, Clients may not realize the benefits, if any, of participation on the committee or group. In addition, if Clients are represented on a committee or group, the Investment Adviser may be restricted or prohibited under applicable law from disposing of or increasing such Clients' investments in such company while such Clients continue to be represented on such committee or group.

The Investment Adviser may cause Clients to purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of litigation and to engage in litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by Clients.

#### *Business Development Companies*

Investments in closed-end funds that elect to be treated as business development companies ("BDCs") may be subject to a high degree of risk. BDCs typically invest in small and medium-sized private and certain public companies that may not have access to public equity markets for capital raising. As a result, a BDC's portfolio typically will include a substantial amount of Securities purchased in private placements, and its portfolio may carry risks similar to those of a private equity



or venture capital fund. Securities that are not publicly registered may be difficult to value and may be difficult to sell at a price representative of their intrinsic value. Small and medium-sized companies also may have fewer lines of business so that changes in any one line of business may have a greater impact on the value of their stock than is the case of a larger company. Some BDCs invest substantially, or even exclusively, in one sector or industry group and therefore carry risk of that particular sector or industry group. To the extent a BDC focuses its investments in a specific sector, the BDC will be susceptible to adverse conditions and economic or regulatory occurrences affecting the specific sector or industry group, which tends to increase volatility and result in higher risk. Investments in BDCs are subject to various risks, including management's ability to meet the BDC's investment objective, and to manage the BDC's portfolio when the underlying Securities are redeemed or sold, during periods of market turmoil and as investors' perceptions regarding a BDC or its underlying investments change. BDC shares are not redeemable at the option of the BDC shareholder and, as with shares of other closed-end funds; they may trade in the secondary market at a discount to their net asset value. BDCs generally qualify as "regulated investment companies" under the U.S. federal tax laws and, provided they distribute all of their income in the time and manner as required by the tax law and satisfy certain diversification and source of income requirements, generally will not pay U.S. federal income taxes.

Certain BDCs in which the Investment Adviser may cause Clients to invest may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage often serves to increase the yield of a BDC, this leverage also subjects the BDC to increased risks, including the likelihood of increased volatility and the possibility that the BDC's common share income will fall if the dividend rate on any preferred shares or the interest rate on any borrowings rises.

The Investment Adviser may be limited by provisions of the Investment Company Act of 1940 that generally limit the amount Clients can invest in any one BDC to 3% of the BDC's total outstanding stock. As a result, Clients may be required to hold a smaller position in a BDC than they would absent this restriction. Clients will indirectly bear their proportionate share of any management and other operating expenses, and of any performance based or incentive fees, charged by the BDCs in which it invests, in addition to the expenses paid by Clients.

#### *Closed-End Funds*

Investments in closed-end funds are non-redeemable and are subject to the same risks as other publicly traded equity securities. There may be no public market for units of closed-end funds, which often trade at a discount from their net asset values.

#### *Derivative Instruments*

Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, credit risk, legal risk and operations risk. The regulatory and tax environment for derivative instruments in which the Investment Adviser may cause Clients to participate is evolving, and changes in the regulation or taxation of such instruments may have a material adverse effect on Clients.

#### *Regulation in the Derivatives Industry*

There are many rules related to derivatives that may negatively impact Clients, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared OTC instruments, mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. Such requirements are operationally and technologically burdensome, add to the legal, operational and compliance obligations of the Investment Adviser and Clients, require employee training, additional technology and the development of internal procedures, and increase the amount of time that the Investment Adviser spends on non-investment-related activities. Such requirements also increase the costs of derivative transactions and these increased costs will be passed on to Clients unless absorbed by such Clients' counterparties (which is unlikely).

These regulations may also result in the Investment Adviser forgoing Clients' use of certain trading counterparties (such as broker-dealers and futures commission merchants ("FCMs")), as the use of other parties may be more efficient for Clients from a regulatory perspective. However, this could limit the Investment Adviser's trading activities on behalf of its Clients, create losses, preclude Clients from engaging in certain transactions or prevent Clients from trading at optimal rates and terms.

Many of these requirements were implemented pursuant to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or "EMIR") and similar regulations globally. In the United States, the Dodd-Frank Act divides the regulatory responsibility for derivatives between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The SEC has regulatory authority over "security-based swaps" and the CFTC has regulatory authority over "swaps". EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps and EMIR regulations, which are still in the proposal stage or are expected to be introduced in the future.

The following describes derivatives regulations that may have the most significant impact on Client portfolios:

#### *Reporting*

Most swap transactions have become subject to anonymous "real time reporting" requirements, meaning that information relating to transactions entered into by Clients will become visible to the market in ways that may impair the Investment Adviser's ability to cause Clients to enter into additional transactions at comparable prices or could enable competitors to "front run" or replicate the Investment Adviser's strategies.

#### *Central Clearing*

In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives, including EMIR, are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing requirements have been implemented as part of the Dodd-Frank Act. On December 13, 2012 the CFTC imposed its first clearing mandate affecting certain interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for Clients in many respects (for instance, they may reduce the counterparty risk to the dealers to which Clients would be exposed under non-cleared derivatives), Clients could be exposed to new risks, such as the risk that an increasing percentage of derivatives will be required to be standardized and/or cleared through central clearinghouses, and, as a result, the Investment Adviser may not be able to hedge the Clients' risks or express an investment view as well as they would have been able to had it used customizable derivatives available in the over-the-counter markets. The Investment Adviser may have to split Clients' derivatives portfolios between centrally cleared and over-the-counter derivatives, which may result in operational inefficiencies and an inability to offset risk between centrally cleared and over-the counter positions, and which could lead to increased costs.

Another risk is that Clients may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes

significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject Clients to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on Clients. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Investment Adviser to cause its Clients to borrow eligible Securities from a dealer to meet margin calls and raise the costs of cleared trades to Clients. In addition, clearinghouses may not allow the Investment Adviser to portfolio-margin its Clients' positions, which may increase Clients' costs.

Although standardized clearing for derivatives is intended to reduce counterparty risk (for instance, it may reduce the counterparty risk to the dealers to which Clients would have been exposed under OTC derivatives), it does not eliminate risk. Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse and Clients' FCM, subjecting Clients to the risk that the assets of the FCM are insufficient to satisfy all of the FCM's payment obligations, leading to a payment default. The failure of a clearinghouse or FCM could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on FCMs during a financial crisis, which could lead FCMs to default and thus worsen the crisis.

### *Swap Execution Facilities*

In addition to the central clearing requirement, certain swap transactions are required to trade on regulated electronic platforms such as swap execution facilities ("SEFs"), which require Clients to subject themselves to regulation by these venues and subject Clients to the jurisdiction of the CFTC.

The EU regulatory framework governing derivatives is set not only by EMIR but also MiFID II. Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues. The SEC has yet to finalize rules related to security-based swap execution facilities.

It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading on these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively expensive for the Investment Adviser to obtain tailored swap products for its Clients to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of these regulations.

### *Margin Requirements for Non-Cleared Swaps*

Rules issued by U.S., European Union and other regulators globally (the "Margin Rules") impose various margin requirements on all swaps that are not centrally cleared, including the establishment of minimum amounts of initial margin that must be posted, and, in some cases, the mandatory segregation of initial margin with a third-party custodian. Although the Margin Rules are intended to increase the stability of the derivatives market, the overall amount of margin that Clients will be required to post to swap counterparties may increase by a material amount, and as a result the Investment Adviser may not be able to deploy Clients' capital as effectively. Additionally, to the extent Clients are required to segregate initial margin with a third party custodian, additional costs will be incurred by Clients.

### *Call and Put Options*

Clients may incur risks associated with the sale and purchase of call options and put options. Under a conventional cash-settled option, the purchaser of the option pays a premium in exchange for the right to receive upon exercise of the option (i) in the case of a call option, the excess, if any, of the reference price or value of the underlier (as determined pursuant to the terms of the option) above the option's strike price or (ii) in the case of a put option, the excess, if any, of the option's strike price above the reference price or value of the underlier (as so determined). Under a conventional physically-settled option structure, the purchaser of a call option has the right to purchase a specified quantity of the underlier at the strike price, and the purchaser of a put option has the right to sell a specified quantity of the underlier at the strike price.

A purchaser of an option may suffer a total loss of premium (plus transaction costs) if that option expires without being exercised. An option's time value (*i.e.*, the component of the option's value that exceeds the in-the-money amount) tends to diminish over time. Even though an option may be in-the-money to the purchaser at various times prior to its expiration date, the purchaser's ability to realize the value of an option depends on when and how the option may be exercised. For example, the terms of the transaction may provide for the option to be exercised automatically if it is in-the-money on the expiration date. Conversely, the terms may require timely delivery of a notice of exercise, and exercise may be subject to other conditions (such as the occurrence or non-occurrence of certain events, such as knock-in, knock-out or other barrier events) and timing requirements, including the "style" of the option.

Uncovered option writing (*i.e.*, selling an option when the seller does not own a like quantity of an offsetting position in the underlier) exposes the seller to potentially significant loss. The potential loss of uncovered call writing is unlimited. The seller of an uncovered call may incur large losses if the reference price or value of the underlier increases above the exercise price by more than the amount of any premiums earned. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The seller of an uncovered put option bears a risk of loss if the reference price or value of the underlier declines below the exercise price by more than the amount of any premiums earned. Such loss could be substantial if there is a significant decline in the value of the underlier.

#### *Index or Index Options*

The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether Clients will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

#### *Index Futures*

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

#### *Credit Default Swaps*

Credit default swaps can be used to implement the Investment Adviser's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Investment Adviser may cause Clients to sell credit default protection in which Clients receive a premium to take on the risk. In such an instance, the obligation of Clients to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Investment Adviser may also cause its Clients to buy credit default protection with respect to a referenced entity if, in the Investment Adviser's judgment, there is a high likelihood of credit deterioration. In such instance, Clients will pay a premium regardless of whether there is a credit event.

#### *Futures Contracts*

The value of futures contracts depends upon the price of the Securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which Clients' positions trade or of their clearing houses or counterparties. Futures positions may be illiquid because certain commodity

exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits”. Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Investment Adviser from promptly liquidating Clients’ unfavorable positions and subject Clients to substantial losses or prevent them from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a Security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

#### *Non-U.S. Futures Transactions*

Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally “linked” to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, Clients may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

#### *Forward Contracts*

The Investment Adviser may cause Clients to enter into forward contracts and options thereon, including non-deliverable forwards, which are currently not traded through clearinghouses, although this is expected to change. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Investment Adviser would otherwise recommend, to the possible detriment of Client portfolios. In causing Clients to engage in forward trading, the Investment Adviser will subject Clients to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the Investment Adviser causes Clients to trade. Client assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. The Investment Adviser may order trades for Clients in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject Clients to the risk of loss.

#### *Contracts for Differences*

Contracts for differences (“CFDs”) are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument’s value at the end of the contract. The underlying instrument may be a single Security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying Security will require the posting of additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the

counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on Clients' obligation to the applicable counterparties under the CFDs and the return on related assets in such Clients' portfolios, the CFD transactions may increase Clients' financial risk.

#### *Failure to Enter into Offsetting Trade*

To the extent that the Investment Adviser causes a Client to invest in a futures contract or long option, unless an offsetting trade is made, the Client would be required to take physical delivery of the commodity underlying the future or option. To the extent the Investment Adviser fails to enter into (or cause an Outsourced Trader to enter into) such offsetting trade prior to the expiration of the contract, a Client may suffer a loss since neither the Client nor the Investment Adviser has the operational capacity to accept physical delivery of commodities.

#### *Exotic Options*

Exotic options are typically, but not always, traded over-the-counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The Clients may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (*i.e.*, the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (*i.e.*, the rate of change of the delta with respect to the underlying asset's price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be "path dependent". This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (*e.g.*, a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if actual events differ. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

#### *Distressed Obligations*

The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general

economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to Clients' investments in any Security. Obligations in which the Investment Adviser causes Clients to invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the value of the assets collateralizing Clients' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the Investment Adviser causes Clients to invest, Clients may lose the entire investment, may be required to accept cash or Securities with a value less than Clients' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from Clients' investments may not compensate the investors adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new Security, the value of which will be less than the purchase price paid by Clients of the Security in respect to which such distribution was made.

#### *Exchange-Traded Funds*

Exchange-Traded Funds ("ETFs") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying Securities they are designed to track. ETFs are also subject to certain additional risks, including the risk that their prices may not correlate perfectly with changes in the prices of the underlying Securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a pro rata portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of Clients' expenses (e.g., Management Fees and operating expenses), investors may also indirectly bear similar expenses of an ETF.

#### *Insurance-Related Risks*

Investments in public and private insurance and reinsurance companies, catastrophe bonds, weather derivatives, life insurance policies and annuities, and other Securities linked to insurance and reinsurance risks and similar factors, are subject to all of the numerous inherent risks of the insurance and reinsurance industry, such as weather-related and other natural or man-made catastrophes, which are unpredictable and may result in significant losses. A significant natural disaster, such as a hurricane or earthquake, or terrorist incident, or a series of such events, could have a material, adverse effect on Clients.

#### *Loan Investments*

The Investment Adviser's success in the area of loan investing on behalf of its Clients will depend, in part, on the Investment Adviser's ability to obtain loans on advantageous terms. In purchasing loans, Clients will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

#### *Leveraged Loans*

"Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may be performing poorly when the Investment Adviser causes Clients to acquire them. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing such loans

or the prospects for distribution on or repayment of such loans. Clients may lose their entire investment or may be required to accept cash, property or Securities with a value less than the applicable Clients' original investment and/or may be required to accept payment over an extended period of time.

### *Hung Loans*

The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by Clients will reflect a discounted price that should allow Clients to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (e.g., in the case of a loan relating to a leveraged buyout ("LBO"), the financial condition of the target), global and macro-economic conditions (e.g., monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, it is possible that loans that the Investment Adviser causes its Clients to purchase will suffer significant impairments in value as a result of events not predicted by the Investment Adviser. The Investment Adviser may also face difficulties in disposing of or leveraging such loans on its Clients' behalf, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

### *Bank Loans*

Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of Clients to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by Clients.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded Security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

### *Second Lien Loans*

The Investment Adviser may cause Clients to invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not contract further.



### *Bridge Loans*

It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer-term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Investment Adviser, there may be an adverse effect upon the ability of the Investment Adviser to manage the assets of its Clients in accordance with its models and projections or an adverse effect upon Clients' performance and ability to make distributions.

### *Debtor-in-Possession ("DIP") Loans*

Loans to companies that have filed for protection under Chapter 11 of the Bankruptcy Code are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

### *Fraud Associated with Loans*

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Investment Adviser (acting on its Clients' behalf) to perfect or effectuate a lien on the collateral securing the loan. The Investment Adviser will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to Clients may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

### *Municipal Securities*

Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these Securities. To the extent that the Investment Adviser causes Clients to invest heavily in a particular state's municipal securities, such Clients will be more vulnerable to factors affecting that state. Clients' investments in revenue securities, where principal and interest payments are made from the revenue of a specific project or facility, and not general tax revenues, may have increased risks. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these Securities.

### *Mutual Fund Investments*

Investments in open-end as well as closed-end mutual funds generally involve the payment of duplicative fees through the indirect payment of a portion of the expenses, including advisory fees, of such mutual funds. Investments in mutual funds will be valued at the net asset values provided by those funds (which may in certain circumstances be unaudited valuations). Such investments may cause the expense of investing in Clients to be greater than an investment in other investment vehicles.

### *PIPE Transactions*

Private investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a “PIPE” transaction, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies. Such companies may also be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the Investment Adviser causing Clients to acquire either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Investment Adviser’s ability to dispose of Securities acquired by Clients in PIPE transactions may depend on the registration of such Securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for Securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act, or otherwise under the U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if the Investment Adviser is able to have Securities acquired by Clients in a PIPE transaction registered or sell such Securities through an exempt transaction, Clients may not be able to sell all the Securities on short notice, and the sale of the Securities could lower the market price of the Securities. There is no guarantee that an active trading market for the Securities will exist at the time of disposition of the Securities, and the lack of such a market could hurt the market value of Client investments.

### *Reinsurance Transactions*

Reinsurance transactions include insurance-linked securities and insurance-linked derivatives. Insurance-linked securities are fixed income or equity securities for which the return of principal or invested capital and payment of interest or dividends are contingent on the occurrence or non-occurrence of specific natural or man-made perils such as hurricanes, earthquakes or other physical or weather-related catastrophic events, aviation or marine disasters and similar events. Insurance-linked derivatives are financial contracts the returns on which are linked to the same types of events as insurance-linked securities. In addition, reinsurance transactions may include life insurance-based financial instruments, the returns on which are linked to mortality risks or other performance-based measures of a portfolio of life insurance policies.

Insurance-linked investments are subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events, such as hurricanes, windstorms, hailstorms, earthquakes, fires, explosions, severe winter weather, tsunamis, floods, riots, aviation disasters, or other physical or weather-related or man-made catastrophic events. The occurrence or non-occurrence of such catastrophic events can be expected to result in volatility with respect to Clients’ assets.

In connection with its investment diligence process related to insurance-linked investments, the Investment Adviser may rely on models and analysis performed by third parties (including the sponsors of such insurance-linked investments). Actual loss experience can materially differ from that generated by such models. These models rely on various assumptions, some of which are subjective and some of which vary between the different catastrophe risk modeling firms. The loss probabilities generated by such models are not predictive of future catastrophic events, or of the magnitude of losses that may occur. Actual frequency of catastrophic events and their attendant losses could materially differ from those estimated by such models.

An investment in insurance-linked investments will expose Clients to the credit risk of several parties involved in the reinsurance product chain. For example, Clients will have exposure to the reinsurer that is buying the reinsurance from the issuer of the insurance-linked investments in respect of such reinsurer's obligation to make premium payments to the issuer. The issuers of insurance-linked investments may also be exposed to the credit risk of reinsurance brokers and other service providers with whom the sponsoring reinsurer conducts business related to the reinsurance policies to which such insurance-linked investments have exposure.

Certain insurance-linked investments may permit Clients to acquire such investments with one or more deliveries or pledges of Securities in lieu of a one-time cash purchase payment, but such investments may also obligate Clients to post additional collateral if the value of Securities delivered by Clients fall below certain levels. Such margin call requirements expose Clients to the risk that the Securities delivered by Clients to secure such Clients' obligations to the issuer of the related insurance-linked investments or the sponsoring reinsured company may fall below certain specified levels and cause the Investment Adviser to use the applicable Clients' most liquid assets to meet margin calls.

U.S. state insurance laws and regulations and the laws of many non-U.S. jurisdictions contain broad definitions of the activities that may constitute the conduct of the business of insurance or reinsurance in such jurisdictions. Insurance regulatory authorities have broad discretionary powers in administering insurance laws, including the authority (subject to appeal in court or otherwise) to determine whether a party is conducting the business of insurance or reinsurance within their applicable jurisdictions. Because insurance-linked investments have certain features and an investment return that may be based on the occurrence of events that traditionally are the subject of insurance, it is possible that such instruments may be structured in a manner where insurance regulatory authorities or courts would determine that the purchase or holding of such Securities, or the Investment Adviser causing Clients to write such derivatives, constitutes the conduct of the business of insurance and reinsurance. In the event such a determination was made, Clients may be subject to regulatory and legal action.

#### *Repurchase and Reverse Repurchase Agreements*

In a reverse repurchase transaction, the Investment Adviser causes Clients to "buy" Securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such Securities at the price paid by Clients, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Investment Adviser on behalf of its Clients involves certain risks. For example, if the seller of Securities to Clients under a reverse repurchase agreement defaults on its obligation to repurchase the underlying Securities, as a result of its bankruptcy or otherwise, any alternative measures taken by the Investment Adviser to dispose of such Securities on behalf of its Clients could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Investment Adviser's ability to dispose of Clients' underlying Securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Investment Adviser may not be able to substantiate the applicable Clients' interest in the underlying Securities. Finally, if a seller defaults on its obligation to repurchase Securities under a reverse repurchase agreement, Clients may suffer a loss to the extent that the Investment Adviser is forced to liquidate such Clients' position in the market, and proceeds from the sale of the underlying Securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

#### *Special Purpose Acquisition Companies*

A special purpose acquisition company (a "SPAC") is a publicly traded company formed for the purpose of raising capital through an initial public offering to fund the acquisition, through a merger, capital stock exchange, asset acquisition or other similar business combination, of one or more undervalued operating businesses. Following the acquisition of a target company, a SPAC typically would exercise control over the management of such target company in an effort to increase the value of such target company. Capital raised through the initial public offering of securities of a SPAC is typically placed into a trust until the target company is acquired or a predetermined period of time elapses. Investors in a SPAC would receive a return on their investment in the event that a target

company is acquired and such target company's value increased. In the event that a SPAC is unable to locate and acquire target companies by the deadline, the SPAC would be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC. Investors in a SPAC are subject to the risk that, among other things, (i) such SPAC may not be able to locate or acquire target companies by the deadline, (ii) assets in the trust may be subject to third-party claims against such SPAC, which may reduce the per share liquidation price received by the investors in the SPAC, (iii) such SPAC may be exempt from the rules promulgated by the SEC to protect investors in "blank check" companies, such as Rule 419 promulgated under the Securities Act, so that investors in such SPAC may not be afforded the benefits or protections of those rules, (iv) such SPAC may only be able to complete one business combination, which may cause it to be solely dependent on a single business, (v) the value of any target company may decrease following its acquisition by such SPAC, (vi) the value of the funds invested and held in the trust decline, (vii) the inability to redeem due to the failure to hold the securities in the SPAC on the record date or the failure to vote against the acquisition and (viii) if the SPAC is unable to consummate a business combination, public stockholders will be forced to wait until the deadline before liquidating distributions are made.

In addition, most SPACs are illiquid and have a concentrated shareholder base that tends to be comprised of hedge funds (at least at inception). The Investment Adviser may cause Clients to invest in a SPAC that, at the time of investment, has not selected or approached any prospective target businesses with respect to a business combination. In such circumstances, there will be limited basis for the Investment Adviser to evaluate the possible merits or risks of such SPAC's investment in any particular target business. To the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies. Each SPAC will apply to have its units listed on a national securities exchange. A SPAC cannot guarantee that its Securities will be approved for listing or, if approved, that its Securities will continue to remain listed on such exchange. Additionally, a SPAC will be required to demonstrate compliance with the exchange's initial listing requirements at both the time of its IPO and at the time of its initial business combination, and the initial listing requirements are more rigorous than the continued listing requirements. A SPAC cannot assure that it will be able to meet those initial listing requirements at that time. If the exchange delists a SPAC's securities from trading on its exchange and the SPAC is unable to list on another exchange, the Securities could be quoted on an over-the-counter market, and the SPAC could face significant material adverse consequences, including: (i) a limited availability of market quotations for its Securities, (ii) reduced liquidity for its Securities, (iii) a determination that the common stock is a "penny stock," requiring brokers to adhere to more stringent rules and possibly resulting in a reduced level of trading activity in the secondary trading market for its Securities, (iv) a limited amount of news and analyst coverage; and/or (v) a decreased ability to issue additional Securities or obtain additional financing in the future, any of which could limit the ability of the Fund to make transactions in the SPAC's securities, and could adversely affect the market value of the Investment Adviser's Securities. For these and additional reasons, investments in SPACs are speculative and involve a high degree of risk.

#### *SPAC PIPE Transactions.*

SPACs will often seek third-party equity capital in the form of a PIPE transaction that is funded on a concurrent basis with the consummation of the underlying business combination that is being pursued by the SPAC. While such SPAC PIPEs are typically entered into at the time a proposed business combination is announced, certain SPACs may seek PIPE commitments at the time of their IPO in the form of forward purchase agreements. Clients may participate in such SPAC PIPE transactions, including pursuant to forward purchase agreements, whereby it may make an irrevocable commitment to subscribe for equity securities of the combined company surviving the business combination between the SPAC and its target at a set price at the time that an agreement for the underlying business combination is signed. Consummation of a SPAC PIPE is typically contingent on and generally occurs concurrently with the successful closing of the underlying business combination which itself may be subject to conditions (such as regulatory approval, shareholder approval, etc.). As a result, Clients may, in their capacity as an investor in a SPAC PIPE, bear the market or pricing risk of the transaction between the time of executing a subscription agreement to participate in the PIPE and the closing of the underlying business combination being pursued by the SPAC. In addition, during the period of time between a Client's subscription to a PIPE and the consummation of the underlying business combination being pursued the SPAC, the Investment Adviser may have to cause a Client to reserve capital in

anticipation of funding its irrevocable commitment. Such time period may be substantial in the case of a forward purchase agreement executed at the time of a SPAC's IPO. In such circumstances, any capital being reserved by Clients will not be available for participation in other investment opportunities. Further, the shares issued at the closing of a SPAC PIPE will generally be restricted for a period of time following the closing until the company that results from the business combination is readmitted for trading on the relevant exchange and the Securities are registered under the Securities Act. *Dependence on Key Individuals of SPAC Sponsor.*

The success of Client portfolios may depend upon the ability of the relevant management team that sponsors the SPACs in which the Investment Adviser causes Clients to invest. In many cases, the Investment Adviser's investment personnel and shareholders will not participate in the management and affairs of such underlying investments made by Clients.

#### *Exposure to Material Non-Public Information in Connection with SPAC Investments.*

From time to time, the Investment Adviser may receive material non-public information with respect to a particular SPAC or other issuer of publicly traded Securities. In particular, to the extent the Investment Adviser is party to a forward purchase agreement, a SPAC will typically be required to inform the Investment Adviser (on behalf of the investing Client) with respect to developments in its search for possible target businesses. In addition, in connection with its consideration of any prospective SPAC PIPE, the Investment Adviser would be expected to receive information regarding the proposed target business that the subject SPAC is considering. In such circumstances, the Investment Adviser may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

#### *Regulated Industries*

The Investment Adviser may cause its Clients to invest in companies that operate in regulated industries. The operations of such companies will be subject to compliance with applicable regulations, and such companies may be subject to increased regulations resulting from both new requirements and re-regulation of previously de-regulated markets. Prices may be artificially controlled, and regulatory burdens may increase costs of operations. New or increased regulations could adversely and materially affect the performance of the companies in which the Investment Adviser causes its Clients to invest. Additionally, such companies may be highly dependent on government contracts and quasi-governmental entity contracts (e.g., GSEs), which could further increase the risks of investing in such companies.

#### *Portfolio Funds*

The Investment Adviser may cause the Funds to invest a portion of their assets in other private funds, such as venture capital or private equity funds (each such fund in which an investment is made, a "Portfolio Fund") if the Investment Adviser considers that such investment represents a compelling opportunity or is otherwise potentially beneficial to the Funds. The impact of such risks may, in certain circumstances, be limited given the Portfolio Fund Limitations, as described below. Additional detail regarding the risks associated with investment in Portfolio Funds is available in the offering documents for each Feeder Fund.

For such purposes, "Blind Pool" means a pooled investment vehicle that is intended to invest less than a majority of its assets in a fixed pool of investments, but will exclude (i) any Client, (ii) any investment vehicle that is only permitted to acquire assets with the approval of the applicable Fund General Partner or its affiliates, and (iii) any investment vehicle that is controlled by an entity that constitutes all or a portion of a portfolio investment of a Client (such as an investment vehicle managed by an entity (and/or its investment manager and related management entities) (a) into which a Client has made a direct investment (whether in connection with the provision of seed capital or otherwise) or (b) to which a Client has provided seed capital in exchange for an equity interest, income stream, a "revenue share" or other economic benefit in the revenues otherwise payable or allocable to such entity (and/or its affiliated investment manager and related management entities)) and (iv) any mutual fund, exchange-traded fund and financial instrument deemed by the Investment Adviser

to be similar to a mutual fund or an exchange-traded fund. The limitations described herein are referred to elsewhere as the “Portfolio Fund Limitations”.

Investments in Portfolio Funds present several risks, including: (i) the compensation of third-party advisers who manage the Portfolio Funds is not correlated to Clients' performance, (ii) Clients could receive any withdrawal proceeds from Portfolio Funds as an in-kind contribution, (iii) the Investment Adviser and the Fund General Partners rely upon the valuations provided by the third-party adviser, (iv) the third-party adviser may use investment strategies not fully disclosed to the Investment Adviser, (v) certain Clients do not have a concentration limit and so therefore the Investment Adviser may invest a large amount of their capital in a small number of investments through Portfolio Funds, (vi) multiple third-party advisers will invest wholly independently of one another and may at times hold economically offsetting positions, (vii) the Investment Adviser may cause Clients to invest in Portfolio Funds during the early stages of formation and such Portfolio Funds (and their managers) may have difficulty attracting talent, and (viii) operational risks associated with the use of a third-party manager. Additional detail regarding the risks associated with investment in Portfolio Funds is available in the offering documents for each Feeder Fund.

#### *Investment Funds in Early Stages of Formation and Related Investments*

Clients may invest in Portfolio Funds that are in an early stage of formation or operation. Similarly, Clients may make investments (whether as seed investments or otherwise), in newly formed investment managers and/or related management entities, which investments may include or be solely comprised of an investment in the Portfolio Funds managed by such investment managers and/or related management entities. In connection with such investments, Clients may receive an equity interest, income streams, a “revenue share” or other economic benefit in the revenues otherwise payable or allocable to such investment managers and/or related management entities. Additionally, in connection with investments Clients may make in a Portfolio Fund and its related management entities, the Investment Adviser may negotiate for capacity and other rights and offer investors, Investment Adviser-Related Investors and third-party investors the opportunity to make direct investments into such Portfolio Fund. As part of such arrangement, the Portfolio Fund may permit only some of the investors introduced by the Investment Adviser to invest in the Portfolio Fund. In addition, certain investors, Investment Adviser-Related Investors or third-party investors may be able to invest in such Portfolio Fund on beneficial terms (such as on a fee free or reduced fee basis) negotiated in connection with the Fund's investment. The Investment Adviser and its affiliates will not receive any broker, placement agent fees or any other similar compensation in connection with making introductions.

In connection with a seed investment or similar investment with respect to a Portfolio Fund and its affiliated management entities, the Investment Adviser may negotiate terms that are connected to co-investors investing in the Portfolio Fund. For instance, funding obligations of the Client may be satisfied by virtue of co-investors investing capital in a Portfolio Fund. Moreover, the Investment Adviser, the Fund General Partner or affiliated management entities of Clients (or the Principal Owner or other personnel of the Investment Adviser) may make investments connected to a seed investment, where the Investment Adviser believes it is not in the best interests of Clients to make such investment (e.g., in the case of extending a working capital loan to a management entity of a Portfolio Fund, where the return and risk profile of the loan does not meet the profiles for a Client investment).

Such investments can pose a number of operational and other issues. For example, in its early stages a Portfolio Fund may have little capital available to cover expenses and, accordingly, may have difficulty attracting qualified personnel. Newly formed investment managers and/or related management entities and their Portfolio Funds may face competition from other investment funds, which may be more established, have a larger number of qualified management and technical personnel and benefit from a larger capital base. Furthermore, Clients will likely have little control in connection with its investment in, or in respect of, a Portfolio Fund and its manager or related management entities. Additionally, Clients are expected to have limited or no liquidity or withdrawal rights with respect to (i) its investment in certain Portfolio Funds and (ii) any equity interest, “revenue share” or other economic benefit in the revenues otherwise payable or allocable to such

manager or related management entities. For the avoidance of doubt, where Clients invest in a Portfolio Fund and receives or owns an equity interest, income streams, a “revenue share” or other economic benefit in the revenues otherwise payable or allocable to the manager of Clients, the Fund General Partner expects to cause Clients to treat those interests as a single combined Private Investment. Notwithstanding the foregoing, the Fund General Partner reserves the right, in its sole discretion, to determine otherwise. Revenue shares and similar economic benefits, may be difficult to value.

## **Additional Risks Relating to Rock Harbor**

### *Cybersecurity Risk*

The information and technology systems of Rock Harbor and of key service providers to Rock Harbor and its Clients, including banks, broker-dealers, custodians and their affiliates, may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. For instance, cyber-attacks may interfere with the processing or execution of Rock Harbor’s transactions, cause the release of confidential information, including private information about Clients, subject Rock Harbor or its affiliates to regulatory fines or financial losses, or cause reputational damage. Additionally, cyber-attacks or security breaches (e.g., hacking or the unlawful withdrawal or transfer of funds), affecting any of Rock Harbor’s key service providers, may cause significant harm to Rock Harbor, including the loss of capital. Similar types of cybersecurity risks are also present for issuers of securities in which Rock Harbor may invest. These risks could result in material adverse consequences for such issuers, and may cause Rock Harbor’s investments in such issuers to lose value.

### *Risk Management Failures*

Although Rock Harbor attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Moreover, many risk management techniques, including those employed by Rock Harbor, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of Clients may be incomplete or altogether ineffective. Similarly, Rock Harbor may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to Clients.

### *Systems and Operational Risk*

Rock Harbor relies on certain financial, accounting, data processing and other operational systems and services that are employed by Rock Harbor and/or by third party service providers, including prime brokers, the third party administrator, 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, Rock Harbor 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 Rock Harbor and third party service providers to safeguard information in these systems, Rock Harbor, 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.

### *Valuation of Portfolio Holdings*

There are various conflicts of interest in connection with the valuation of Client assets, in particular, higher valuations of Client assets may result in increased compensation to Rock Harbor. In addition, inflated valuations may result in better performance which may assist in marketing for Rock Harbor.

Conflicts of interest may be heightened in the case of assets that do not have readily ascertainable market values. To address these conflicts, Rock Harbor will adopt and implement policies and procedures for the valuation of Client Securities.

#### *Effects of Health Crises and Other Catastrophic Events*

Health crises, such as pandemic and epidemic diseases, as well as other catastrophes that interrupt the expected course of events, such as natural disasters, war or civil disturbance, acts of terrorism, power outages and other unforeseeable and external events, and the public response to or fear of such diseases or events, have and may in the future have an adverse effect on Clients' investments and Rock Harbor's operations. For example, any preventative or protective actions that governments may take in respect of such diseases or events may result in periods of business disruption, inability to obtain raw materials, supplies and component parts, and reduced or disrupted operations for Client investments. In addition, under such circumstances the operations, including functions such as trading and valuation, of Rock Harbor and other service providers could be reduced, delayed, suspended or otherwise disrupted. Further, the occurrence and pendency of such diseases or events could adversely affect the economies and financial markets either in specific countries or worldwide.

#### **Item 9: Disciplinary Information**

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This Item is not applicable.

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

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Eric Arnold, the Chief Executive Officer and Chief Investment Officer of Rock Harbor, owns a majority interest in, and is the manager of the General Partner of, True Signal LP ("True Signal"), an investment adviser. Mr. Arnold is a passive owner of True Signal and is not involved in True Signal's day-to-day management of its client accounts. True Signal is managed by its senior employees and investment professionals as appointed by Mr. Arnold from time to time. The persons engaged in providing advice in the day-to-day business of True Signal are not engaged in the investment advisory activities of Rock Harbor. True Signal separately makes the decisions as to what specific investment advice is to be communicated to, or is to be used on behalf of, True Signal's clients. True Signal has and uses sources of investment information that is unrelated to Rock Harbor. True Signal keeps its investment advice confidential from Mr. Arnold until such information is communicated to True Signal's clients.

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

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Rock Harbor has adopted a Code of Ethics (the "Code") that obligates Rock Harbor and its access persons to put the interests of Rock Harbor's Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. In addition to compliance with Rock Harbor's policies and procedures, Rock Harbor's personnel are required to comply with applicable federal securities laws. Clients or prospective Clients may obtain a copy of the Code by contacting Alex Schillaci by email at [info@rockharbor.io](mailto:info@rockharbor.io) or by telephone at (914) 215-5873. See below for further provisions of the Code as they relate to the preclearing and reporting of Securities transactions by Rock Harbor's access persons.

Rock Harbor, or its related persons, in the course of their investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material non-public information about issuers, including issuers in which Rock Harbor or its related persons have invested or seek to invest on behalf of Clients. Rock Harbor is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a Client. Rock Harbor maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that Rock Harbor is meeting its obligations to its Clients and remains in compliance with applicable law. In certain circumstances, Rock Harbor may possess certain confidential or material, non-public information that, if disclosed, might be material to a decision to buy, sell or hold a Security, but Rock Harbor will be prohibited from communicating such information to the Client or using such information for the Client's benefit.



In such circumstances, Rock Harbor will have no responsibility or liability to the Client for not disclosing such information to the Client (or the fact that Rock Harbor possesses such information), or not using such information for the Client's benefit, as a result of following Rock Harbor's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

In addition, Rock Harbor or its access persons will from time to time invest in the same Securities (or related securities, e.g., warrants, options or futures) that Rock Harbor or an access person recommends to Clients. Such practices present a conflict when, because of the information Rock Harbor has; Rock Harbor or its access persons are in a position to trade in a manner that could adversely affect Rock Harbor's Clients (e.g., place their own trades before or after Client trades are executed in order to benefit from any price movements due to the Clients' trades). In addition to affecting Rock Harbor's or its access persons' objectivity, these practices by Rock Harbor or its access persons may also harm Clients by adversely affecting the price at which the Clients' trades are executed. Rock Harbor has adopted the following procedures in an effort to minimize such conflicts: Rock Harbor requires its access persons to preclear certain limited offerings and initial public offerings in their personal accounts with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its Clients. In addition, Rock Harbor's Code prohibits Rock Harbor or its access persons from executing personal Securities transactions of any kind in any Securities on a restricted securities list. All of Rock Harbor's access persons are required to disclose their Securities transactions on a quarterly basis. In addition, Rock Harbor's access persons are required to disclose the holdings in their personal accounts upon commencement of employment with Rock Harbor and on an annual basis thereafter.

#### **Item 12: Brokerage Practices**

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Rock Harbor will consider a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include, but are not limited to, reputation, financial strength and stability, creditworthiness, efficiency of execution and error resolution, the actual executed price and the commission, research (including economic forecasts, fundamental and technical advice on Securities, valuation advice on market analysis); custodial and other services provided for the enhancement of Rock Harbor's portfolio management capabilities; the size and type of the transaction; the difficulty of execution and the ability to handle difficult trades; and the operational facilities of the brokers and/or dealers involved (including back office efficiency). In selecting a broker-dealer to execute transactions (or a series of transactions) and determining the reasonableness of the broker-dealer's compensation, Rock Harbor need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not Rock Harbor's practice to negotiate "execution only" commission rates, thus a Client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. Rock Harbor periodically evaluates the broker-dealers used by Rock Harbor to execute Client trades using the foregoing factors.

Rock Harbor does not currently participate in any formal soft dollar arrangements with broker-dealers it has used to effect Client transactions, but it may receive products or services from broker-dealers and other counterparties that to the best of Rock Harbor's knowledge are generally made available to all institutional clients doing business with these counterparties. These products and services are made available to Rock Harbor on an unsolicited basis and without regard to transaction costs paid by the Client accounts or the volume of business Rock Harbor directs to these counterparties. If Rock Harbor chooses to use "soft dollars" to pay for research products or services, Rock Harbor expects to only use such products and services that fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended.

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

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Rock Harbor's Chief Investment Officer Eric Arnold reviews Client accounts on an ongoing basis to determine whether Securities positions should be maintained in light of current market conditions. Matters reviewed include specific Securities held, adherence to investment guidelines and the performance of each Client account.

Significant market events affecting the prices of one or more Securities in Client accounts, changes in the investment objectives or guidelines of a particular Client, or specific arrangements with particular Clients may trigger reviews of Client accounts on other than a periodic basis.

Fund Investors and Accounts receive reports pursuant to the terms of the applicable Offering Documents or investment management agreement.

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

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This Item is not applicable.

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**Item 15: Custody**

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Clients will receive account statements from a broker-dealer, bank or other qualified custodian and *clients* should carefully review those statements.

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**Item 16: Investment Discretion**

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Rock Harbor provides both discretionary and non-discretionary investment advisory services to Clients. Please see Item 4.

Prior to assuming discretion in managing a Client's assets, Rock Harbor enters into an investment management agreement or other agreement that sets forth the scope of Rock Harbor's discretion.

Allocations will be made among Client accounts eligible to participate in initial public offerings (IPOs) and secondary offerings on a pro rata basis, except when Rock Harbor determines in its discretion that a pro rata allocation is not appropriate, which may include a Client's investment guidelines explicitly prohibiting participation in IPOs or secondary offerings and a Client's status as a "restricted person" under applicable regulations.

Securities acquired by Rock Harbor for its Clients through a limited offering will be allocated pursuant to the procedures set forth in Rock Harbor's allocation policy. The policy provides that Rock Harbor will determine the proposed allocation of limited offering securities after considering the factors described above with respect to general allocations of Securities and determining those Client accounts eligible to hold such Securities. Eligibility will be based on the legal status of the Clients and the Clients' investment objectives and strategies.

If it appears that a trade error has occurred, Rock Harbor will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors occur, Rock Harbor's error correction procedure is to ensure that Clients are treated fairly in accordance with their respective agreements, and applicable standards of care contained therein. Rock Harbor has discretion to resolve a particular error in any manner that it deems appropriate and consistent with Rock Harbor's stated policy regarding trade errors. Rock Harbor is not responsible for the errors of other persons, including third party brokers and custodians.

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**Item 17: Voting Client Securities**

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To the extent Rock Harbor has been delegated proxy voting authority on behalf of its Clients, Rock Harbor complies with its proxy voting policies and procedures that are designed to ensure that in cases where Rock Harbor votes proxies with respect to Client Securities, such proxies are voted in the best interests of each Client.

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**Item 18: Financial Information**

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This Item is not applicable.