



## **FORM ADV: PART 2A BROCHURE**

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**March 28, 2023**

### **Important Disclosures:**

**This Brochure provides information about the qualifications and business practices of Hudson Structured Capital Management Ltd. (“HSCM”), an investment adviser registered with the United States Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940. Registration with the SEC as an investment adviser does not imply a certain level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.**

**This Brochure contains certain material information in the manner and format promulgated by the SEC. Additional information, which must be read and considered with the information in this Brochure, may be found in other documents including, as applicable, registration statements, offering memoranda and/or investment management agreements, among others. Please also read and understand the entire Brochure as responses to certain Items also may respond to or provide additional or fuller information regarding the responses to other Items. This Brochure and the information contained herein is not, and should not be considered as, an offer to invest in, or to buy or sell, any interests or shares in any funds, or to participate in any investment or trading strategy. HSCM is not soliciting any action based on the Brochure and the information contained herein. Any offering or solicitation will be made only pursuant to the applicable offering documents, all of which must be read and agreed to in their entirety.**

**If you have any questions about the contents of this Brochure, please contact Ajay Mehra, Partner & Chief Legal Officer, at (203) 975-4859 or Wendy Wong-Tsang, Chief Compliance Officer, at (203) 975-4850. Additional information about HSCM is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

ITEM 2: MATERIAL CHANGES

This Brochure dated March 28, 2023 amends our Brochure that was filed with the SEC on June 13, 2022.

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#### ITEM 4: ADVISORY BUSINESS

Hudson Structured Capital Management Ltd. (“HSCM” or the “Manager”) is a Bermuda limited company that was formed in January of 2016. HSCM is an asset manager focused on alternative investments with a principal emphasis on the global re/insurance and transportation sectors.

HSCM is a subsidiary of Hudson Structured Capital Management LP, a Bermuda limited partnership (the “Holding Partnership”). The General Partner of the Holding Partnership is HSCM GP LLC (the “Holding GP”), a Delaware limited liability company with Michael Millette as its managing member. Michael Millette principally owns and controls, directly and indirectly, the Holding GP, the Holding Partnership and HSCM.

HSCM primarily provides investment management services on a discretionary basis to investment funds and other investment vehicles managed by HSCM (each, an “HSCM Fund”). The HSCM Funds invest in the insurance and reinsurance (“Re/Insurance”) and transport (“Transport” or “Transportation”) sectors.

Blackstone Tactical Opportunities Fund II (“Blackstone”) invests with HSCM in the Re/Insurance and Transport sectors, each in a “fund of one” (each, or collectively as the context provides, a “Blackstone Account”) managed by HSCM that pursues the same investment objective and strategy as the HSCM Re/Insurance and Transport Funds. The Blackstone Accounts generally invest in the same investments made by the HSCM Re/Insurance and Transport Funds, respectively, on a pari passu basis, subject to a right of Blackstone to opt-out of any given investment, and subject to available capital, portfolio composition, allocation factors, and other considerations. The Blackstone Account has also invested in another HSCM Fund. Blackstone and its related holding and investing entities also own a minority interest in HSCM and its related entities. On December 30, 2020, HSCM notified Blackstone and its related holding and investing entities of their intent to exercise their buyout right under their restructuring support agreement between the parties, as of March 31, 2021. Blackstone and its related holding and investing entities no longer have any management rights over HSCM, investments or funds.

As of January 31, 2021, HSCM and its affiliates entered into a credit agreement with Eldridge Corporate Funding LLC, as administrative and collateral agent, and one or more of its affiliates, as lenders (the “Eldridge Strategic Investor”). Under the credit agreement, the Eldridge Strategic Investor provided capital (by way of a loan) to HSCM and its affiliates. In exchange, the Eldridge Strategic Investor received warrants, exercisable into the equity of a parent company of the Manager (collectively with the loan, the “Initial Instrument”). Subsequently, Eldridge extended an additional amount to HSCM and its affiliates under the Initial instrument in support of their acquisition of the key business assets of Northern Shipping Fund Management LLC (“NSFM”). Later, the Eldridge Strategic Investor agreed, in principle, to convert a portion of the expanded Initial Instrument, into a convertible loan instrument, which, upon conversion, could allow them to take a non-controlling equity interest in HSCM and its affiliates (the “Subsequent Instrument” and, collectively with the Initial Instrument, the “Instruments”). Under the terms of these Instruments, the Eldridge Strategic Investor does not have any specific management rights with respect to the day-to-day business of the Manager or its funds.

In connection with the Initial Instrument, the Eldridge Strategic Investor and/or its affiliates invested in the Manager’s InsurTech investment strategy, and, in connection with the Subsequent Instrument, have agreed in principle to make significant additional capital commitments to the Re/Insurance strategy managed by the Manager.

Additionally, in 2018 HSCM, Everest Reinsurance Holdings, Inc. (the “Everest Strategic Investor”) and other parties thereto entered into an arrangement (the “Everest Strategic Investor Agreement”), whereby the Everest Strategic Investor committed to invest with the Manager and support the launch of the

Manager's first investment fund within its Insurtech strategy. Please see disclosures related certain risks and conflicts of interest as described in Item 8 below.

The Everest Strategic Investor and the Eldridge Strategic Investor (the "Strategic Investors") and their affiliates are not treated as affiliates, sponsors or promoters of any fund or client of the Manager, will not be active in the management or day-to-day business activities of any fund or client of the Manager, have no involvement with or responsibility or liability to the investors in any fund or client of the Manager or any other person for the Manager's compliance or non-compliance with applicable legal, investment, tax or regulatory requirements or for the performance of any fund or client of the Manager, have no duties to investors in any fund or client of the Manager and will not be liable to investors in any fund or client of the Manager for exercising or not exercising any rights that they may have.

On May 12, 2022, HSCM acquired certain assets of NSFM, making HSCM the investment adviser to Northern Shipping Fund II LLC, Northern Shipping Fund III LP, Northern Shipping International Fund III LP, Northern Shipping Master Fund III LP and Northern Shipping Fund IV LP (collectively, "NS Funds" and each an "NS Fund"). HSCM has also agreed to provide certain administrative services to MR Holding I LLC and MR Holding II LLC, which are entities associated with NSFM and its affiliates.

HSCM provides investment management services to separate accounts and co-investment accounts on both a discretionary and a non-discretionary basis (collectively, and including as the context indicates the HSCM Funds, "Clients").

Each HSCM Fund is a U.S. or non-U.S. investment limited partnership, limited liability company or corporation, or other vehicle that is not registered or required to be registered under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"). The securities of an HSCM Fund are not generally registered or required to be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, in the case of any HSCM Fund, are privately placed to qualified investors in the United States and elsewhere.

The terms upon which HSCM serves as investment manager of a Client are established at the time each Client or the relationship is established and are generally set out in separate investment management agreements, limited partnership agreements, private placement memoranda and/or other governing documents for a Client (collectively, the "Governing Documents"). Terms may be changed over time by HSCM or an HSCM Fund's general partner (a "General Partner") or board of directors (a "Board"), as the case may be. HSCM generally provides similar services to its Clients, although HSCM may tailor specific investment management advice for a Client based on its investment objectives and strategies, and the discretionary or non-discretionary nature of the relationship. The terms of the Governing Documents vary from Client to Client.

HSCM Funds have a specified minimum initial investment as set forth in their offering documentation; generally, \$1 million or more. The minimum initial investment amount may be waived or reduced in the sole discretion of HSCM or an affiliate.

The terms of a managed account arrangement or co-investment account are governed by a written investment advisory agreement as agreed between HSCM and the Client.

As of December 31, 2022, HSCM had approximately \$3,426,120,044 in regulatory assets under management managed on a discretionary basis and \$55,215,598 in regulatory assets under management managed on a non-discretionary basis.

## ITEM 5: FEES AND COMPENSATION

HSCM generally receives, either directly or indirectly, advisory fees and performance-based allocations or fees in connection with the investment management services it provides to its Clients. The fees HSCM charges each Client generally is established in the written investment management agreement as agreed between HSCM and the Client. Typically, HSCM charges each HSCM Fund an asset-based advisory fee monthly ranging from 0.5% to 2.00% of the net asset value of such HSCM Fund as of the first day of the calendar month. HSCM reserves the right to waive, reduce or rebate all or a portion of the advisory fee with respect to management affiliates or any other investors or receive payment of the advisory fees in arrears.

HSCM also receives, either directly or indirectly, an annual performance fee or allocation from the HSCM Funds calculated with respect to each investor in those funds. Certain HSCM Funds also pay a performance fee or allocation at each performance period, which may begin on the commencement of the HSCM Fund's operations or such other period and end on the date of termination of the management agreement with HSCM and the date of the final distribution of assets attributable to such investor's shares of the HSCM Fund (or as otherwise agreed). The performance fee or allocation borne by an investor in an HSCM Fund is calculated as a percentage ranging from 5% to 27.5% of the net profits of such HSCM Fund attributable to each investor's shares of the HSCM Fund may be structured to be in excess of a hurdle amount, which is generally calculated in relation to net asset value as of the first day of the relevant performance period. A performance fee or allocation may also be due in connection with any non-year end withdrawal or redemption from an HSCM Fund with respect to the amount so withdrawn or redeemed. HSCM reserves the right to waive, reduce or rebate all or a portion of the performance fee with respect to management affiliates or any other investors.

Advisory fees are generally paid monthly at the beginning of the month from an HSCM Fund's assets. Performance fees or allocations are calculated and paid, or made, annually (or upon a redemption) by deducting fees directly from an HSCM Fund's assets or reallocating the performance amount to the capital account of HSCM.

The fees charged to Clients and HSCM Funds in the future may be the same as or different than the fees described herein and may be paid in advance or in arrears. Additionally, due to strategic and other relationships, classes and side letters entered between certain HSCM Funds, HSCM and/or investors, different investors in the same HSCM Fund may be charged different fees.

The fees and expenses charged to separate account and co-investment account Clients are individually negotiated and may vary from Client to Client.

From time to time, HSCM receives from third-parties monitoring fees, loan origination fees, directors' fees, salary, fees or other compensation in connection with serving as a director, officer or an employee of a portfolio company, consulting fees, advisory fees, transaction fees, closing fees, break-up fees or similar fees in connection with an investment on behalf of an HSCM Fund. HSCM also, from time to time, structures investment vehicles or co-investment vehicles for investments in which an HSCM Fund participates whereby HSCM will receive a performance allocation or carried interest with respect to such vehicle or the investment(s) held therein. If applicable, such fees or compensation will be allocated between the HSCM Fund and any co-investing entities generally on the basis of relative invested capital, unless HSCM determines in good faith that another allocation method is appropriate. For the avoidance of doubt, members of the Board of Advisors are not employees or affiliates of the Manager but are independent contractors. Therefore, any fees or compensation received by member of the Board of Advisors (including at HSCM's request) for acting as a director, officer or in any other capacity with respect to a portfolio company will not be offset against management fees of HSCM Funds or co-investing entities.

Members of HSCM's Board of Advisors are not employees of HSCM but are independent contractors. As such, members of the HSCM's Board of Advisors are compensated with cash payments, investments into HSCM Funds and/or a percentage of the economics received by HSCM or an affiliate from its applicable clients. Members of HSCM's Board of Advisors are retained by HSCM for the purposes of generally assisting HSCM and its applicable Investment Committee with the review and management of the investment portfolios within an investment strategy.

HSCM Funds incur other expenses, including, but not limited to organizational, offering and operating expenses, including, without limitation, investment-related expenses (e.g., brokerage commissions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees, clearing and settlement charges and interest expense); interest and other fees and costs of borrowing; the fees of the HSCM Fund's administrator, the HSCM Fund's custodian and any other third-party service providers; legal expenses; legal fees and other expenses incurred in connection with regulatory filings required of the HSCM Fund or necessitated by its operations or investments, including those of HSCM such as Form PF and Form CPO-PQR, if applicable; additional legal fees associated with the documentation and review of HSCM Fund investments; travel and lodging expenses incurred in connection with the investments (which may include joint ventures and other structured investments), business, operations or management of the HSCM Fund (including without limitation in connection with the research and due diligence of potential investments and associated individuals, whether or not consummated); travel, lodging and other expenses of the advisory board incurred in connection with their activities on behalf of a HSCM Fund; fees and expenses relating to modeling services, software tools, programs or other technology utilized in managing the HSCM Fund (including third-party software licensing, implementation, data management and recovery services and custom development costs associated with in house development of such software tools, programs or other technologies); research and market data (including any computer hardware and connectivity hardware (e.g., telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data); professional fees (including, without limitation, expenses of actuarial or other consultants, valuation agents and other experts); third-party consultants engaged to assist in special projects, to help source deals in specific sectors or regions and/or to assist with certain prospective or existing HSCM Funds. Generally, monthly or retainer fees payable to these consultants are charged to HSCM. However, when these consultants work on specific deals, the fees are borne by the HSCM Fund or the applicable portfolio company. These third-party consultants are not employees of HSCM or partners or owners of any of its affiliates, nor are they included as HSCM personnel on the HSCM's website. The fees paid to these consultants by the HSCM Fund or the portfolio companies generally are not offset against the management fees payable by the HSCM Fund to HSCM; litigation and threatened litigation, if any, and expenses pertaining to legal inquiries (including regulatory "sweeps"); any and all taxes and governmental fees payable by or with respect to the HSCM Fund, its investments, or to federal, state or other governmental agencies, domestic or foreign, including corporate, real estate, stamp or other transfer taxes; wind-up and liquidation expenses, expenses relating to the maintenance of registered offices; blue sky and corporate filing fees and expenses; corporate licensing expenses; indemnification expenses; fees and expenses relating to shareholder meetings and conferences; premiums and fees for insurance to benefit, directly or indirectly, the HSCM Fund, indemnified persons and for directors' and officers' liability insurance or other similar insurance policies; audit and tax preparation expenses; accounting expenses; costs of printing and mailing reports and notices; corporate licensing fees and other professional fees; bank service fees; withholding and transfer fees; entity-level taxes; other expenses related to the purchase, sale or transmittal of HSCM Fund assets; and extraordinary expenses and other similar expenses related to the HSCM Fund.

An HSCM Fund will incur expenses related to services rendered to or in connection with financing provided to issuers of securities (such as arranger, brokerage, placement, syndication, solicitation or underwriting, agency, origination, sourcing, structuring, collateral management, special purpose vehicle, subsidiary management and/or administration, advisory or other fees, discounts, spreads, commissions and concessions).



An HSCM Fund will also indirectly bear its proportionate share of the fees and expenses of the transformer vehicles in which it invests (including but not limited to Bumblebee Re (as defined and described below in Item 10)). In addition to the types of expenses noted above, these expenses may include underwriting expenses (including broker commissions, trustee fees, modeling fees, tail-risk hedging fees, and fronting fees) payable to fronting insurers; hedging costs (including premiums for reinsurance and retrocessions and other protection contracts); all fees, costs, expenses and liabilities incurred in connection with collateral security structuring and servicing; all fees, costs, expenses and liabilities incurred in connection with affiliated or unaffiliated insurance manager (including but not limited to HSCM) services on behalf of such vehicles, and loss reserve specialist opinions; annual audit fees; and all government registration and regulatory filings and compliance fees and expenses.

HSCM may from time to time pursue transactions on behalf of two or more funds or Clients that result in up front due diligence costs, including professional fees and other expenses related to the sourcing, investigation, evaluation, negotiation and structuring of these transactions. Examples of these types of transactions include highly structured or negotiated reinsurance transactions, as well as investments in private companies. Such expenses may be incurred for potential investments whether or not such investments are consummated. When such deals are not consummated expenses incurred are now considered “broken deal” expenses.

HSCM will allocate any such broken expenses, as well as any related break-up fees (paid or received) and other compensation earned in connection with transactions that are not consummated, among the Fund and other funds and Clients advised by HSCM in accordance with its written expense allocation policy as in effect at the time. Pursuant to such policy, expenses in connection with a given transaction will generally be accrued periodically and allocated among the Fund and other funds and Clients that the HSCM determines, in its good faith discretion, to be eligible to participate in the transaction. The allocation of expenses among such Clients and funds will generally be made based on their relative expected participation in the transaction, which may be, in some cases limited to specific dollar amounts. However, in circumstances where the expected participation of the various funds and Clients has not been finally determined (particularly during the early investigative stages of a transaction or where certain investors have the ability to opt out of a particular transaction after expenses have already been incurred), the initial allocation of expenses by HSCM may be revised, and/or any unallocated expenses may thereafter be allocated, to account for the final expected participation among investors in such transaction once finally determined. For the avoidance of doubt, HSCM may but is not required to reallocate expenses among Clients once they have been accrued for a given period. Therefore, the Fund may bear broken deal expenses for transactions in which it ultimately does not participate or may bear a greater percentage of such expenses than its ultimate participation would otherwise dictate.

Generally, expenses of the HSCM Fund will be allocated among each issued series and sub-series of shares of a HSCM Fund proportionally; provided that expenses relating specifically to one or more but not all series or sub-series of shares will be allocated among such sub-series or series in such manner as HSCM determines to be fair and reasonable. Each HSCM Fund will promptly reimburse HSCM for any expenses paid by HSCM on behalf of the HSCM Fund.

In instances where expenses are incurred by HSCM and a Client, or where expenses are incurred by one or more Clients, HSCM will seek to allocate such expenses in a manner it determines to be fair and equitable over time. As further described in Item 11 below, co-investment account Clients typically will not bear the expenses associated with a proposed transaction that is not consummated, and such broken deal expenses will instead be borne by the applicable HSCM Fund (to the extent that HSCM does not or cannot reallocate the broken deal expenses between an HSCM Fund and the co-investors or other Clients including a Client who retain deal approval or opt out rights as described in Item 4 for their fund of one accounts including



but not limited to strategic investors of the Firm).

#### Fees and Compensation for NS Funds

HSCM is paid by each NS Fund a fee equal to 1.0% or 1.5% per year of the aggregate capital commitments, original cost basis of investments or some other basis, subject to other arrangements it may have with certain investors.

The expenses of the NS Funds include (i) transaction expenses incurred in connection with the sourcing, evaluation and potential acquisition of portfolio investments, regardless of whether such acquisitions are actually consummated, and in connection with the purchase, holding, monitoring, exchange and sale of portfolio investments and other assets, including, but not limited to, placement fees, asset specialist fees, sales commissions, appraisal fees, taxes, brokerage fees, underwriting commissions and discounts, unaffiliated third-party investment banking fees, advisory fees, custodial, trustee, record keeping and other administration fees, and information services; (ii) legal, auditing, consulting, accounting, valuation services, loan servicing, and other professional expenses; preparation of financial statements, tax returns and IRS Schedules including K-1, 8621 and other tax forms required the Internal Revenue Code or other tax authorities; (v) expenses attributable to regulatory filings to the extent made with respect to the NS Funds or its assets; (vi) litigation expenses of an NS Fund; (vii) insurance premiums; (viii) taxes, fees and other governmental charges; (ix) winding up expenses; (x) expenses relating to investor defaults; (xi) litigation and the amount of any related judgment or settlement; (xii) costs and expenses related to the limited partner advisory committee, board and investor meetings of an NS Fund; (xiii) expenses incurred in connection with any restructuring or amendments to the governing documents of an NS Fund; and (xiv) any indemnification obligation and any other indemnity contribution or reimbursement obligations of an NS Fund. The NS Funds may invest through intermediate holding companies, and in connection therewith, will bear their pro rata share of the holding companies' operating and other expenses including, in addition to those listed above: sales expenses, legal expenses; internal and external accounting, audit and tax preparation expenses; and organizational expenses.

The allocation of expenses for the NS Funds may represent a potential conflict of interest. HSCM allocates expenses to each NS Fund in accordance with the specified arrangements with each NS Fund (as applicable in the offering documents for each NS Fund).

ITEM 6: PERFORMANCE-BASED FEES/ALLOCATIONS AND SIDE-BY-SIDE MANAGEMENT

As noted in the response to Item 5 above, HSCM is eligible to receive, either directly or indirectly, annual performance allocations or performance fees or carried interest distributions from each Client, including the NS Funds. The existence of performance fees and allocations creates an incentive for HSCM to cause the Clients to make investments that are more speculative than would be the case in the absence of such incentive-based compensation or allocation. Such fee arrangements also create an incentive to favor higher fee-paying accounts over other accounts in the allocation of investment opportunities. HSCM has procedures that it believes are reasonably designed and implemented to ensure that HSCM Funds, Clients and investors are treated fairly and equitably over time, and to prevent this conflict from influencing the allocation of investment opportunities among HSCM Funds, Clients and investors.

#### ITEM 7: TYPES OF CLIENTS

HSCM provides investment management services, as described above in response to Item 4, to the HSCM Funds, Blackstone, the NS Funds and various separate and co-investment account Clients.

Investors in HSCM Funds and managed account and co-investment account Clients generally include, among others, U.S. and non-U.S. institutional investors, pension plans, including investors regulated under the U.S. Employee Retirement Income Security Act of 1976, profit sharing plans, endowments, charitable organizations, foundations, investment funds including fund-of-funds, family offices, high net-worth individuals, and other types of investors.

HSCM Funds are not registered or required to be registered under the Investment Company Act and their securities are not registered or required to be registered under the Securities Act and are privately placed to qualified investors in the United States and elsewhere. HSCM Funds have a specified minimum initial investment as set forth in their offering documentation; generally, \$1 million or more. Northern Shipping Fund III LP, Northern Shipping International Fund III LP, Northern Shipping Master Fund III LP and Northern Shipping Fund IV LP have a specified minimum initial investment as set forth in their offering documentation; generally, \$5 million or more. The minimum initial investment amount may be waived or reduced in the sole discretion of HSCM.

## ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### *Significant Investment Strategies and Methods of Analysis - General*

HSCM's overall strategy is generally focused on alternative investments at the mezzanine level of risk and return with a principal emphasis on the re/insurance and transportation sectors. Investment objectives and/or parameters are fund-specific and set out in the HSCM Fund documents provided to each investor.

HSCM generally pursues its strategies in the re/insurance sector through investments in re/insurance and insurance-linked assets across all lines of business and across all instruments.

HSCM generally pursues its strategies in the transportation sector through a focus on transportation equipment finance, favoring equipment types that serve basic economic needs with industry and regulatory frameworks that are creditor friendly. HSCM targets equipment financing in the transportation sub-sections that include, but are not limited to, the following: aviation, shipping, rail, containers, and commercial truck and auto. Portfolio allocations and investment decisions will be guided by an ongoing evaluation of the relative return available and risk exposure throughout these transportation sub-sections.

The HSCM Funds will not be limited to any particular type of insurance-based or transportation-based instrument that they may invest in, provided that the investment is otherwise consistent with the Funds' investment objectives and the criteria established for the Funds' portfolio.

Investment in both the re/insurance and transportation sectors involves risk of significant loss that investors in the HSCM Funds should be prepared to bear.

In implementing an investment strategy, HSCM does not rigidly adhere to any particular investment formula or system, but rather relies on the knowledge and judgment of its investment professionals, who may use a variety of investment methods or techniques. HSCM has or will have an investment committee with respect to each HSCM Fund comprised of the principal portfolio manager and other partners principally knowledgeable about the fund's particular sector of investment as well as at least one of each: (1) a partner of HSCM who is not principally focused on the fund's particular sector of investment, and (2) a member of HSCM's Board of Advisors. The Board of Advisors will be composed of senior industry experts who will be identified and appointed by HSCM's Board of Directors. Portfolio investments may be made without the prior approval of the full investment committee of the HSCM Fund subject to, either: (i) approval by the Chief Investment Officer of the HSCM Fund with subsequent prompt reporting to the full investment committee of such HSCM Fund, or (ii) reliance on the approval of the investment by another investment committee of such HSCM Fund with subsequent prompt reporting to the full investment committee of such HSCM Fund. ***For more information about an HSCM Fund's investment strategy, please see the offering materials for that HSCM Fund.***

### *Material Risks of Significant Investment Strategies and Primary Investments*

Below is a discussion of the material risks of significant investment strategies and primary investments of the HSCM Funds. ***For more information about an HSCM Fund's risks, please see the offering materials for that HSCM Fund.***

**Concentration.** Depending on the investment objectives, strategies and guidelines of the particular fund, HSCM, as applicable, has established fixed guidelines limiting the amount of fund assets that may be subject to the risks in a geographic region or peril and limiting the size of certain portfolio positions as a percentage of the fund account's net assets. However, such guidelines as applicable, may nevertheless allow a fund

account to hold a single or few relatively large (in relation to the fund's assets) investments in a single geographic region, with the result that a loss in any such investment position or group of positions could have a material adverse effect on the fund account's investment performance.

Conflicts of Interest. HSCM is subject to various conflicts of interest in its relationship with a particular HSCM Fund and HSCM's affiliates. HSCM intends to manage a number of different funds with similar or different investment objectives, strategies and guidelines, which may compete with other HSCM Funds and present conflicts in the allocation of investment opportunities. HSCM will seek to allocate transactions among participating funds on a basis that is fair and equitable over time to all HSCM Funds, taking into account relevant factors, such as account size, timing or applicable investment objectives, guidelines or restrictions, portfolio management considerations, among others.

The Strategic Investors and their affiliates either have or are expected to, directly or indirectly, make a significant investment in accounts and vehicles managed by HSCM, which may co-invest alongside any fund or client of the Manager in certain investments. Due to the arrangements between HSCM and the Strategic Investors and their affiliates, the Strategic Investors and their affiliates will have access to information not available to investors in any fund or client of the Manager.

Conflicting Positions. HSCM sponsors, manages multiple funds, separate accounts and co-investment accounts, some of which have objectives that are similar to, or which overlap with, those of other Clients. Additionally, members of HSCM and its affiliates may own interests in HSCM Funds. In certain circumstances, particularly when the HSCM sponsors a new Fund, such new Fund may be wholly, or majority owned by the HSCM and/or its affiliates. HSCM may give advice and recommend securities to Clients which differs or conflicts with advice given to, or securities recommended or bought for, other Clients, even though the investment objectives of the respective Clients are the same or similar. There may be certain situations in which a Client has a specific geographical, sector or strategy focus, or situations where an agreement exists with another Client, such that investment opportunities that may be appropriate for one Client are first referred to and/or allocated to another Client, with any remaining portions allocated to other Clients, as appropriate. Client accounts that receive investment opportunities in priority to other Clients may have been initially seeded by the HSCM or its affiliates, and, at the time of a referral or priority allocation, may, to the extent there has been only limited investment by third party investors, remain wholly or principally owned by the HSCM or its affiliates. If a Client does not receive an investment opportunity, it will not benefit from, and will have no right to profits arising out of, investments made by Clients that did receive the investment opportunity.

As described generally in Item 12 below, the HSCM seeks to allocate investment opportunities fairly and equitably over time across Clients to the extent such opportunities are appropriate for such Clients. In addition, the HSCM has adopted specific allocation policies and procedures for certain types of investment opportunities, including follow-on investments and certain investment opportunities that have been sourced by, or offered to, the HSCM's investment teams responsible for the Private Funds offered by the HSCM, each of which seeks to allocate such investment opportunities on a fair and equitable basis among the Clients over time.

In addition, HSCM or its affiliates, because of differing investment objectives, different investment teams or other factors, may cause a Client to take investment positions that are different from or adverse to those taken by another Client, including positions contrary to those held by such other Client or senior or junior to those held by such other Client. To the extent that a Client holds interests that are different from (or more senior or junior to) those held by another Client, HSCM and its affiliates may be presented with decisions involving circumstances where the interests of one Client are in conflict with those of another Client, including with respect to the operation of a company, the expected returns for the investment and the timeframe for and method of exiting the investment. Furthermore, it is possible that (in a bankruptcy

proceeding or otherwise) a Client's interest may be subordinated or otherwise adversely affected relative to another Client or otherwise by virtue of such Client's involvement and actions relating to its investment. For example, a Client that is a debt holder of a company may be better served by the company's liquidation, in which case it may be paid in full, whereas a Client that is an equity holder of a company may prefer a reorganization that could create value for the Client and other equity holders. HSCM may have varying compensation arrangements among Clients that could incentivize the HSCM to manage such Clients differently. There will be no obligation to purchase, sell or exchange any security or financial instrument for a Client if the HSCM or its affiliates believe in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for the particular Client. In allocating investment opportunities among Clients, HSCM or its affiliates may take into account factors including, among other things, the relative amounts of capital available for new investments and the investment programs and portfolio positions of the Client and such other Clients and investment vehicles. However, situations may arise in which the activities of HSCM or its affiliates may be disadvantageous to a Client, such as the inability of the market to fully absorb orders for the purchase or sale of particular investments placed by HSCM for a Client and other Clients or at prices and in quantities which may be obtainable if the same were being placed only for the Client.

Sometimes, following an investment by a Client, HSCM has the opportunity to make an additional or follow-on investment in the same portfolio company or a related company. Occasionally, rather than allocate these additional or follow-on investment opportunities to the Client(s) that made the original investment, HSCM may allocate the opportunity in a different manner, including but not limited to amongst other Clients (including Clients that may be wholly or principally owned by HSCM or its affiliates) and one or more strategic investors (which may include third parties and/or Fund investors). Typically, HSCM makes these allocations in circumstances where the additional investment opportunity or follow-on investment could not, because of available capital, expected holding period of the investment, risk limits, size, tax considerations, concentration or other reasons, be allocated in the same manner as the original investment to which it relates. Additional investment opportunities and follow-on investments may be more or less profitable than the original investment to which they relate.

From time-to-time, a Client makes commitments to provide capital for investments at a certain date in the future. At the time any such investment requires funding, HSCM may allocate the investment opportunity among such Client, other Clients eligible to participate in the investment (including other Clients that may be wholly or principally owned by HSCM or its affiliates), one or more strategic investors, management of a portfolio company and/or coinvestors (which may include third parties and/or Fund investors, in such proportions as determined by HSCM in its discretion, taking into account such factors as HSCM determines appropriate based on the relevant facts and circumstances, as further described in Item 10 below). In addition, the HSCM may establish investment vehicles to facilitate the investment of Clients in certain opportunities. To the extent that any other Clients make an initial investment in or increase their investment in such an investment vehicle, such investment will dilute the existing interest holders (and the underlying investments therein) unless HSCM determines to increase the other interest holders' commitment to the platform on a proportionate basis. Accordingly, Clients may be disadvantaged if HSCM allocates profitable opportunities away from them or if HSCM allocates unprofitable opportunities to them.

Client investments may include investments in vehicles that are directly or indirectly affiliated with HSCM, such as the HSCM Funds. The Client bears management fees and performance fees that are paid to, or performance allocations that are made to, the managers, general partners or members of such affiliates. HSCM will endeavor to make investment decisions for the benefit of the Client in good faith and to treat each of the Funds and all of its Clients in a fair and equitable manner over time. There can be no assurance, however, that certain investment decisions made for a Client or for any other Fund will not adversely affect other Funds or Clients, even if such investment decisions are made in good faith.

HSCM Funds will invest in the segregated accounts of Bumblebee Re (as defined and described in Item 10). The expenses that the HSCM Funds incur when transacting through Bumblebee Re may be greater than the expenses that the HSCM Funds would have incurred if it had transacted through a third-party transformer. Because HSCM is affiliated with and will provide services to Bumblebee Re for profit, HSCM will have conflict of interest in determining whether to use Bumblebee Re as the Fund's transformer for a particular transaction.

Difficult Market Conditions. The HSCM Funds are generally dependent upon conditions in the global financial, transportation, insurance and other markets and economic conditions throughout the world that are outside of HSCM's control and are difficult to predict. Factors such as, among others, interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to insurance and taxation), trade barriers, commodity prices, currency exchange rates and controls, and national and international political circumstances (including wars, terrorist acts or security operations) can have a material negative impact on the HSCM Fund's investments.

Unpredictable or unstable market conditions may result in reduced opportunities to find suitable risk-adjusted investments to deploy capital and/or make it more difficult to exit and realize value from existing investments of an HSCM Fund. It is important to understand that an HSCM Fund can incur material losses even if it reacts quickly to difficult market conditions, and there can be no assurance that an HSCM Fund will not suffer material adverse effects from broad and rapid changes in market conditions.

Investments in re/insurance risks, financing and in carefully selected transportation equipment financing exhibit relatively low correlation to the factors that influence the global equity and bond markets. However, because catastrophic and other events that affect the re/insurance and transportation sectors are unpredictable, it is entirely possible that an HSCM Fund will incur major losses at or about the same time as other components of an investor's portfolio are declining in value.

Hedging Transactions. The HSCM Funds may use a variety of derivatives and other financial instruments both for investment purposes and for risk-management purposes. However, the HSCM Funds are not obligated to, and may choose not to, hedge against risks. While an HSCM Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for such HSCM Fund than if it had not engaged in any such hedging transaction. Moreover, the HSCM Funds will generally be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities or investments and counterparties), that HSCM can not anticipate, or that HSCM elects not to hedge.

Currency Risk. Generally, an HSCM Fund determines its net asset value in U.S. dollars and as a result it is subject to the risk of fluctuation in the exchange rate between the local currency and dollars when investing in foreign markets and is also subject to the risk of exchange controls.

Counterparty Risk; Counterparty Credit Risk. A number of the investment techniques to be utilized by the HSCM Funds, and a number of markets in which the HSCM Funds invest, may expose it to counterparty risk, which is the risk that a counterparty will not settle a transaction in accordance with its terms. HSCM is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

Interest Rate Risk. The returns associated with the floating-rate securities in which the HSCM Funds may invest will be affected by changes in interest rates. In the event an HSCM Fund invests in fixed rate securities, changes in interest rates could cause the value of such securities to decline. HSCM may hedge against such fluctuations in value but is not obligated to do so. In the event that HSCM does hedge against such fluctuation, there is no guarantee that the hedge will be successful.



Leverage. Depending on the investment objectives, strategies and guidelines of the particular fund account, HSCM, as applicable, may borrow money from banks, broker-dealers or other counterparties on a secured or unsecured basis, or otherwise enter into transactions that involve leverage in order to increase the amount of capital available for investments, pay operating expenses, satisfy redemption requests or for other purposes. An HSCM Fund may also, in effect, borrow funds through entering into repurchase agreements and may leverage its investment return with derivative instruments. The use of leverage will increase the volatility of an HSCM Fund's investments and can, in certain circumstances, magnify the losses to which an HSCM Fund's investment portfolio may be subject.

Futures Trading. Futures prices are highly volatile. Price movements of futures and other derivative products are influenced by a wide variety of factors, including, among other things, changing supply and demand relationships, weather, government, agricultural, trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events and changes in interest rates. Margins are good faith deposits which must be made with a broker to initiate or to maintain an open position in a futures contract. In most exchange transactions, both buyer and seller are required to post margins with the broker handling their trades as security for the performance of their buying and selling undertakings and to offset losses in their trades due to daily fluctuations in the markets. Margin requirements are also imposed by exchanges. It may not always be possible to execute a buy or sell order at a desired price or to close out an open position, either due to market conditions or daily price fluctuation limits. Certain futures exchanges limit fluctuations in futures contract prices during a single day through "daily limits". Daily limits may prevent liquidating trades or new trades from being executed during a given trading day at a price above or below the daily limit. Speculative position limits (the maximum net long and net short positions which any person may hold in particular futures contracts and options) also limit the number of open positions that may be held in certain futures and option contracts. It is also possible for an exchange or other regulator to suspend trading in a particular contract, order immediate settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. Certain futures exchanges operate as "principals' markets" (similar to the forward markets) in which the obligation to assure performance rests solely with the individual member effecting the trade, and not with any exchange or clearinghouse.

Funding of Early Investments. Depending on the investment objectives, strategies and guidelines of the particular fund account, an HSCM Fund may make one or more investments that require early funding of the investment. In order to fund such investments, an HSCM Fund may (i) borrow money on a short term basis, including from the HSCM Fund investor or another fund managed by HSCM, (ii) accept an early capital contribution from one more investors in the HSCM Fund, or (iii) enter into an arrangement with another investor in such opportunity, including another fund advised by HSCM, to acquire the investment on behalf of the HSCM Fund and to transfer the investment to the HSCM Fund at cost plus interest as soon as the HSCM Fund is able to call sufficient capital from investors to pay for such investment. Where an HSCM Fund engages in any such transaction with the HSCM Fund investor or another fund advised by HSCM, the HSCM Fund will pay interest on any amounts advanced by such party to the HSCM Fund, which interest shall accrue daily through the date of repayment.

United Kingdom Withdrawal from the European Union. The United Kingdom (the "U.K.") left the European Union ("Brexit") on January 31, 2020. The U.K. and EU have reached an agreement on the terms of their future trading relationship effective January 1, 2021, which principally relates to the trading of goods rather than services, including financial services. Further discussions are to be held between the U.K. and the EU in relation to matters not covered by the trade agreement, such as financial services. An HSCM Fund will face risks associated with the potential uncertainty and consequences that may follow Brexit, including with respect to volatility in exchange rates and interest rates. Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and could contribute to

instability in global political institutions, regulatory agencies and financial markets. Brexit could also lead to legal uncertainty and politically divergent national laws and regulations as a new relationship between the U.K. and EU is defined and the U.K. determines which EU laws to replace or replicate. Any of these effects of Brexit could adversely affect any of the companies to which the Fund has exposure and any other assets in which the Fund invests. The political, economic and legal consequences of Brexit are not yet known. In the short term, financial markets may experience heightened volatility, particularly those in the U.K. and Europe, but possibly worldwide. The U.K. may be less stable than it has been in recent years, and investments in the U.K. may be difficult to value, or subject to greater or more frequent rises and falls in value. In the longer term, there is likely to be a period of significant political, regulatory and commercial uncertainty as the U.K. seeks to negotiate the terms of its future trading relationships.

Side Letters, Asymmetrical Information and Fair Treatment of Investors - The HSCM Fund and the Manager may from time to time enter into agreements with certain investors that provide for terms of investment that are different and more favorable to such investors than the terms described in this Memorandum (collectively, "Side Letters"). Such terms may include, without limitation, (i) the waiver, reduction, different calculation or rebate of management fees and/or performance fees, (ii) preferential transfer or liquidity rights, including additional redemption dates and waived or different redemption notice or lock-up periods, (iii) capacity rights and (iv) undertakings designed to protect an investor from violating any applicable statute or regulation. Side Letters may also be entered into with certain investors to provide them with supplemental information and reports that could affect their decisions to request redemptions of their Shares. The granting of a Side Letter to one or more investors generally will not entitle other investors to the same terms. Except as may be required by law, absent an express contractual undertaking, the HSCM Fund and/or the Manager are not required to disclose the specific terms of any Side Letters. Notwithstanding the foregoing, and to ensure fair treatment of all investors, no side letter may result in a variation of the share rights attaching to any Series or sub-series of Shares absent the approval of the holders of that Series or sub-series in accordance with the Bye-laws.

Cyber Security Breaches and Identity Theft. Cyber security incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. HSCM and its affiliates and their portfolio companies' and service providers' information and technology systems may be vulnerable to damage or interruption from cyber security breaches, computer viruses or other malicious code, network failures, computer and telecommunication failures, infiltration by unauthorized persons and other security breaches, or usage errors by their respective professionals or service providers. If unauthorized parties gain access to such information and technology systems, they may be able to steal, publish, delete or modify private and sensitive information, including non-public personal information related to Limited Partners (and their beneficial owners) and material non-public information. Although HSCM has implemented, and portfolio companies and service providers may implement, various measures to manage risks relating to these types of events, such systems could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. HSCM does not control the cyber security plans and systems put in place by third-party service providers, and such third-party service providers may have limited indemnification obligations to HSCM, its affiliates, the HSCM Fund, the Limited Partners and/or a portfolio company, each of whom could be negatively impacted as a result. Breaches, such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage, may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing them from being addressed appropriately. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in HSCM's, its affiliates', the HSCM Fund's and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to Limited Partners (and their beneficial owners), material non-public information and the intellectual property and trade secrets and other sensitive information in the possession of HSCM and/or portfolio companies. HSCM, the Fund and/or

a portfolio company could be required to make a significant investment to remedy the effects of any such failures, harm to their reputations, legal claims that they and their respective affiliates may be subjected to, regulatory action or enforcement arising out of applicable privacy and other laws, adverse publicity and other events that may affect their business and financial performance.

Other Business Interruptions. HSCM's investment advisory activities and operations, or the activities and operations of a portfolio company and service providers, could be interrupted or adversely affected by extraordinary events or emergency situations, including, without limitation, outbreaks of infectious diseases, epidemics or pandemics, war, terrorism, failure of technology, disasters, government macroeconomic policies, or social instability. In order to mitigate the effects of these types of events, HSCM may activate our business continuity and disaster recovery plans. These plans may, for example, require our employees to work and access our information technology, communications or other systems remotely. The failure of these systems and/or disaster recovery plans for any reason could cause significant business interruptions in HSCM's, its affiliates', the HSCM Fund's and/or a portfolio company's operations.

Enhanced Scrutiny and Potential Regulation of the Private Investment Fund Industry and the Financial Services Industry. The HSCM Fund's ability to achieve its investment objectives, as well as the ability of the HSCM Fund to conduct its operations, is based on laws and regulations which are subject to change through legislative, judicial or administrative action. Future legislative, judicial or administrative action could adversely affect the HSCM Fund's ability to achieve its investment objectives, as well as the ability of the HSCM Fund to conduct its operations.

There continues to be significant discussions regarding enhancing governmental scrutiny and/or increasing the regulation of the private equity industry. On July 21, 2010, the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. A key feature of the Dodd-Frank Act is the extension of prudential regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve") to financial institutions that are not currently subject to such regulation but that potentially pose risk to the financial system. The Dodd-Frank Act defines a "nonbank financial company" as a company that is substantially engaged in activities that are financial in nature. The Financial Stability Oversight Council (the "FSOC"), an interagency body created to monitor and address systemic risk, has the authority to designate such a company to regulation by the Federal Reserve (including capital, leverage and liquidity requirements) if the FSOC determines that such company is systemically important. The Dodd-Frank Act does not contain any minimum size requirements for such a designation, and it is possible that it could be applied to private funds, particularly large, highly leveraged funds. On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities may pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions and resolution or in other areas. Similarly, in Europe, the Financial Stability Board has recommended strengthening oversight and regulation of the so-called "shadow banking" system, broadly described as credit intermediation involving entities and activities outside the regular banking system. While at this stage it is difficult to predict the scope of any new regulations, if during the HSCM Fund's Investment Period regulations were to extend the regulatory and supervisory requirements, such as capital and liquidity standards currently applicable to banks, or the HSCM Fund were considered to be engaged in "shadow banking," in Europe, the United States or in any other jurisdiction in which the HSCM Fund engages in investment activities, the regulatory and operating costs associated therewith could adversely impact the implementation of the HSCM Fund's investment strategy and the HSCM Fund's returns and may become prohibitive.

The Dodd-Frank Act also imposes a number of restrictions on the relationship and activities of banking organizations with private equity funds and hedge funds and other provisions that will affect the private

equity industry, either directly or indirectly. Included in the Dodd-Frank Act is the so-called "Volcker Rule," which takes the form of new Section 13 of the U.S. Bank Holding Company Act of 1956. Among other things, the Volcker Rule prohibits any "banking entity" (generally defined as any insured depository institution, any company that controls such an institution, a non-U.S. bank that is treated as a bank holding company for purposes of U.S. banking law, and any affiliate or subsidiary of the foregoing entities), as principal, from sponsoring or acquiring or retaining an ownership interest in a private equity fund or hedge fund that is not subject to the provisions of the Investment Company Act (as defined below) in reliance upon either Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act to avoid being treated as "investment companies" thereunder. The Volcker Rule also authorizes the imposition of additional capital requirements and certain other quantitative limits on activities engaged by certain nonbank financial companies that have been designated as systemically important by the FSOC and subject to supervision by the Federal Reserve (as discussed above), although such entities are not expressly prohibited from engaging in proprietary trading or sponsoring or investing in such funds. The Volcker Rule became effective as a matter of statute on July 21, 2012, but banking entities had a so-called "conformance period," which ran until July 21, 2015, to wind down, sell, transfer or otherwise conform their investments and activities to the Volcker Rule, absent an extension by the Federal Reserve or an exemption for certain "permitted activities." On December 10, 2013, the Federal Reserve and other federal regulatory agencies issued final rules implementing the principal components of the Volcker Rule. Prospective investors in the HSCM Fund that are banking entities should consult their bank regulatory counsel prior to making an investment. The Dodd-Frank Act, as well as future related legislation, may have an adverse effect on the private equity industry generally and/or on HSCM or the HSCM Fund, specifically. Therefore, there can be no assurance that any continued regulatory scrutiny or initiatives will not have an adverse impact on HSCM or otherwise impede the HSCM Fund's activities.

Although the Manager is currently registered under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"), the enactment of these reforms and/or other similar legislation could nonetheless have an adverse effect on the private investment funds industry generally and on HSCM and/or the HSCM Fund specifically, and may impede the HSCM Fund's ability to effectively achieve its investment objectives.

As a registered investment adviser under the Advisers Act, the Manager and its affiliates are required to comply with a variety of periodic reporting and compliance-related obligations under applicable federal and state securities laws (including, without limitation, the obligation of the Manager and its affiliates to make regulatory filings with respect to the HSCM Fund and its activities under the Advisers Act (including, without limitation, Form PF and Form ADV)). In addition, the Manager is required to comply with a variety of regulatory reporting and compliance-related obligations under applicable federal, state and foreign securities laws (including, without limitation, reports or notices in connection with the Directive and/or CFTC (as defined below) related matters as well as other international jurisdiction specific obligations). In light of the heightened regulatory environment in which the HSCM Fund and the Manager operate and the ever-increasing regulations applicable to private investment funds and their investment advisors, it has become increasingly expensive and time-consuming for the HSCM Fund, the Manager and their affiliates to comply with such regulatory reporting and compliance-related obligations. The HSCM Fund will be required to bear the HSCM Fund's share of expenses relating to compliance-related matters and regulatory filings, which are likely to be material, including on a cumulative basis over the life of the HSCM Fund. For example, Form PF requires that the Manager report the regulatory assets under management of the HSCM Fund, and because the HSCM Fund will be required to bear the HSCM Fund's share of expenses relating to compliance-related matters and regulatory filings, the HSCM Fund will bear the costs and expenses of initial and ongoing Form PF compliance, including costs and expenses of collecting and calculating data and the preparation of such reports and filings. Certain of these expenses are likely to be material, including on a cumulative basis over the life of the HSCM Fund. Any further increases in the regulations applicable to private investment funds generally or the HSCM Fund and/or the Manager in particular may result in increased expenses associated with the HSCM Fund's activities and additional



resources of the Manager being devoted to such regulatory reporting and compliance-related obligations borne by the HSCM Fund, which may reduce overall returns for the Limited Partners and/or have an adverse effect on the ability of the HSCM Fund to effectively achieve its investment objective.

Furthermore, various federal, state and local agencies have been examining the role of placement agents, finders and other similar service providers in the context of investment by public pension plans and other similar entities, including investigations and requests for information, and in connection therewith, new and/or proposed rules and regulations in this arena may increase the possibility that the General Partner and its affiliates may be exposed to claims and/or actions that could require a Limited Partner to withdraw from the HSCM Fund. As a related matter, HSCM may be required to provide certain information regarding some of the investors in the HSCM Fund to regulatory agencies and bodies in order to comply with applicable laws and regulations including the U.S. Foreign Corrupt Practices Act and FOIA (as defined below). There can be no assurance that the foregoing will not have an adverse impact on the HSCM Fund or otherwise impede the HSCM Fund's activities.

Investors Subject to Regulation. Certain prospective investors may be subject to federal and state laws, rules and regulations that may regulate their participation in the HSCM Fund, or their engaging, directly or indirectly, in investment strategies of the type which the HSCM Funds or the HSCM Funds may use from time to time (e.g., leverage and limited diversification). Each type of organization may be subject to different laws, rules and regulations, and prospective investors should consult with their advisors as to the advisability and tax consequences of an investment in the HSCM Fund. Investment in the HSCM Fund by entities subject to the Employee Retirement Income Security Act of 1974 (“ERISA”), and other tax-exempt entities requires special consideration. Assets of an HSCM Fund may at various times be considered “plan assets” for purposes of ERISA, as a result of the aggregate amount of shares of an HSCM Fund held by investors that are “benefit plan investors” (as defined in Section 3(42) of ERISA). Accordingly, during such periods, the administration and operation of an HSCM Fund will be subject to ERISA and/or Section 4975 of the Internal Revenue Code of 1986 (the “Internal Revenue Code”). Specifically, if the assets of an HSCM Fund are treated as including “plan assets” under ERISA, the HSCM Fund would be subject to the fiduciary, prohibited transaction, reporting and disclosure rules of ERISA and the Internal Revenue Code. In addition, the HSCM Fund would be treated as a “benefit plan investor” to the extent of the percentage of equity interests in the HSCM Fund held by benefit plan investors. Thus, HSCM may be required to forego investments or arrangements on behalf of the HSCM Fund even if such investments or other arrangements might otherwise be desirable for the HSCM Fund.

Risks Associated with Private Equity Investing. Funds may be investing in private equity investments. These investments involve special risks, certain of which are described below:

- Buyout Investments. The HSCM Funds may invest in leveraged buyouts which by their nature require companies to undertake a high ratio of leverage to available income. Leveraged portfolio companies are inherently more sensitive to declines in revenues and increases in expenses.
- Force Majeure Risks. The underlying portfolio entities may be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism and labor strikes). Some force majeure events may adversely affect the ability of a party (including an underlying portfolio entity or a counterparty to the HSCM Fund, or an underlying portfolio entity) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to the HSCM Fund, or underlying portfolio entity of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of an infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries in which one or more HSCM Funds may invest specifically. Additionally, a major

governmental intervention into an industry, including the nationalization of an industry or the assertion of control over one or more underlying portfolio entities or its assets, could result in a loss to the HSCM Fund, including if its investment in such portfolio entity is canceled, unwound or acquired (which could be without what the HSCM Fund considers to be adequate compensation), and thus a loss for the HSCM Fund. Any of the foregoing may therefore adversely affect the performance of the HSCM Fund and its investments.

- Long-term Investments. The HSCM Funds invests in investments that will not be liquidated for a number of years after the initial investment. Factors such as overall economic conditions, the competitive environment and the availability of potential acquirers may shorten or lengthen such HSCM Fund's holding period. The return of capital and the realization of gains, if any, will occur only upon the partial or complete disposition of an HSCM Fund investment. Therefore, it is unlikely that such HSCM Funds will realize substantial capital gains during their early years.
- Risk of Realization of Investments. The HSCM Funds will hold illiquid investments. In some cases, the HSCM Fund may be prohibited from selling such securities for a period of time or otherwise be restricted from disposing of investments. Furthermore, the types of investments made may require a substantial length of time to liquidate. As a result, there is a significant risk that such HSCM Funds may be unable to realize their investment objectives by sale or other disposition of their investments at attractive prices or will otherwise be unable to complete any exit strategy.
- Investment in Restructurings. Certain of the HSCM Funds may invest in restructurings that involve non-performing, underperforming or other troubled assets that are experiencing, or are expected to experience, severe financial difficulties, which may never be overcome and, as a result, may lead to a loss of some or all of such HSCM Fund's investments. The success of such investments may hinge on an HSCM Fund's ability to reposition such assets as to increase returns to the HSCM Fund. To the extent that HSCM assumes an active role to defend its claims in any legal proceeding involving a debtor, the HSCM Funds may be prevented from disposing of securities issued by such debtor due to the HSCM Fund's possession of material non-public information concerning such debtor. The HSCM Fund may also incur significant costs with respect to any active role it plays in any legal proceeding to defend its claims. There can be no assurance the HSCM Funds may be successful in such endeavors. Such investments could, in certain circumstances, subject such HSCM Funds to certain additional potential liabilities, which may exceed the value of such HSCM Funds' original investments therein. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated, or disallowed, or may be found liable for damage suffered by parties as a result of such actions. In addition, under certain circumstances, payments to such HSCM Funds and distributions by such HSCM Funds to their limited partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Bankruptcy laws may hinder or delay the ability of such HSCM Funds to realize returns on investments, may lead to litigation which could be costly and impair the value of an investment or may result in restructurings which are not favorable to the value of such HSCM Funds' investments. In addition, portfolio companies located in non-U.S. jurisdictions may be involved in restructurings, insolvency proceedings and/or reorganizations that are not subject to laws and regulations that are similar to the United States bankruptcy laws and the rights of creditors afforded in U.S. jurisdictions. To the extent such non-U.S. laws and regulations do not provide the HSCM Fund with equivalent rights and privileges necessary to promote and protect its interest in any such proceeding, the HSCM Fund's investments in any such portfolio company may be adversely affected.
- Risks in Effecting Operating Improvements. In some cases, the success of the HSCM Funds' investment strategy will depend, in part, on the ability of such HSCM Funds to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that the HSCM Funds will be able to successfully identify and implement such restructuring programs and improvements.

- Volatility of Credit Markets May Affect Ability to Finance and Consummate Investments. The volatility of the global credit markets has made it more difficult for financial sponsors to obtain favorable financing for investments. A widening of credit spreads, coupled with the extreme volatility of the global debt markets and a rise in interest rates, can dramatically reduce investor demand for high yield debt and senior bank debt, which in turn can lead some investment banks and other lenders to be unwilling to finance new private equity investments or to only offer committed financing for these investments on unattractive terms. The ability of the HSCM Funds to generate attractive investment returns will be adversely affected to the extent the HSCM Funds are unable to obtain favorable financing terms for their investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of U.S. and global economies. Such marketplace events also may restrict the ability of the HSCM Funds to sell or liquidate investments at favorable times or for favorable prices or otherwise may have an adverse impact on the business and operations of the HSCM Funds.
- Investments Outside of the United States. The HSCM Funds may make investments outside of the United States. Investments outside of the United States may involve certain risks not typically associated with investing in private equity businesses and assets within the United States, including risks relating to (i) currency exchange matters for investments, including fluctuations in exchange rates, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iii) differences between each of the United States private equity markets, on the one hand, and those of other jurisdictions, on the other hand, including potential price volatility in, and relative illiquidity of, some United States securities markets; (iv) certain economic, political and social risks, including potential exchange control regulations, potential restrictions on foreign investment and repatriation of amounts invested, the risks associated with political, economic or social instability, including the risk of sovereign defaults, regulatory change and the possibility of expropriation or confiscatory taxation or the imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, and adverse economic and political developments; (v) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and differences in government supervision and regulation; (vi) less developed corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties and the protection of investors; (vii) differences in the legal and regulatory environment or enhanced legal and regulatory compliance; (viii) political hostility to investments by foreign or private equity investors; (ix) less publicly available information, (x) governmental decisions to discontinue support of economic reform programs generally and impose centrally planned economies; (xi) less extensive regulation of the securities markets; (xii) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities; (xiii) longer settlement periods for securities transactions; and (xiv) less reliable judicial systems to enforce contracts and applicable law. There can be no assurance that adverse developments with respect to such risks will not adversely affect the assets of the HSCM Funds that are held in certain countries.
- Control Person Liability. Certain of the HSCM Funds may take controlling interests in some of their investments. The exercise of control over a company may impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations (including securities laws) or other types of liability in which the limited liability, generally characteristic of business ownership, may be ignored. If these liabilities were to arise, such HSCM Funds might suffer a significant loss.
- Minority Investments. Certain of the HSCM Funds may make minority equity investments in assets where such HSCM Funds do not effectively control such assets. Under such circumstances, there is the possibility that other investors in the entity in which the HSCM Fund's investments are made may have economic or business interests or goals that are inconsistent with those of the HSCM Fund, and the HSCM Fund may not be in a position to limit or otherwise protect the value of the HSCM Fund's



investment in the asset.

- Risk of Bridge Financing. If an HSCM Fund uses bridge financing in a transaction with the intent of refinancing such financing, there is a risk that the HSCM Fund will be unable to complete the refinancing. This could lead to the HSCM Fund having a long-term investment in a junior debt security.
- Broken Deal Expenses. Investments in private equity often require extensive due diligence activities prior to acquisition, including legal costs. If an investment is not consummated, some or all of such third-party expenses may be borne by the HSCM Fund and/or the applicable HSCM Fund. (See Item 5 for additional information regarding Broken Deal Expenses)
- Contingent Liabilities on Disposition of Investments. In connection with the disposition of an investment, an HSCM Fund may be required to make certain representations about the investments typical of those made in connection with the sale of an investment. The HSCM Funds may also be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate or with respect to certain potential liabilities. These arrangements may result in the incurrence of contingent liabilities for which the HSCM Fund's manager may establish reserves or escrow accounts. In that regard, investors in the HSCM Fund, including the HSCM Fund, may be required to return amounts distributed to them to HSCM Fund obligations, including indemnity obligations, in accordance with the governing documents of the HSCM Fund and applicable law.
- Restrictions on Transfer or Withdrawal. Investors in many of the HSCM Funds will not be permitted to transfer their interests in such HSCM Funds without the consent of the HSCM Fund manager. Furthermore, such transferability will be subject to certain restrictions contained in the operating agreements and subscription agreements for such HSCM Funds and may be affected by restrictions on resale imposed under federal and state securities laws.
- Failure by Other Investors to Meet Capital Calls of Funds. Certain HSCM Funds will have capital contribution obligations over an extended period of time. Failure by one or more other investors in any such HSCM Fund to meet a capital call could have adverse consequences for such HSCM Fund. The HSCM Fund may be permitted to require the investors in the HSCM Fund to contribute additional capital to satisfy the shortfall. The HSCM Fund may be unable to raise sufficient capital to consummate the proposed investment or the HSCM Fund may be unable to contribute capital to existing portfolio companies necessary to ensure their ongoing financial stability. If multiple investors fail to meet capital calls from a particular HSCM Fund, the HSCM Fund could default on its obligations, which could result in the termination of the HSCM Fund, causing a lower return, or potentially a loss, on the Vehicle's investments.
- Termination of the Fund's Interest in a Fund. A HSCM Fund may, among other things, terminate the HSCM Fund's interest in that HSCM Fund if the HSCM Fund fails to satisfy any capital call by that HSCM Fund or if the general partner of that HSCM Fund determines that the continued participation of the HSCM Fund in such HSCM Fund would have a material adverse effect on such HSCM Fund or its assets.
- Venture Capital Investments. Certain HSCM Funds make venture capital investments. Such investments involve a high degree of business and financial risk that can result in substantial losses. The most significant risks are the risks associated with investments in (i) companies in an early stage of development or with little or no operating history, (ii) companies operating at a loss or with substantial fluctuations in operating results from period to period and (iii) companies with the need for substantial additional capital to support or to achieve a competitive position.

Tax-Inefficient Structuring of Certain Underlying Investments. In managing the investments of the HSCM Fund, the General Partner cannot enter into separate transactions with respect to the HSCM Fund and the Offshore Feeder HSCM Fund, respectively. Any particular investment in a HSCM Fund may be less tax efficient for certain Limited Partners than it would have been if those Limited Partners had invested directly in the relevant HSCM Fund through a vehicle organized for investors of the same type as those Limited Partners. For example, if the HSCM Fund purchases an interest in a HSCM Fund from a non-U.S. person,

certain underlying investments that generate effectively connected income may have been structured through "blocker" corporations, which are subject to U.S. corporate income and, possibly, branch profits tax, and may therefore be inefficient, from a tax perspective, for U.S. Limited Partners in the HSCM Fund. If the HSCM Fund purchased an investment in the same HSCM Fund from a U.S. person, U.S. taxable Limited Partners would benefit from the absence of "blocker" corporations, but the investment would generally not be tax efficient for the Offshore Feeder HSCM Fund. Moreover, the HSCM Fund will not be able to influence the activities of the HSCM Funds or the structuring of investments made by the HSCM Funds.

FATCA Withholding. Under Sections 1471 through 1474 of the Code and applicable Treasury regulations ("FATCA"), the Offshore Feeder HSCM Fund will be a "foreign financial institution," and it is expected that any Underlying Vehicle that is organized outside the United States (a "Non-U.S. Underlying Vehicle" and, together with the Offshore Feeder HSCM Fund, each a "Foreign Fund Entity") will also be a "foreign financial institution." As a result, a 30% U.S. withholding tax generally will be imposed on "withholdable payments" and, after a date that will be no earlier than December 31, 2018, "foreign pass thru payments" treated as made to the Foreign Fund Entity unless the Foreign Fund Entity can certify to the relevant withholding agent that it qualifies for an exemption from, or reduction of, this tax. For this purpose, (i) "withholdable payments" are generally defined as payments of U.S.-source "fixed or determinable annual or periodical" ("FDAP") income (including portfolio interest and other FDAP income that would not otherwise be subject to U.S. withholding tax) and, after December 31, 2018, payments of gross proceeds from the disposition of property that can produce U.S.-source dividends or interest, and (ii) the definition of "foreign pass thru payments" is still reserved under current Treasury regulations; however, the term generally refers to payments made by certain FATCA-compliant foreign entities that are not themselves "withholdable payments," but are attributable to "withholdable payments." The Offshore Feeder HSCM Fund intends to comply with the requirements necessary to qualify for an exemption from the FATCA tax, but it is possible that it will not be able to satisfy the applicable requirements at all times. There is also no assurance that every Non-U.S. Underlying Vehicle entity will satisfy the applicable requirements.

Under FATCA, the HSCM Fund will generally be required to withhold a 30% tax from payments of U.S.-source FDAP income and, after December 31, 2018, from other "withholdable payments" that it is treated as making to any Non-U.S. investor that is an entity unless such Non-U.S. Investor provides certain certifications and other information to the HSCM Fund. In addition, after a date that will be no earlier than December 31, 2018, the Offshore Feeder HSCM Fund will be required to withhold a 30% tax from any "foreign pass thru payment," in that it makes to a Non-U.S. Investor that is an entity unless such Non-U.S. Investor has provided such certifications and other information.

Legal, Tax and Regulatory Risks. Legal, tax and regulatory changes could occur during the term of the Partnership that may adversely affect the Partnership. For example, from time to time the market for private equity transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. The regulatory environment for private investment funds is evolving, and changes in the regulation of private investment funds may adversely affect the value of investments held by the Partnership and the ability of the Partnership to effectively employ its investment strategies. Increased scrutiny and legislative changes applicable to private investment funds and their sponsors may also impose significant administrative burdens on the Investment Advisor and may divert time and attention from portfolio management activities. In addition, and in particular in light of the changing global regulatory climate, the Partnership may be required to register under certain foreign laws and regulations and need to engage distributors or other agents in certain jurisdictions in order to market Interests to potential investors. The effect of any future regulatory change on the Partnership could be substantial and adverse. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and

exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action.

Adverse Legal Action; Litigation. HSCM's business is subject to complex regulations. The regulatory bodies with jurisdiction over HSCM generally have the authority to conduct investigations and administrative proceedings, and to grant or cancel HSCM's authority to carry on its business. HSCM may also be subject to litigation arising from investor dissatisfaction with the performance or operations of the HSCM Funds. Such lawsuits, investigations or inquiries have the potential to be protracted, distracting to management, and/or may result in significant fines, disgorgement of profits, or penalties that could be damaging to HSCM's reputation and business. Moreover, mere allegations of improper conduct, whether the ultimate outcome is favorable or unfavorable, or negative publicity or press speculation about an investigation or proceeding, whether or not valid, could harm HSCM's reputation.

Insider Activity and Non-Public Information. From time to time, the partners, principals, employees and officers of HSCM and its affiliates may act as members of boards of directors, advisory boards or creditor committees of issuers. Serving on the board of directors, advisory board or on a creditor committee could cause HSCM to be deemed an "insider" of such issuer or might otherwise result in HSCM receiving material non-public information. HSCM or an affiliate may also obtain material non-public information in the course of managing an HSCM Fund's or other Client's accounts. In such circumstances, an HSCM Fund may be restricted from making certain investments or trading positions in the HSCM Fund's portfolio, which may have an adverse effect on the HSCM Fund's portfolio. As an HSCM Fund will indemnify HSCM for such activities, indemnification payments could adversely affect the return on an HSCM Fund's investment in such issuer and to the HSCM Fund's portfolio as a whole. In addition, HSCM may agree to sign a confidentiality agreement with respect to a particular issuer and may, as a result of signing such agreement, receive material non-public information, which would restrict an HSCM Fund's ability to trade in such issuer's securities. Alternatively, HSCM may decline to receive material non-public information in order to avoid trading restrictions for the Client accounts even though access to such information might have been advantageous to the HSCM Fund. Members of Investment Committee or the board of directors of HSCM who have access to material non-public or confidential information about HSCM's positions may have other relationships within the insurance or reinsurance industry, such as having investment interests in, holding directorships or serving as executives of, or otherwise being involved with other market participants.

Reliance on the Manager, Key Employees and its Board of Advisors - The success of an HSCM Fund depends upon the ability of the Manager to develop and implement investment strategies that achieve the HSCM Fund's investment objective. No assurance can be given that the Manager will be able to do so. Investors will have no right or power to participate in the day-to-day management or control of the HSCM Fund and will not have an opportunity to evaluate the specific investments made by the HSCM Fund.

The ability of the Manager to develop and implement investment strategies that achieve the HSCM Fund's investment objective depends in substantial part upon the skill and experience of the key personnel of the Manager, and in particular the skill and experience of the principal portfolio manager and other key members of the Investment Committee. Key members of the Investment Committee include individuals who are designated as members of the Board of Advisors. The Board of Advisors of the Manager will be composed of senior industry experts who will be identified and appointed by the Manager whose purpose is to bring their years of expertise and experiences in evaluating portfolio opportunities for the HSCM Investment Strategies for which they serve on the Investment Committee for. If such persons were unable to participate in the management of the Manager, the HSCM Fund or serve as a Board of Advisor, the HSCM Fund's profitability could suffer. If the Manager were to lose the services of such persons or any of its other key personnel, the performance of the HSCM Fund could be materially and adversely affected

and could lead to a premature termination of the HSCM Fund.

The availability of the Manager's Bermuda-based management team is essential to the Manager's ability to perform its services on behalf of the HSCM Fund. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident's certificates or working resident's certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident's certificate or working resident's certificate is available who meets the minimum standards for the position. Certain of the Manager's employees based in Bermuda may be non-Bermudian. As a consequence, applications may need to be made to the Bermudian authorities for work permits. The Manager has no reason to believe that any required permits will not be granted, but no assurances can be given in this regard. If work permits are not obtained or renewed for the Manager's non-Bermudian employees, the Manager could lose their services, which could materially affect the performance of the HSCM Fund.

Deployment of Capital. In light of the Partnership's investment strategy and the need to be able to deploy capital quickly to capitalize on potential investment opportunities, the Partnership may from time to time maintain cash at the fund level pending deployment into investments, which may at times be significant. Such cash may be held in an account of the Partnership for the benefit of the Limited Partners or may be invested in money market accounts or other similar temporary investments. While the expected duration of such holding period is expected to be relatively short, in the event the Partnership were unable to find suitable investments such cash may be maintained at the fund level for longer periods. It is not anticipated that the temporary investment of such cash into money market accounts or other similar temporary investments pending deployment into investments will generate significant interest, and investors should understand that such low interest payments on the temporarily invested cash may adversely affect overall fund returns.

Pay-to-Play Laws, Regulations and Policies. In light of controversies and highly publicized incidents involving money managers, a number of states and municipal pension plans have adopted so-called "pay-to-play" laws, regulations or policies which prohibit, restrict or require disclosure of payments to (and/or certain contacts with) state officials by individuals and entities seeking to do business with state entities, including investments by public retirement funds. The SEC adopted rules that, among other things, prohibit an investment adviser from providing advisory services for compensation with respect to a government plan investor for two years after the adviser or certain of its executives or employees make a contribution to certain elected officials or candidates. If the Manager, the General Partner or their respective employees or affiliates fail to comply with such pay-to-play laws, regulations or policies, such non-compliance could have an adverse effect on the HSCM Fund by, for example, providing the basis for the withdrawal of the affected government plan investor.

No Assurance of Investment Return. HSCM GP LLC (the "General Partner"), Hudson Structured Capital Management Ltd. (the "Investment Advisor") and / or any of their affiliates cannot provide assurance that they will be able to choose, make and realize the Investment. There can be no assurance that the Partnership will be able to generate returns for its Partners or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. There can be no assurance that any Partner will receive any distribution from the Partnership. The Investment involves the risk of loss of capital. Accordingly, an investment in the Partnership should only be considered by persons who can afford a loss of their entire investment. Past performance of investment entities associated with HSCM and / or entities associated with the Partnership's investment professionals is not necessarily indicative of future results or performance and provides no assurance of future results or performance.



Platform Investments. The Partnership may also co-invest with third parties (or affiliated managers or other persons) with respect to specified investments or categories of investments through partnerships, joint ventures, investment platforms, or other similar arrangements (“Platform Arrangements”), thereby acquiring jointly-controlled or noncontrolling interests in certain investments in conjunction with participation by one or more third parties in such investment. Such Platform Arrangements may be in or alongside existing or newly formed operators, consultants and/or managers that pursue such opportunities and may include capital and/or assets contributed by third party investors or such platform managers. Platform Arrangements may provide one or more of the following services: origination or sourcing of potential investment opportunities, due diligence and negotiation of potential investment opportunities and/or servicing, development and management (including turnaround) and disposition of investments. Although the Partnership may not have full control over these investments and therefore may have a limited ability to protect its position therein, the General Partner expects that appropriate rights will be negotiated to protect the Partnership’s interests. Nevertheless, such Investments may involve risks not present in investments where another participant is not involved, including the possibility that such other participant, third-party partner or co-venturer may have financial difficulties, resulting in a negative impact on such Investment, may have economic or business interests or goals which are inconsistent with those of the Partnership, or may be in a position to take (or block) action in a manner contrary to the Partnership’s investment objectives or the increased possibility of default by, diminished liquidity or insolvency of, the third party, due to a sustained or general economic downturn. In addition, the Partnership may in certain circumstances be liable for the actions of its third-party partners, co-venturers or co-investors (including Other HSCM Funds). In certain circumstances involving a third-party management group, such third parties may receive compensation arrangements relating to such Platform Arrangements, including incentive compensation arrangements. Furthermore, such third-party partners or co-investors to Platform Arrangements may provide services (such as asset management oversight services) similar to, and overlapping with, services provided by the Investment Advisor to the Partnership, the Comparable Funds, Other HSCM Funds or their respective portfolio companies, and, notwithstanding the foregoing, fees attributable to such services will not offset management Fees. In addition, HSCM’s investment strategies in certain investments may depend on its ability to enter into satisfactory relationships with joint venture or operating partners. There can be no assurance that HSCM’s current relationship with any such partner or operator will continue (whether on currently applicable terms or otherwise) with respect to the Partnership or that any relationship with other such persons will be able to be established in the future as desired with respect to any sector or geographic market and on terms favorable to the Partnership.

Risks Associated with In Kind Distributions. Upon termination of the Partnership, certain investments of the Partnership may be distributed in kind if the General Partner determines that liquidation of any such investment might cause substantial diminution of the value of such investment. Widespread holding of investments, particularly of private illiquid securities, may entail a significant administrative burden. In addition, the direct holding of certain investments may subject the holder to suit or taxes in states in which such investments are located. There can be no assurance that the Limited Partners will be able to dispose of any securities or instruments distributed in-kind or that the fair value of such securities or instruments determined by the Partnership for purposes of the determination of distributions and the calculation of the General Partner’s carried interest ultimately will be realized. In addition, if the Partnership receives distributions in-kind from any Investment, it may incur additional costs and risks in connection with the disposition of such assets.

Segregated Investments. The board of directors or the general partner of an HSCM Fund, as applicable, in consultation with HSCM may from time to time designate certain illiquid investments or investments the value of which is uncertain, as investments in which only investors at the time of such designation will participate. In those cases, the board or general partner may designate such investments as “Segregated Investments.” Such designation will typically be made if a covered or other pre-determined event has occurred or seems likely to occur with respect to an insurance-linked investment, because determining the

level of losses when a covered event has occurred is often a highly uncertain and a protracted process. An HSCM Fund may not be able to readily dispose of Segregated Investments and, in some cases, may be contractually prohibited from disposing of such Segregated Investments for a specified period of time.

Potential Public Health Crisis. A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent outbreak of Coronavirus (or Covid-19) in China, the United States and other countries, could have an adverse impact on global, national and local economies, which in turn could negatively impact HSCM Funds. Disruptions to commercial activity relating to the imposition of quarantines or travel restrictions (or more generally, a failure of containment efforts) may adversely impact HSCM Fund's investments, including by delaying or causing supply chain disruptions or by causing staffing shortages. In addition, the imposition of travel restrictions may impact the ability of HSCM personnel to travel in connection with potential or existing investments of HSCM Funds or to HSCM's offices, which could negatively impact the ability of HSCM to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of Coronavirus has contributed to, and may continue to contribute to, volatility in financial markets, including changes in interest rates. A continued outbreak may reduce the availability of debt financing to HSCM Funds and potential purchasers of HSCM Fund's investments, which could have material and adverse impact on HSCM Fund's returns. The impact of a public health crisis such as the Coronavirus (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to HSCM Fund's performance.

Special Purpose Acquisition Companies. Special purpose acquisition companies ("SPACs") are in essence blank check companies without an operating history or ongoing business other than seeking acquisitions. Accordingly, a SPAC's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by newly formed businesses, including uncertain markets and economic conditions and greater susceptibility to adverse impacts of fluctuating market conditions. There can be no assurance that any SPAC in which an HSCM Fund invests will be successful in addressing such risks, or that the SPAC's plans either will materialize or prove successful. The value of a SPAC's securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. There is a risk that SPAC managers are unqualified or ineffectual, a risk made more prominent by lack of any operating history or past performance of the SPAC. There is also a risk that no acquisition will occur and the SPAC will be liquidated. If this occurs, an HSCM Fund may lose a portion of its initial investment depending upon the percentage of funds that were held in escrow. Even in the event that an initial acquisition is successful, the subsequent value of the SPAC's equity will be dependent on the SPAC's future performance, condition (financial or otherwise), results of operations, available earnings and cash flow, prospects, and various business, financial, industry, economic and other considerations, including economic downturns, some of which may or may not be within its control.

At the time of an HSCM Fund's investment in a SPAC, the SPAC will not have identified a prospective target business and thus will be unable to ascertain the capital requirements for any particular transaction. If the net proceeds of the SPAC's initial public offering and any other of the SPAC's fundraising efforts prove to be insufficient, either because of the size of its proposed initial acquisition or the depletion of the available net proceeds in search of a target business, it may be required to seek additional financing or to abandon its efforts to consummate an acquisition. There can be no assurance that such financing will be available on acceptable terms, if at all. To the extent that additional financing proves to be unavailable when needed to complete its initial acquisition, the SPAC would be compelled to either restructure the transaction or abandon that particular acquisition and seek an alternative target business candidate. In addition, even if the SPAC does not need additional financing to complete its initial acquisition, it may require such financing to fund the operations or growth of the target business. The failure to secure additional financing could have a material adverse effect on the continued development or growth of the target business. While a SPAC's equity securities list and trade on an exchange, such securities may be

considered illiquid, at least through the SPAC's initial acquisition, and, with respect to the sponsor of the SPAC, are subject to restrictions on resale.

**Warehousing.** An HSCM Fund may acquire an investment and subsequently sell some or all of it to other HSCM Clients, co-investment vehicles, joint venture partners, or other clients, subject to the limitations in the applicable offering documents. HSCM may cause these transfers to be made at cost, or cost plus an interest rate or carrying cost charged from the time of acquisition to the time of transfer, notwithstanding that the fair market value of any such investments may have declined below or increased above cost from the date of acquisition to the time of such transfer. HSCM may also determine another methodology for pricing these transfers, including fair market value at the time of transfer. Also, HSCM will, in certain circumstances, charge fees on these transfers to either or both of the parties to them. Conflicts of interest are expected to arise in connection with these transactions, including with respect to timing, structuring, pricing and other terms.

**Warehoused Investments.** From time to time, a third-party entity, including, but not limited to, an associated entity of a Strategic investor, may acquire and hold one or more portfolio investments for a period of time on behalf of a HSCM Fund or other HSCM Clients. The third party entity will receive certain fees, including fees paid to counterparties, in connection with any such investments. Subject to the governing agreements of applicable HSCM Fund, the third-party entity will warehouse such portfolio investments for the HSCM Fund or other HSCM Clients for certain fees. In addition, the HSCM Fund or other HSCM Clients will generally pay an additional amount on the acquisition cost of any warehoused investment equal to a certain percentage per annum from the date of closing of such warehoused investment until the date of transfer of such warehoused investment to the HSCM Fund or other HSCM Clients.

**New or Potential Investment Strategies.** From time to time, HSCM may hold assets used in the development of HSCM's business, including for the purpose of developing, evaluating and testing potential investment strategies or products in an investment vehicle to create a new strategy. The participation by HSCM partners, employees and related parties, other advisors and relationships of HSCM, including strategic investors, will be permitted to make investments in the investment vehicle. HSCM partners, employees and related parties, may be responsible for the portfolio management of the investment vehicle or portfolio operations and other similar operational initiatives. HSCM generally receives no management fees nor performance compensation in connection with such investments.

## **Risks Pertaining to the HSCM Re/Insurance Funds and Accounts**

The HSCM Funds and any managed accounts that invest in insurance-linked securities and related instruments ("HSCM Re/Insurance Funds") will have exposure to the particular risks associated with such investments. These risks may include some or all of the following:

**Risks Associated with Insurance-Based Instruments Generally.** The HSCM Re/Insurance Funds will pursue their investment objectives by investing primarily in a diversified portfolio of insurance-based securities and other insurance-based instruments. Insurance-based instruments may incur losses including severe losses as a result of the occurrence of insured events such as natural, man-made, or other catastrophes. Catastrophes can be caused by various events, including, but not limited to, hurricanes, earthquakes, typhoons, hailstorms, floods, tsunamis, tornados, windstorms, extreme temperatures, aviation, marine and other accidents, fires, explosions, terrorism, cyber events and changes in tort awards. The incidence and severity of such catastrophes are inherently unpredictable, and the HSCM Re/Insurance Funds' losses on one or more insurance-based instruments due to such events or catastrophes could be material. A single catastrophic event could affect multiple geographic zones and lines of business or the frequency or severity of catastrophic events could exceed expectations, either of which could have a material adverse effect on the performance of the funds. Shareholders in the HSCM Re/Insurance Funds



may lose all or a substantial amount of their investment if an insured event occurs that affects the contracts underlying one or more insurance-based instruments.

Natural Catastrophe Related Risks, Risks Associated with Property Catastrophe Insurance-Based Instruments Generally. The property catastrophe reinsurance business has historically been a cyclical industry, with significant fluctuations in operating results due to competition, catastrophic events, levels of reinsurance capacity, general economic, financial and social condition, legislative initiatives and other factors. This cyclicity has produced periods characterized by intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. In addition, increases in the frequency and severity of losses suffered by reinsurers can significantly affect these cycles. It is difficult to predict the timing of such events with certainty or to estimate the amount of loss that any given event will generate. The HSCM Re/Insurance Funds can be expected to be exposed to the effects of such cyclicity.

Risks Associated with Catastrophe Bonds and Certain Collateralized Reinsurance Arrangements.

- Limited Resources of Issuers. The issuers of catastrophe bonds, or cat bonds, often are thinly capitalized, special purpose entities that do not have ready access to additional capital. In the event of unanticipated expenses or liabilities, such entities may not have the resources available to pay such expenses or liabilities or the required interest and/or principal on their issued securities.
- Investments of Issuers. The ability of issuers of cat bonds to provide the expected investment returns on their issued securities is based in part on such entities' investments, which may be subject to credit default risk, interest rate risk and other risks.
- Regulation. Entities that issue cat bonds may be subject to substantial regulation of their insurance and other activities. Such applicable regulation can lead to unanticipated expenses that may result in such an entity being unable to satisfy its obligations, including those related to its issued securities. Conversely, because such entities often are domiciled in non-U.S. jurisdictions, such entities may not be subject to the same degree of regulatory oversight to which investors may be accustomed to seeing issuers and insurance companies subject in the United States. Similarly, because such entities often are subject only to the laws of non-U.S. jurisdictions, it could be difficult for an investor in such an entity to make a claim or enforce a judgment against the entity or its directors or officers.
- Subordination; No Recourse. Cat bonds often are subordinated to other obligations of the issuer, such as those obligations to a ceding insurer. Consequently, if such an entity incurs unexpected expenses or liabilities in connection with its activities, the entity may be unable to pay the required interest and/or principal on its issued securities. In particular, cat bonds are issued without recourse. As a result, if an issuer of a cat bond defaulted on its obligations under the cat bond, an investor would have no recourse to recover any amount of the principal invested to purchase the cat bond.
- Lower or No Ratings. Cat bonds may receive low ratings or be unrated by rating agencies. Consequently, such securities may be relatively illiquid and subject to adverse publicity and investor perceptions, any of which may act to depress prices.

Life-Related Risks. The HSCM Re/Insurance Funds may invest in insurance-based instruments with exposure to life insurance policies or other life-related risks. The risks associated with such instruments include, but are not limited to (i) mortality risk, which is the risk that the level of death claims may differ from that which was assumed in the pricing of reinsurance contracts; (ii) morbidity risk, which is the risk that an insured person will become critically ill or disabled; (iii) lapse risk, which is the risk of a fluctuation in the rate that policies are terminated prior to their maturity date; (iv) revision risk, which is the risk of

adverse variation of an annuity's amount due to revisions of the claims process; and (v) life catastrophe risk, which includes the risk of catastrophic events resulting in widespread loss of life, including natural catastrophes such as earthquakes, hurricanes, floods, tsunamis and volcanic eruptions, pandemics, and acts of war, terrorism or other natural, man-made, or other catastrophic events. HSCM will endeavor to ascertain the quality of the business and appropriate pricing for the risks HSCM Re/Insurance Funds are exposed to. Among other things, these processes rely heavily on underwriting, analysis of mortality and morbidity trends, lapse rates, expenses and an understanding of medical impairments and their effect on mortality or morbidity.

Mortality, morbidity and lapse experience is expected to fluctuate somewhat from period to period but should remain reasonably predictable over a period of many years. Mortality, morbidity or lapse experience that is less favorable than the mortality, morbidity or lapse rates that were used in pricing insurance-based instruments will negatively affect performance because the premiums received for the risks assumed may not be sufficient to cover the claims and profit margin. Furthermore, even if the total benefits paid over the life of the contract or instrument do not exceed the expected amount, unexpected increases in the incidence of death or illness can cause the relevant (re)insurer to pay more benefits in a given reporting period than expected.

Modeling Risk. Projections utilized by HSCM in connection with the construction of the HSCM Re/Insurance Funds' portfolios of risk are based in part on information taken from third parties and from financial, actuarial and stochastic models, and on certain significant assumptions. Many of the assumptions, inputs or data used in these models may be based on estimates that have not been verified or audited and which may be unreliable. Many reinsurance risks are inherently unpredictable, and the output of the models is dependent upon the quality and accuracy of the data and assumptions used. Both the underlying factors driving risks and the theory to account for risks change over time, and models must be expected to change as well. There is a risk that such factors do change and that a model does not. In addition, the underlying contracts may be exposed to risks that are not captured or are not captured effectively by the models. Failures or inadequacies in modeling could lead to results differing materially from the projections.

Projections are subject to considerable uncertainty, particularly during periods of softening pricing and expanding coverage terms. There is often a divergence of views among market participants concerning the outlook for markets within the insurance and reinsurance industry, and the assumptions in the financial and stochastic models may differ in material respects from those of other industry participants or commentators.

Estimates of future losses incurred in relation to insurance contracts are generally based on reviews of historical data, experience and judgment. These estimates are based on long-term trends of insurance losses and, in some cases, estimates of appropriate prudence margins. These estimates may fail to take account of short- or long-term cyclical or other trends, or of potential correlations between loss events affecting different lines of business. Due to, among other things, a lack of information and uncertainty or error in extrapolating from reported information, models and estimates of losses from catastrophes or other insured events may be materially different from actual losses. In the event that future losses occur that are not in line with estimates, this could result in outcomes differing materially from the projections.

No representation or warranty regarding the accuracy or completeness of any information received from third parties and used in loss modeling can be made. The results of such modeling and estimates are not to be viewed as facts or forecasts of future occurrences of catastrophes or other insured events and should not be relied upon as a representation of the future value of an investment in the HSCM Re/Insurance Funds.

Casualty Risk. The HSCM Re/Insurance Funds may have exposure to casualty insurance risks. These include risks based on the frequency and severity of claims and the related legal liability and indemnification payment amounts. These legal liability and indemnification payments can be affected by

several factors. The most significant factors are the changing legal and regulatory environment, including changes in civil liability law and jurisprudence. Additionally, due to the length of amicable, arbitral and court claims or settlement procedures, the casualty business is exposed to inflation risks regarding the assessment of claim amounts.

Workers' Compensation Risk. The HSCM Re/Insurance Funds may have exposure to workers' compensation insurance risk. Workers' compensation insurance is purchased by employers to provide protection for employees' lost wages and medical benefits in the event of work-related injury, disability, or death. The frequency and severity of claims, and the adequacy of reserves for workers' compensation claims and expenses can all be significantly influenced by such risk factors as future wage inflation in states that index benefits, the speed with which injured employees are able to return to work in some capacity, the cost and rate of inflation in medical treatments, the types of medical procedures and treatments, the cost of prescription medications, the frequency with which closed claims reopen for additional or related medical issues, the mortality of injured workers with lifetime benefits and medical treatments, the use of health insurance to cover some of the expenses, the assumption of some of the expenses by states' second injury funds, the use of cost containment practices like preferred provider networks, and the opportunities to recover against third parties through subrogation.

Longevity Risk. The HSCM Re/Insurance Funds may have exposure to longevity risk. Longevity risk is defined as the potential for increased actual and future expected annuity payments resulting from annuitants living longer than expected, or the expectation that annuitants will live longer in the future. Longevity risk accumulates across cedents, geographies, and over time because mortality trends can impact diverse populations in the same manner. Longevity risk can manifest slowly over time as experience proves annuitants are living longer than original expectations, or abruptly as in the case of a "miracle drug" that increases the life expectancy of all annuitants simultaneously.

Marine Risk. The HSCM Re/Insurance Funds may have exposure to marine and related property risks. Typical property covered by marine and other major property contracts includes, among others, fixed and moveable assets such as ships and other vessels, cargo in transit, energy platforms and installations, pipelines, other subsea assets, satellites, commercial buildings and industrial plants and machinery. These assets are typically exposed to a blend of catastrophic and other large loss events and attritional claims arising from conventional hazards such as collision, flooding, fire and theft. Climatic changes may give rise to more frequent and severe extreme weather events (for example, earthquakes, windstorms and river flooding, etc.) and their frequency may increase over time. Marine and major property contracts are normally underwritten by reference to the commercial replacement value of the property covered. The cost of repairing or rebuilding assets, or replacement or indemnity for contents and time taken to restart or resume operations to original levels for business interruption losses are the key factors that influence the level of claims under these policies.

Pandemic Risk. The HSCM Re/Insurance Funds may have exposure to pandemic risk. Pandemic risk is the risk of an increase in mortality over an annual period associated with a rapidly spreading virus (either within a highly populated geographic area or on a global basis) with a high mortality rate. While mortality risk is highly diversifying in relation to other risks in the funds' portfolio, mortality risk itself is a systemic risk when the risk driver is a pandemic with little opportunity to diversify within the risk class. Mortality risk from pandemics can accumulate across cedents and geographies.

Global Climate Change. Climate change, solar flares, eruption of volcanoes, El Niño, La Niña and other events to the extent any one of these produces changes in weather patterns may increase the frequency and/or severity of weather events and natural catastrophes. For example, due to changing climate conditions, there may be an increase in the frequency and intensity of storms, tornadoes and hurricanes as

well as wildfires and flooding in various geographic areas. Due to significant variability associated with future changing climate conditions, HSCM is unable to predict climate change and the impact it will have on the HSCM Funds' performance. HSCM does consider factors like warming sea surface temperatures and increased likelihood of wildfires each year when modeling any relevant property catastrophe risk considered for the portfolio, and stays abreast of science and observable frequency and severity of trends and reflects this in its pricing and structuring of transactions.

Political & Terror. There is a risk of terrorist attacks throughout the world, potentially causing significant loss of life and property damage and disruptions in global markets. Events such as acts of terrorism, acts of war, nuclear accidents and other incidents related to political instability and social upheaval are often unforeseen. These incidents are inherently unpredictable, both in relation to frequency and to severity of losses. It is difficult to predict the timing of such events with statistical certainty. Some reinsurance business assumed by a reinsurer in which the HSCM Re/Insurance Funds invest or other investments made by the HSCM Re/Insurance Funds may include exposure to such terrorist actions, acts of war or other incidents of political upheaval, and may require a reinsurer to pay claims arising from such events. Economic and diplomatic sanctions may be in place or imposed on certain states, and military action may be commenced. The impact of such events is unclear but could have material adverse effects on general economic conditions and market liquidity. Some investments made by the HSCM Re/Insurance Funds may include exposure to such terrorist action and may expose the funds to losses arising from such events. Terrorist action is inherently unpredictable, both in relation to frequency and to severity of losses. It is difficult to predict the timing of terrorist actions with statistical certainty or to estimate the amount of loss that any action may generate.

Securitizations. Under certain circumstances, HSCM may seek to securitize (or re-securitize) certain of the HSCM Re/Insurance Funds' investments. It is unclear to what extent a satisfactory market might exist for securitized or re-securitized insurance-linked assets if and when HSCM wishes to execute this strategy. Furthermore, the issuance of any such securities would involve significant risks to the funds, risks which in many cases would not be present but for the Fund's decision to issue such securities. In many cases, the HSCM Re/Insurance Funds may be required to indemnify certain parties and provide other types of recourse to the funds in order to issue the securities. Also, in connection with any issuance, the HSCM Re/Insurance Funds will be taking on securities law liabilities relating to the securities it issues. There can be no assurance that a market for any such securities will develop or, if it does, that it will meet the needs of the funds to monetize or leverage its position in the securitized assets.

Illiquidity of Investments. Investments in insurance-based instruments can be difficult to sell quickly, which may affect the value of the HSCM Re/Insurance Funds and its ability to distribute proceeds in a timely manner following the expiration of the HSCM Re/Insurance Funds' term. The secondary market for insurance-based instruments may experience limited liquidity. In situations where a large catastrophe has occurred or appears likely to occur, liquidity for potentially affected insurance-based instruments may be diminished or completely eliminated. Furthermore, if one or more catastrophic or other events result or could result in losses under a reinsurance contract or other collateralized instruments in which the HSCM Re/Insurance Funds invest, all or a significant portion of the collateral associated with such investment may be held for a significant period as a reserve against loss developments or could be lost.

HSCM manages each HSCM Re/Insurance Fund's liquidity through the Fund's closed-end structure, and with a view toward the Fund's requirements for paying expenses. Liquidity is generally provided by additional capital calls and the proceeds of investments. As the HSCM Re/Insurance Funds may invest in illiquid assets, shareholders in the Funds will generally be required to bear the risk of a proportion of their investment for such period of time as it takes to realize such illiquid assets.

Valuation Risk. The unpredictable nature of catastrophes and other insured events makes it difficult to

determine whether a particular insurance-based instrument is fairly priced in the ordinary course of trading to the extent that any such trading takes place. Valuation may also be affected by a number of factors, such as whether a loss event is likely to occur or has occurred or whether, in the case of property catastrophe re/insurance, a catastrophe season has passed. The valuation models used in the insurance-based instrument markets attempt to simulate fundamentally unpredictable events and there could be periods of time when trading ceases or is interrupted as result of such market's inability to value the instruments.

The lack of an actively traded market also creates a potential uncertainty of valuation issues. A number of brokers provide regular indicative pricing for certain insurance-based securities such as cat bonds. However, the ultimate value of the securities may vary. With privately negotiated or illiquid transactions, there will be no such price at all. The model-based valuation of those other instruments is derived from individual models for which the accuracy, assumptions and inputs used may lead to considerable valuation uncertainties.

### **Risks Pertaining to the HSCM InsurTech Funds and Accounts**

The HSCM Funds and any managed accounts that invest in early-stage insurance and re-insurance companies with a focus on leveraging technology and companies providing technology or web-based solutions to companies operating in the insurance and related industries ("HSCM InsurTech Funds") will have exposure to the particular risks associated with such assets. These risks may include some or all of the following:

Risks Associated with Investing in the Insurance and Reinsurance Industries. The HSCM InsurTech Funds intend to invest in Portfolio Companies in the insurance and reinsurance and related industries, and may also invest in collateralized re/insurance, retrocession and quota share arrangements directly as part of its investment strategy ("Insurance-Related Investments"). The HSCM InsurTech Funds have the potential to invest in all of the primary sectors of insurance – Property/Natural Catastrophe, Property/Other, Life & Health, Casualty & Combined and Financial Lines. Insurance-Related Investments may be subject to losses, including severe losses, as a result of the occurrence of insured events. The incidence and severity of such losses are inherently unpredictable, and the HSCM InsurTech Funds' losses could be material. Investments in portfolio companies in the insurance and reinsurance industry and in Insurance-Related Investments are subject to particular risks, including without limitation the following:

- Underwriting Practices and Decisions of Cedants. The success of any insurance company in which the HSCM InsurTech Funds invest will depend in part on the success of its underwriting decisions. Underwriting is inherently a matter of judgment, involving important assumptions about matters that are inherently unpredictable and beyond the control of the insurer and for which historical experience and probability analysis may not provide sufficient indication of future performance. Claims may substantially exceed the insurer's expectations, which could have a material adverse effect on the insurer.

The reinsurers in which the HSCM InsurTech Funds invest will be dependent on the original underwriting decisions, including decisions with respect to exclusions from the ceded policies, made by the cedants. Thus, the HSCM InsurTech Funds are subject to the risks that a cedant may not have adequately evaluated the risks to be underwritten and that the premiums a reinsurer receives may not adequately compensate the reinsurer for the risks it assumes. The HSCM InsurTech Funds are also subject to the risk that the information on which the cedant bases its underwriting decisions is inaccurate.

- Unanticipated Increases in the Severity or Frequency of Claims. The HSCM InsurTech Funds' portfolio investments may be exposed to changes in the severity or frequency of insurance claims



following a specific event or general market, demographic, health or other trend. For example, changes in homeowners claim severity can be driven by inflation in the construction industry, in building materials and in home furnishings and by other economic, legal and environmental factors, including increased demand for services and supplies in areas affected by catastrophes, market conditions and prevailing attitudes toward insurers and the claims process. Similarly, other types of insurance may experience changes due to any number of factors beyond the Manager's control, which could result in losses to the HSCM InsurTech Funds.

- Cyclicality. Certain sectors targeted by the HSCM InsurTech Funds are highly cyclical and subject to significant fluctuation due to competition, the high level of government regulation, general economic conditions, the level of interest rates, the state of the public equity markets and other factors. The returns on the HSCM InsurTech Funds' investments may therefore be lower in certain periods. In particular, the financial performance of the property & casualty insurance industry has tended to fluctuate in cyclical patterns of soft markets followed by hard markets. Although an individual insurance company's financial performance depends in part upon its own specific business characteristics, the profitability of most property & casualty insurance and reinsurance companies tends to follow this cyclical market pattern. The effects of this cyclicality could have an adverse impact on the business of property & casualty insurers and reinsurers in which the HSCM InsurTech Funds invest.
- Regulation of Insurance Industry. Insurance is a heavily regulated industry, although the nature and extent of regulation and supervision varies from jurisdiction to jurisdiction. U.S. state insurance laws impose numerous requirements, conditions, and limitations on the operations of insurance companies. Insurance departments have broad regulatory powers relating to those operations. The National Association of Insurance Commissioners (NAIC) may also influence the standards adopted by U.S. insurance regulators. Other jurisdictions have their own regulatory framework. Regulation of the insurance industry experiences constant change due to a number of factors, such as changes in investment laws made to recognize new investment products or to respond to perceived investment risks, concerns about consumer privacy, insurance availability, prices, allegations of discriminatory pricing, underwriting practices, and solvency. Potential legislation and regulatory changes dealing with use of non-public consumer information, cybersecurity, use of credit information in underwriting and rating, insurance rate development, rate of return limitations, and the ability of insurers to cancel or non-renew insurance policies, among others, may adversely affect one or more portfolio companies in which the HSCM InsurTech Funds invest.
- Reserves. The success of a portfolio company and/or the HSCM InsurTech Funds may depend, in part, upon their ability to establish loss reserves based on an accurate estimate of insurance losses. Reserves are only estimates at a given time of what the relevant portfolio company ultimately expects to pay as claims-related liabilities, based on facts and circumstances then known, predictions of future events, estimates of future trends in claim severity and other variable factors such as inflation. The estimation of unpaid claim liabilities, including any related actuarial analysis, is subject to a high degree of uncertainty for a number of reasons. Such estimates are inherently a matter of judgment, involving various important assumptions about matters that are inherently unpredictable. In addition, the inherent uncertainties of estimating reserves generally are greater for reinsurers as compared to insurers. Any inadequacy in reserves or decline in value of assets held in reserve could have a material adverse effect on the HSCM InsurTech Funds or its portfolio companies.
- Competition in the Insurance Industry. The insurance industry is highly competitive. Portfolio companies may face vigorous competition from stock companies, specialty insurance organizations, mutual insurance companies and other underwriting organizations, start-up insurance companies and other insurers. Other companies, potentially including existing insurance companies, other well-

financed companies seeking new opportunities, or new competitors with technological or other innovations, also may enter these markets in the future. Competitors may have substantial resources, experienced management, and strong marketing, underwriting, and pricing capabilities. If competitors offer similar insurance products at lower prices, offer such insurance products bundled with other products or services that such portfolio company does not offer, are permitted to offer their products under different legal and regulatory constraints than those that apply to such portfolio company, or engage in other successful competitive initiatives, such portfolio company's ability to generate new business or to retain a sufficient number of existing customers could be compromised. The highly competitive nature of the insurance marketplace could result in consolidation within the industry, or in the failure of one or more competitors. In addition, increased competition could lead to a softening market and a reduction of the premiums received for the risks being underwritten. Competition for employees in the insurance industry is intense. Due to the intense competition for key employees with demonstrated ability, a portfolio company may be unable to hire or retain such employees. In addition, it may experience higher than expected employee turnover and difficulty attracting new employees, which could lead to losses.

Technology and Software Sector Risk. The HSCM InsurTech Funds may invest in Portfolio Companies in the technology and software industry. The technology and software sector could be adversely affected by overall economic conditions, short product cycles, rapid obsolescence of products, competition, and government regulation. Further, the success of the HSCM InsurTech Funds' Portfolio Companies in this sector may depend on the development and marketing of new technologies that at any time may be rendered unattractive or obsolete by technological advances, new trends and/or communication methods as seen in the emergence of social networking tools and platforms. The HSCM InsurTech Funds' portfolios are expected to include companies that serve a specialized niche market within the insurance or reinsurance industries. Changes in those industries may impact, positively or negatively, the attractiveness of the portfolio company's products. There can be no assurance that any portfolio company will continue or improve its historical or expected levels and direction of growth, revenues or profitability even if general economic conditions improve or if economic conditions in the technology and software sector improve. Further, there is no assurance that products or services sold by the Portfolio Companies will not be rendered obsolete or adversely affected by competing products and services or that the portfolio companies will not be adversely affected by other challenges. Moreover, competition can result in significant downward pressure on pricing.

Platform Risk. The success of the HSCM InsurTech Funds Portfolio Investments may depend on the ability to successfully implement and/or interpret scoring models or other data that take into account information reported to the online platforms on which they may rely. Such information may be incomplete, inaccurate or misleading. Additionally, there is a risk that the information which is relied upon becomes outdated. In addition to third-party sources, insurers may supply information that is included in the insurance marketplace, and it may be inaccurate or incomplete. Portfolio companies may not take steps to independently verify such data, resulting in potential adverse consequences to the HSCM InsurTech Funds.

Portfolio companies in which the HSCM InsurTech Funds invest may rely on online platforms as a principal part of their business model. In the event of a platform outage and physical data loss, a portfolio company's ability to provide services on its platform would be materially and adversely affected. The satisfactory performance, reliability and availability of a portfolio company's technology and its underlying network infrastructure are critical to its operations, customer service, reputation and its ability to attract new and retain existing customers. Platform operations depend on the ability to protect a portfolio company's systems against damage or interruption from natural disasters, power or telecommunications failures, air quality issues, environmental conditions, computer viruses or attempts to harm its systems, criminal acts and similar events. If a portfolio company's arrangement with its providers is terminated or if there is a lapse of service or damage to their facilities, it could experience interruptions in service as well as delays



and additional expense in arranging new facilities.

Any interruptions or delays in service, whether as a result of third-party error, employee error, natural disasters, terrorism, other man-made problems, or security breaches, whether accidental or willful, could harm a portfolio company's relationships with insurers and investors and its reputation. Additionally, in the event of damage or interruption, a portfolio company's insurance policies may not adequately compensate us for any losses that it may incur. A portfolio company may not have sufficient capacity to recover all data and services in the event of an outage. These factors could prevent a portfolio company from processing transactions, damage such portfolio company's brand and reputation, divert employee attention, reduce a portfolio company's revenue, subject us to liability and cause customers to abandon its platform, any of which could adversely affect a portfolio company's business, financial condition and results of operations.

Risk of Fraud on Platforms. The HSCM InsurTech Funds are subject to the risk of fraudulent activity associated with its portfolio companies' insurance marketplace, banks, insurers, investors and third parties handling insurer and investor information. The HSCM InsurTech Funds expect that its portfolio companies will take measures to detect and reduce the risk of fraud, but these measures need to be continually improved and may not be effective against new and continually evolving forms of fraud or in connection with new product offerings. The HSCM InsurTech Funds' portfolio companies may guarantee or remain liable for problems in their platforms, including due to fraud. The level of fraud charge-offs and results of operations could be materially adversely affected if fraudulent activity were to significantly increase. High profile fraudulent activity or significant increases in fraudulent activity could lead to regulatory intervention, negatively impact a portfolio company's operating results, brand and reputation and lead to steps to reduce fraud risk, which could increase costs.

Risk of Early-Stage/Start-up Investments. The HSCM InsurTech Funds are expected to focus investments in new and emerging early-stage investments. While such investments offer the opportunity for significant gains, they also involve a high degree of business and financial risk and can result in substantial losses. Among these risks are the general risks associated with investing in companies at an early stage of development or with little or no operating history, companies operating at a loss or with substantial variations in operating results from period to period, and companies with the need for substantial additional capital to support expansion or to achieve or maintain a competitive position. Such companies may face intense competition, including from companies with greater financial resources, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel. Even more than growth-stage companies, early-stage investments need to implement appropriate sales and marketing, finance, personnel and other operational strategies in order to take the business to the next stage.

Risks of Growth Equity Investments. The HSCM InsurTech Funds may make growth equity investments. While such investments offer the opportunity for significant gains, such investments also involve a high degree of business and financial risk and can result in substantial or total losses. Among these risks are the general risks associated with investing in companies at an early or growth-stage of development or with little or no operating history, companies with substantial variations in operating results from period to period, companies with the need for substantial additional capital to support expansion or to achieve or maintain a competitive position and companies dependent on new or developing technology. A Portfolio Company's success will be dependent not only upon its ability to develop the right products for the right market, but to constantly evolve its business to be sure that its products keep pace with changing technologies and markets. This may require implementation of appropriate sales and marketing, finance, personnel and other operational strategies in order to continue to grow the Portfolio Company's business. Furthermore, companies at an early or growth-stage of development may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel. Technological obsolescence and other technology risks may adversely impact the

performance of HSCM InsurTech Funds' portfolio companies. In all such cases, HSCM InsurTech Funds will be subject to the risks associated with the underlying businesses engaged in by HSCM InsurTech Funds and of their customers.

Derivative Instruments Generally. The HSCM InsurTech Funds may use all types of derivative instruments without limitation other than any applicable limitations imposed by regulations and/or by counterparties and clearing brokers, including options, futures, forward contracts, swaps and other derivatives; provided, that the General Partner intends to limit the HSCM InsurTech Funds' trading of CFTC Regulated Instruments to within the de minimis thresholds provided under CFTC Rule 4.13(a)(3). Such instruments may be volatile and speculative. Depending upon the characteristics of the particular derivative and the portfolio as a whole, the use of derivatives may involve risks different from, or possibly greater than, the risks associated with investing directly in securities or more traditional investments. Certain derivative positions may be subject to wide and sudden fluctuations in market value. Derivatives, especially over-the-counter derivatives engaged as a privately negotiated contract against a principal counterparty, may be subject to adverse valuations reflecting the counterparty's marks (or valuations), which might not correspond to the valuations of other market or exchange-traded instruments. Derivatives used for hedging purposes may not correlate perfectly with the underlying investment sought to be hedged. Derivative instruments may not be liquid in all circumstances, so that in volatile markets the Partnership may not be able to close out a position without incurring a loss. Trading in derivative instruments can result in large amounts of leverage, which may magnify the gains and losses experienced by the HSCM InsurTech Funds and could cause the HSCM InsurTech Funds' net asset value to be subject to wider fluctuations than would otherwise be the case. While derivatives used for hedging purposes can reduce or eliminate losses, such use can also reduce or eliminate gains. When the HSCM InsurTech Funds uses derivatives as an investment vehicle to gain exposure to investments, markets or insurance risks, rather than for hedging purposes, any loss on the derivative investment may not be offset by gains on another hedged investment. Derivatives may also entail investment exposures that are greater than their cost would suggest, meaning that a small investment in derivatives could have a large potential impact on the HSCM InsurTech Fund's performance. The HSCM InsurTech Funds are therefore directly exposed to the risks of the derivatives in which it invests. Derivatives may not be available to the HSCM InsurTech Funds upon acceptable terms. As a result, the HSCM InsurTech Funds may be unable to use derivatives for hedging or other purposes. Also, the market for many derivatives is, or suddenly can become, illiquid, which may result in significant, rapid, and unpredictable changes in the prices for derivatives.

In addition, the trading of over-the-counter derivatives will subject the HSCM InsurTech Funds to a variety of risks including: (i) counterparty risk; (ii) basis risk; (iii) interest rate risk; (iv) settlement risk; (v) legal risk and (vi) operational risk. Counterparty risk is the risk that one of the HSCM InsurTech Funds' counterparties might default on its obligation to pay or perform generally on its obligations. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the HSCM InsurTech Funds has concentrated its transactions with a single or small group of counterparties. Basis risk is the risk attributable to the movements in the spread between the derivative contract price and the future price of the underlying instrument. Interest rate risk is the general risk associated with movements in interest rates. Settlement risk is the risk that a settlement in a transfer system does not take place as expected. Legal risk is the risk that a transaction proves unenforceable in law including, but not limited to, because it has been inadequately documented. Operational risk is the risk of unexpected losses arising from deficiencies in a firm's management information, support and control systems and procedures. Although under the Reform Act (as defined below) certain swaps and over-the-counter derivatives may soon be required to be traded on an exchange, presently swaps and other transactions in over-the-counter derivatives may involve other risks as well, as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. In addition, until the compliance date for various provisions of the Reform Act, over-the-counter derivative instruments not

traded on exchanges will not be subject to similar types of government regulation as exchange-traded instruments as well as the protections afforded to participants in a regulated environment.

Hedging. The Manager may seek to reduce or eliminate the HSCM InsurTech Funds' exposure to currency risk, and may also pursue strategies to hedge against other risks in its sole discretion. The Manager may cause the HSCM InsurTech Funds to engage in spot and forward foreign exchange contracts, short sales, derivatives such as options and swaps and other hedging techniques (including the purchase of reinsurance through an appropriately licensed vehicle) or investments designed to hedge against fluctuations in currency exchange rates, interest rates and other risks associated with the HSCM InsurTech Funds' portfolio where such hedging is deemed appropriate by the Manager and available on suitable terms. However, the Manager is not obligated to seek to hedge against actual or perceived risks, and the Manager will be free to cause the HSCM InsurTech Funds to assume such risks and/or change its hedging policies and practices in any manner as determined by the Manager. Moreover, certain of the investment strategies recommended by the Manager may from time to time have extensive unhedged exposure to various sources of equity, credit, insurance, interest rate, and/or other risk, whether known or unknown. Where a hedging technique is employed, there can be no guarantee of its success. Moreover, such hedging techniques will tend to limit any potential gain that might result from an increase in the value of a hedged position.

The success of the HSCM InsurTech Funds' hedging strategy will depend, in part, upon the Manager's ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the HSCM InsurTech Funds' hedging strategy will also be subject to the Manager's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the HSCM InsurTech Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the HSCM InsurTech Funds than if it had not engaged in such hedging transactions. Under certain circumstances, hedging techniques intended to reduce certain forms of risk may actually increase risk, whether due to the unintended market impact of hedging transactions, leverage effects associated with hedging positions, unexpected adverse price movements of a hedging instrument relative to the hedged instrument (i.e., adverse changes in the "basis" between the hedging and hedged instrument), lower liquidity of the hedged and hedging positions relative to an unhedged position, risks related to the use of derivative instruments, or other factors. In addition, even where the Manager seeks to hedge a particular risk, a suitable hedging transaction might not be identified by the Manager, not be available to the HSCM InsurTech Funds, and/or not be successfully executed.

For a variety of reasons, the Manager may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the HSCM InsurTech Funds from achieving the intended hedge or expose the HSCM InsurTech Funds to risk of loss. The Manager may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, because it does not foresee the occurrence of the risk, because it does not have sufficient liquid assets available, or for any other reason in its discretion.

Swap Agreements. The HSCM InsurTech Fund may enter into swap agreements. Swap agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, instruments or market factors. The HSCM InsurTech Fund may invest in catastrophe and other insurance-linked swaps in particular. Such swaps provide protection to a counterparty against the occurrence of relatively unlikely to occur events through a series of fixed, predefined payments which are exchanged for a series of floating payments whose values depend on the occurrence of an insured event. In addition to insurance-linked swaps, swaps may be entered into in order to increase or decrease the HSCM InsurTech Fund's exposure to a particular stock, group of stocks or an index of stocks, and to other factors

such as long-term or short-term interest rates, non-U.S. currency values, corporate borrowing rates and inflation rates. Such swaps may be entered into for hedging as well as for investment purposes.

Depending on how they are used, swap agreements may increase or decrease the overall volatility of the HSCM InsurTech Fund's portfolio. The most significant factor in the performance of swap agreements is the change in the factor or factors that determine the amounts of payments due to and from the HSCM InsurTech Fund, such as the occurrence of an insured event (in the case of insurance-linked swaps), or a change in interest rates, currency values or equity values. If a swap agreement calls for payments by the HSCM InsurTech Funds, the HSCM InsurTech Funds must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the HSCM InsurTech Funds.

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

Risks Associated with Non-U.S. Investments. The HSCM InsurTech Funds may invest in businesses operating and/or organized outside of the United States. Such investments will involve risks not typically associated with investments in the securities of U.S. companies including, without limitation, risks relating to: (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which the HSCM InsurTech Funds' foreign investments may be denominated, and costs associated with conversion of investment principal and income from one currency into another, which may expose the HSCM InsurTech Funds to potential losses arising from changes in foreign currency exchange rates, (ii) inflation matters, including rapid fluctuations in inflation rates, (iii) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets and the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements, and differences in the amount of government supervision and regulation, (iv) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, and the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation, (v) possible significant government approvals under corporate, securities, exchange control, non-U.S. investment, and other similar laws and regulations, (vi) differences in financing and structuring alternatives and exit strategies from those commonly used in the United States, and (vii) the possible imposition of foreign taxes on income and gains recognized with respect to such securities. The foregoing factors may increase transaction costs and adversely impact the value of the HSCM InsurTech Funds' investments in non-U.S. Portfolio Companies.

Foreign Investment Controls. Foreign investment in securities of companies in certain of the countries in which the HSCM InsurTech Funds may invest is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment above certain ownership levels or



in certain sectors of the country's economy and increase the costs and expenses of the HSCM InsurTech Funds. While regulation of foreign investment has liberalized in recent years throughout much of the world, there can be no assurance that more restrictive regulations will not be adopted in the future. Some countries require governmental approval for the repatriation of investment income, capital, or the proceeds of sales by foreign investors and foreign currency. The HSCM InsurTech Funds could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital interests and dividends paid on securities held by the HSCM InsurTech Funds, and income on such securities or gains from the disposition of such securities may be subject to withholding taxes imposed by certain countries where the HSCM InsurTech Funds invests or in other jurisdictions.

Lack of Liquidity, Transferability and Withdrawal. The Interests are a new issue of securities for which there is no established trading market. A Limited Partner cannot expect to be able to resell any of the Interests readily, if at all. In reliance upon exemptions that depend in part upon the accredited investor status and investment intent of the Limited Partners, the Interests are not being registered for public sale under federal or state securities laws. The Interests will also have significant contractual restrictions on transfer. For such reasons, there is little liquidity in an investment in the Interests. The Limited Partners also have no right to withdraw capital during the term of the HSCM InsurTech Funds. Accordingly, the Interests should be acquired for investment purposes only and not with a view toward resale. Limited Partners may be required to bear the financial risks of an investment in the Interests indefinitely and Limited Partners should have the financial ability and willingness to accept the risks of this lack of liquidity.

Privately Placed Securities. Privately placed securities owned by the HSCM InsurTech Funds may lead to product-specific risks including, but not limited to legal, liquidity, credit, valuation and modelling risks. Through investing in such instruments, the HSCM InsurTech Funds could be subject to special registration risks, legal contamination risk in case of legal action against the owner of the structure used to issue the instrument, valuation uncertainties, credit risk as a result of potential cross-liability risk in the structure used to issue the instrument, transferability restrictions or other liquidity-related difficulties. In addition, the HSCM InsurTech Funds may be subject to the risk of breach of the purchase agreements by the issuers of such securities.

Risk of Realization; Investments Longer than Term. The HSCM InsurTech Funds will be exposed to the risk that it is unable to realize its Portfolio Investments in a timely manner or at all. The HSCM InsurTech Funds may make investments which may not be advantageously disposed of prior to the date the HSCM InsurTech Funds is dissolved, either by expiration of the HSCM InsurTech Funds' term or otherwise. Although the General Partner expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution and the General Partner has a limited ability to extend the term of the HSCM InsurTech Funds, the HSCM InsurTech Funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. In addition, there can be no assurances with respect to the time frame in which the winding-up and the final distribution of proceeds to the investors will occur. Although investments by the HSCM InsurTech Funds may occasionally generate some current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition of such investment. While an investment may be realized at any time, the HSCM InsurTech Funds may hold its investments for a number of years prior to any realization. The HSCM InsurTech Funds generally will not be able to sell its securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In addition, in some cases the HSCM InsurTech Funds may be prohibited by contract from selling certain securities for a period of time.

Securitizations. Under certain circumstances, the Manager may seek to securitize (or re-securitize) certain of the HSCM InsurTech Funds' investments. It is unclear to what extent a satisfactory market might exist for securitized or re-securitized insurance-linked assets if and when the Manager wishes to execute this



strategy. Furthermore, the issuance of any such securities would involve significant risks to the HSCM InsurTech Funds, risks which in many cases would not be present but for the HSCM InsurTech Funds' decision to issue such securities. In many cases, the HSCM InsurTech Funds may be required to indemnify certain parties and provide other types of recourse to the HSCM InsurTech Funds in order to issue the securities. Also, in connection with any issuance, the HSCM InsurTech Funds will be taking on securities law liabilities relating to the securities it issues. There can be no assurance that a market for any such securities will develop or, if it does, that it will meet the needs of the HSCM InsurTech Funds to monetize or leverage its position in the securitized assets.

Market Disruptions. The HSCM InsurTech Funds may incur major losses in the event of disrupted markets and other extraordinary events which may affect markets in a way that is not consistent with historical pricing relationships. The risk of loss from a disconnect with historical prices is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the HSCM InsurTech Funds from its banks, dealers and other counterparties will typically be reduced in disrupted markets. Such a reduction may result in substantial losses to the HSCM InsurTech Funds. In 1994, in 1998 and again in the so-called "credit crunch" of 2007-2008 a sudden restriction of credit by the dealer community resulted in forced liquidations and major losses for a number of investment vehicles. The "credit crunch" of 2007-2008 has particularly affected investment vehicles focused on credit-related investments. However, because market disruptions and losses in one sector can cause ripple effects in other sectors, during the "credit crunch" of 2007-2008 many investment vehicles suffered heavy losses even though they were not necessarily heavily invested in credit-related investments. In addition, market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the HSCM InsurTech Funds and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for the HSCM InsurTech Funds to liquidate affected positions and thereby expose it to losses. There is also no assurance that off-exchange markets will remain liquid enough for the HSCM InsurTech Funds to close out positions.

Flexible Investment Approach. In furtherance of the HSCM InsurTech Funds' investment objective, the Manager has broad flexibility to pursue the investment strategy it believes from time to time will be best suited to prevailing market conditions and to the Manager's investment experience, subject to the HSCM InsurTech Funds' investment limitations discussed in this Memorandum. Such strategies or approaches may change over time and result in higher levels of risk to the HSCM InsurTech Funds.

Currency Risk With Respect to Non-U.S. Investments. The HSCM InsurTech Funds may invest in non-U.S. Portfolio Companies and in instruments denominated in non-U.S. currencies, the prices of which are determined with references to currencies other than the U.S. dollar. The HSCM InsurTech Funds, however, values its securities and other assets in U.S. dollars. Investments that are denominated in a non-U.S. currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that could affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The HSCM InsurTech Funds may seek to hedge its non-U.S. currency exposure by, among other things, investing in currencies or forward currency exchange contracts, but there is no assurance that such strategies will be implemented, and if implemented, will be effective. The HSCM InsurTech Funds may also enter into unhedged transactions as part of the investment program of the HSCM InsurTech Funds. Consequently, such investments may increase the risk to investors of losing all or a substantial portion of their investment.

## **Risks Pertaining to the Hudson Transport Funds and Accounts**

The HSCM Funds, NS Funds and any managed accounts that invest in transportation industry assets (“HSCM Transport Funds”) will have exposure to the particular risks associated with such assets. These risks may include some or all of the following:

Risk of Investing in the Transportation Industry Group. Issuers and investments in the transportation industry group can be significantly affected by economic changes, fuel prices, labor relations, technology developments, exchange rates, industry competition, and insurance costs. Transportation companies and investments in certain countries may also be subject to significant government regulation and oversight, which may adversely affect their businesses. Other risk factors that may affect transportation companies and investments include the risk of increases in fuel and other operating costs and the effects of regulatory changes or other government decisions. Companies and investments in the transportation industry group may be adversely affected by adverse weather, acts of terrorism or catastrophic events, such as air accidents, train crashes or tunnel fires. Companies and investments in the transportation industry group may also be subject to the risk of widespread disruption of technology systems and increasing equipment and operational costs.

Mezzanine and Senior Bank Loans and Participations. The Hudson Transport Funds’ investments may be comprised of privately negotiated bank loans or loans acquired through assignment or participations. These loans may be senior or mezzanine (subordinated or second lien) and may be secured or unsecured and are generally used to acquire or otherwise finance transportation or transportation-related equipment. Although senior and mezzanine loans will typically be secured by collateral, there can be no assurance that such collateral could be readily liquidated or that the liquidation of such collateral would satisfy the borrower’s obligation in the event of non-payment of scheduled interest or principal. Such collateral may be subject to complex, competing legal claims. In addition, the security granted in respect of such investments may be unperfected for a variety of reasons, including the failure to make required filings by lenders, and other creditors may have priority over such investments. Senior loans and mezzanine loans also generally provide for restrictive covenants designed to limit the activities of the obligors thereunder in an effort to protect the rights of lenders to receive timely payments of interest on, and repayment of, principal of the loans. There can be no assurance that borrowers will comply with such covenants.

Bank loans have significant liquidity and market value risks since they are not generally traded on organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities. The subordination of second lien loans is also expected to cause second lien loans to be riskier and more illiquid than senior secured loans. Loan obligations 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 the fund to directly enforce its rights with respect to participations.

Mezzanine and High Yield Debt Securities. The Hudson Transport Funds’ investments may be comprised of mezzanine (subordinated) or senior debt securities issued in the High Yield or ABS markets. These securities may be purchased at new issue or in the aftermarket and may be privately negotiated or part of a broad capital market syndication. Such investments may be secured or unsecured debt obligations often by an obligor rated below investment grade. The yields and prices of lower-rated securities may tend to fluctuate more than those for higher-rated securities. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of these securities. Mezzanine securities, by the nature of their issuers’

leveraged capital structures, involve a high degree of financial risk. These securities may be unsecured and/or subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. In addition, these securities may not be protected by financial covenants or limitations upon additional indebtedness and may have limited liquidity. Mezzanine investments often reflect a greater possibility that adverse changes in the financial condition of the obligor or general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Some issuers of a fund's investments may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. Overall adverse conditions in the high-yield bond, ABS and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity.

Market and Credit Risks of Debt Securities. In general, the Hudson Transport Funds' investments will expose it (directly or indirectly) to "credit risk," because debt securities are subject to credit risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument and how this risk changes over time. Financial strength and solvency of an issuer and the priority of the lien are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Certain of the investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In addition, certain instruments in certain circumstances may provide for payments-in-kind interest, which has a similar effect of deferring current cash payments.

Investments in E-Notes, Joint Ventures and Equity Securities. The Hudson Transport Funds may invest in E-Notes (which is an equity interest in Asset-Backed Securitizations of transportation equipment), joint ventures with lessors to acquire pools of transportation assets or may hold or come into the possession of common stock, warrants to acquire common stock and/or other equity securities related to transportation investments or investment opportunities. Such E-Notes, joint venture investments and equity securities will generally involve a high degree of risk and will be subordinate to (and thus are inherently riskier than) the debt securities and other liabilities of the issuers of such equity securities. The E-Notes, joint venture positions and equity securities a fund acquires may fail to appreciate in value and may decline in value or become worthless. Accordingly, a fund may not be able to realize gains from such equity securities and may incur significant losses.

Risks of Operating in a Competitive Market. The activity of identifying, completing and realizing attractive corporate credit and asset based debt investments is highly competitive and involves a high degree of uncertainty. HSCM Transport Funds will be competing for investments with many other investment vehicles. Although HSCM will seek to avoid competitive situations, competition for investments may have the effect of increasing the costs, thereby reducing investment returns. HSCM may be unable to identify a sufficient number of attractive investment opportunities for the Hudson Transport Funds. Other investors may make competing offers for investment opportunities that have been identified, and even after an agreement in principle has been reached with a counterparty, consummating the transaction is subject to a myriad of uncertainties, only some of which are foreseeable or within the control of HSCM. No assurance can be given that the HSCM Transport Funds will be successful in obtaining suitable investments, or that if such investments are made, the objectives of the Hudson Transport Funds will be achieved.

#### Investing in the Maritime Sector

In general, the Hudson Transport Funds bears industry-related risks indirectly through its investments in the maritime sector; however, to the extent that HSCM Transport Funds own and operate vessels outright or engages in the shipping business, the HSCM Transport Funds will bear those risks directly.

Cyclical Nature of the Maritime Sector. The maritime sector is cyclical, with volatility in charter rates, profitability and vessel values. Future demand, and in turn the future charter rates, for vessels will be dependent upon continued economic growth in the world's economies, particularly in China, India and other Asia Pacific economies, and will be influenced by seasonal and regional changes in demand and changes in the capacity of the world's shipping fleets. Adverse economic, political, social or other developments could decrease demand and growth in the maritime sector and thereby reduce revenue significantly. A decline in demand for commodities or other products transported in ships or an increase in the supply of such vessels could materially adversely affect investments.

Historically demand for vessels has generally been influenced by, among other factors:

- global and regional economic conditions;
- disruptions and developments in international trade;
- changes in seaborne and other transportation patterns, such as port congestion and canal closures;
- currency exchange rates
- armed conflict and terrorist activities including piracy;
- political, environmental and other regulatory developments; and
- sanctions, embargoes and strikes.

Historically supply of vessels has generally been influenced by, among other factors:

- the number of newbuilding vessel orders and deliveries, including slippage in deliveries;
- the scrapping rate of older vessels;
- operating speed of the vessels;
- port and canal congestion;
- the number of shipyards and ability of shipyards to deliver vessels;
- access to traditional debt to finance the construction of new vessels; and
- changes in environmental or other regulations that may limit the useful life of certain vessels

In addition to the prevailing and anticipated freight rates, factors that affect the rate of newbuilding, scrapping and laying-up include newbuilding prices, secondhand vessel values in relation to scrap prices, costs of fuel supplies and other operating costs, costs associated with classification society surveys, normal maintenance and insurance coverage, the efficiency and age profile of the existing fleet in the market and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. Restrictions on imports, including in the form of tariffs, could have a major impact on global trade and demand for shipping. Specifically, increasing trade protectionism in the markets that borrowers' charter parties serve may cause an increase in (i) the cost of goods exported from regions around the world, (ii) the length of time required to deliver goods from exporting countries, (iii) the costs of such delivery and (iv) the risks associated with exporting goods. These factors may result in a decrease in the quantity of goods to be shipped. These factors influencing the supply of and demand for shipping capacity are outside of the control of HSCM, and HSCM may not be able to correctly assess the nature, timing and degree of changes in industry conditions.

International Operations Risks. The maritime sector is an inherently risky business involving global operations. A counterparty's vessels will be at risk of damage or loss because of events such as:

- marine disaster;
- piracy;
- environmental accidents;
- grounding, fire, explosions and collisions;
- cargo and property losses or damage;
- business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions; and
- work stoppages or other labor problems with crew members serving on vessels including crew strikes and/or boycotts.

Such occurrences could result in death or injury to persons, increased costs, loss of revenues from or termination of charter contracts, loss or damage to property (including cargo), environmental damage, higher insurance rates, governmental fines, penalties or restrictions on conducting business, damage to the counterparty's customer relationships, harm to its reputation as a safe and reliable operator and delay or rerouting. In addition, changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These sorts of events could interfere with shipping routes and result in market disruptions which could have a material adverse effect on financial condition, cash flows and ability to pay distributions.

Maritime Claims. Maritime claimants may seek to arrest a vessel owned or held by a counterparty and used as security for an investment. Crew members, suppliers of goods and services to a vessel, and other parties may be entitled to maritime liens against that vessel for unsatisfied debts, claims or damages, which liens may be senior to a such investment in the capital structure of a counterparty. In many jurisdictions, a maritime lien holder may enforce its lien by arresting or attaching a vessel and commencing foreclosure proceedings. The arrest or attachment of one or more of the vessels of a counterparty could result in a significant loss of earnings for the related off-hire period. In addition, in some jurisdictions, under the "sister ship" theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner, which could include vessels securing an investment. In countries with "sister ship" liability laws, claims might be asserted against a counterparty or any of its vessels for liabilities of other vessels that it owns. The arrest or attachment of one or more vessels could have an adverse impact on the performance.

Government Requisition. A government could requisition for title or hire a vessel owned or held by a counterparty and used as security for an investment. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. The requisition of one or more vessels could have an adverse impact on the performance.

Insurance Coverage. The operation of ocean-going vessels in international trade is inherently risky. The vessels associated with the investments are subject to a variety of operational risks caused by adverse



weather conditions, mechanical failures, human error, war, terrorism, piracy, or other circumstances or events. The counterparties owning these vessels carry insurance against commonly insured risks. The insurances include hull and machinery insurance, war risks insurance, protection and indemnity insurance, which includes environmental damage and pollution insurance, and may include insurance against loss of hire, covering business interruptions that result in the loss of use of a vessel. HSCM will typically review the insurance coverage relating to the vessels securing the investments at inception and periodically thereafter. However, there can be no assurance that all risks will, or can be, adequately insured at all times. In addition, such insurance coverage may not be adequate for all risks and insurers may not pay particular claims. Furthermore, such insurance coverage will contain deductibles, limitations and exclusions and may also be subject to calls, or premiums, in amounts based the claim records of all other members of the protection and indemnity associations.

Certain Regulatory Considerations; Potential Changes in Laws. The Hudson Transport Funds expect to make investments in the maritime sector, parts of which are or may become subject to regulation by one or more governmental agencies. New and existing regulations, changing regulatory schemes, and the burdens of regulatory compliance all may have a material negative impact on the performance of counterparties that operate in these industries and their ability to meet their financial obligations. HSCM cannot predict whether new legislation or regulation governing the maritime sector will be enacted by legislative bodies or governmental agencies, nor can it predict what effect such legislation or regulation might have. There can be no assurance that new legislation or regulation, including changes to existing laws and regulations, will not have a material negative impact on performance.

### **Risks Pertaining to the NS Funds**

Concentration in the Maritime Sector. The NS Funds will be concentrated in the maritime sector, the investments may be subject to more rapid change in value than would be the case if the NS Funds were to maintain a wide diversification among industry sectors. The performance of the NS Funds may be adversely affected by a deterioration in the maritime sector.

Availability of and Ability to Acquire Suitable Investments. The identification of attractive investment opportunities may be difficult and involves a high degree of uncertainty. While HSCM believes that many attractive investments of the type in which the NS Funds may invest are currently available, there can be no assurance that such investments will be available when each NS Fund commences investment operations, or that available investments will meet such NS Fund's investment criteria. Competition from other investors, many of which may have significantly greater financial resources, may reduce acquisition opportunities. Although HSCM believes it can successfully execute the strategy of the NS Funds, there is no assurance that HSCM will be able to find suitable investments or the NS Funds will be able to generate its targeted returns.

Borrowings and Leverage. An NS Fund may borrow money at the fund-level and at the subsidiary or asset level in connection with its investment activities. This practice significantly increases the NS Fund's market exposure and its risk. When an NS Fund has borrowed money for leverage and its investments increase or decrease in value, the NS Fund's net asset value will increase or decrease more than if it had not borrowed money. In addition, the interest such NS Fund must pay on borrowed money will reduce the amount of any potential gains or increase any losses. The occurrence of defaults may trigger cross-defaults under certain agreements with other lenders, or other counterparties, creating or increasing a material adverse effect on the performance of such NS Fund.

Guarantees of Portfolio Investments. An NS Fund may guarantee the obligations of an investment (including by extension of a letter of credit). As a result, if the investment defaults on its obligations, such NS Fund may be required to satisfy such obligation. In order to do so, the NS Fund may call capital, recall

distributions or liquidate some or all of the investments prematurely at potentially significant discounts to fair value.

**Borrower Misrepresentations.** An NS Fund, as a lender, faces the possibility that its borrowers, guarantors or other counterparties will make material misrepresentations or omissions. Such inaccuracy or incompleteness may adversely affect the collateral underlying transactions or may adversely affect an NS Fund's ability to effectuate a lien on the collateral securing a transaction. HSCM will rely upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. In addition, under certain circumstances, payments or distributions to the investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Collateral Risk.** The value of the investments generally will be detrimentally affected to the extent a counterparty defaults on its obligations, and there is insufficient collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted instrument. The value of collateral supporting the investments may fluctuate. There can be no assurance that the value assigned by HSCM to collateral of the underlying investment held by an NS Fund or a counterparty will be realized upon liquidation, nor can there be any assurance that collateral will retain its value. Likewise, there can be no assurances that liquidation of collateral will be sufficient to satisfy a counterparty's obligation in the event of nonpayment of scheduled principal, interest or other amounts due to the NS Fund. Finally, there may be a monetary, as well as a time cost involved in collecting on defaulted investments and, if applicable, taking possession of and subsequently liquidating various types of collateral.

**Residual Value.** Certain investments may result in a vessel being redelivered to an NS Fund at the end of the transaction. The actual value of the vessel may be less than the residual value assumed when the Investment was concluded. Any adverse variance between the assumed residual value for the vessel and the actual residual value could have an adverse impact on such NS Fund.

**Bankruptcy Risk.** Market conditions may have an adverse impact on certain companies in the maritime sector, which under certain circumstances may result in such companies seeking bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code or similar statutes of other jurisdictions. Any bankruptcy of a counterparty may cause an NS Fund to lose or not fully recover its investment, make it more difficult to recover its investment in bankruptcy proceedings (including as a result of an investment being re-characterized or reclassified in such proceedings) or cause such NS Fund to incur financial costs and experience delays of limitations with respect to its ability to realize the benefits of any transaction related collateral.

**Prepayment Risk.** An NS Fund is subject to the risk that its counterparties may repay the financing provided by such NS Fund prior to maturity. In particular, if competition increases or financing costs decrease, it is more likely that counterparties will seek to re-finance, and it may be more challenging for such NS Fund to lend at attractive rates. As a result, the performance of such NS Fund could be materially adversely affected if its counterparties elect to prepay amounts owed to such NS Fund.

#### ITEM 9: DISCIPLINARY INFORMATION

Neither HSCM nor any of its management persons have any legal or disciplinary events that would be material to a Client's or prospective Client's evaluation of HSCM or the integrity of HSCM's management.

## ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither HSCM nor any of its management persons is registered, or has an application pending to register, as: (i) a broker-dealer; (ii) a registered representative of a broker-dealer; (iii) a futures commission merchant; (iv) a commodity pool operator, (v) a commodity trading advisor; or (vi) an associated person of any of (i), (ii), (iii), (iv) or (v).

As described above, HSCM serves as investment adviser to the HSCM Funds and is affiliated with the general partner(s) to the HSCM Funds organized as limited partnerships and with the managing member(s) to the HSCM Funds organized as limited liability companies.

HSCM is subject to various conflicts of interest in its relationship with any one HSCM Fund and HSCM's affiliates and Strategic Investors. HSCM manages a number of different funds with similar or different investment objectives, strategies and guidelines, which may compete with other HSCM Funds and Clients, and present conflicts in the allocation of investment opportunities, among others. HSCM will seek to allocate transactions among participating funds on a basis that is fair and equitable to all HSCM Funds, taking into account any relevant factors, such as account size, or applicable investment objectives, guidelines or restrictions.

Each HSCM Fund's Private Placement Memorandum, or other offering documentation, enumerates certain potential conflicts of interest that should be carefully evaluated, understood, and agreed before making an investment in such fund, including performance allocation/fees, other fees and expenses, and portfolio company relationships.

Certain HSCM Fund's strategy will seek to opportunistically invest across all forms of insurance risks and is willing to consider risk and return in whatever form it is transferred. A significant proportion of the Fund's investments may be in the form of reinsurance contracts. The reinsurance contracts originate with reinsurance brokers or other reinsurance intermediaries. For all of these contracts, a process is needed to transform the reinsurance contract into a security that can be acquired by the Fund. The Fund expects to use the following two processes to effect the necessary transformation:

- Segregated accounts or cells (which are segregated from each other and from the (re)insurer's general account) are created within a licensed (re)insurer, commonly referred to as a "transformer". These cells directly issue reinsurance contracts to buyers. Typically, the Fund will then purchase non-voting preferred shares issued by the cell through a subscription and shareholder agreement. The Fund's investment is used to capitalize the cell and to provide collateral to support the transformer's obligations in respect of the relevant reinsurance contract. Typically, through this mechanism, the relevant cells will be funded up to the maximum liability that the transformer may incur as a result of the reinsurance contracts that it has written. To facilitate access to reinsurance risks for the Fund and its other clients, HSCM has formed Bumblebee Re Ltd. ("**Bumblebee Re**"), a Bermuda limited company registered as a segregated accounts company under the Bermuda Segregated Accounts Companies Act 2000, as amended (the "**SAC Act**") and licensed as special purpose insurer under the Bermuda Insurance Act 1978, as amended ("Insurance Act"), commenced operations on June 1, 2020. Bumblebee Re is the primary transformer vehicle for the Fund's reinsurance transactions. Currently, Bumblebee Re is managed by a third-party insurance manager. However, it is expected that HSCM will provide insurance management services at prevailing market rates and for profit to Bumblebee Re in the future. We note that the use of Bumblebee by an HSCM Fund considered to be "plan assets" for purposes of ERISA may utilize negotiated rates on the investment in the segregated accounts or cells.

- There are also situations where the reinsurance buyer or the Fund may prefer to have a contract issued by a rated reinsurer acting in the capacity of what is known as a fronting carrier. In such transactions, a reinsurance contract is issued to the buyer by the rated fronting reinsurance company. The fronting reinsurance company then enters into a derivative contract with the reinsurer in which the Fund invests which matches the underlying reinsurance contract's terms. The reinsurer in which the Fund invests pays a fronting fee to the fronting reinsurance company for utilizing its balance sheet and will typically establish a trust where collateral is posted. As in the first process outlined above, it is normal that each reinsurer is fully collateralized to the maximum reinsurance liability that may be incurred.

The Manager and its investment professionals are subject to various conflicts of interests. A number of the Manager's professional investment professionals have spouses who are in the same industry, and in certain instances with firms which the Fund will engage in business, such as, among others, Re/Insurance brokers. A number of the Manager's professional investment professionals have been associated with, and have investments in, firms that are engaged in the Re/Insurance and Transportation industries, among others, and with which the HSCM Funds has or will engage in business. The Manager's relationship with Strategic Investors and management of the Accounts of the Strategic Investors creates conflicts of interest. Various members of the firm have passive equity interests in former businesses. HSCM and its professionals will seek to avoid the conflict by taking actions necessary to eliminate the conflict, or mitigate it, as applicable; such actions may include, but are not limited to, the professional being recused from participating in investment decisions that involve a material conflict of interest, or disclosing information and/or seeking consent from investors in HSCM Funds.



## ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### *Code of Ethics and Personal Trading*

HSCM has adopted a Code of Ethics (the “Code”) in accordance with Rule 204A-1 under the Advisers Act. The Code is based on HSCM’s fiduciary duty to its Clients. The fundamental tenants of the Code include: (1) place the interests of Clients first; (2) conduct personal securities transactions in a manner so as to be consistent with the Code and avoid any actual or potential conflicts of interest or any abuse of an HSCM employee’s position of trust and responsibility; (3) refrain from taking inappropriate advantage of the relationship with Clients; (4) maintain the confidentiality of security holdings and financial circumstances of Clients; and (5) maintain independence in the investment decision-making process.

As a fiduciary, HSCM and its employees owe an affirmative duty of care, loyalty, honesty, and good faith to act in the best interests of its Clients. Generally, the Code imposes the following five basic requirements on HSCM and its employees: (1) they should comply with all applicable federal and state laws and regulations; (2) they should avoid conflicts of interest and disclose all material facts concerning any conflict that may arise with respect to any Client; (3) their conduct should conform with the ethical standards set out in the Code; (4) their personal securities transactions should comply with the Code; and (5) they should obtain prior approval for certain personal securities transactions as described under the Code. HSCM forbids the illegal use of material non-public information in trading securities, regardless of whether the trades are executed for Client accounts or for a personal securities account.

At the commencement of employment at HSCM and thereafter annually, all access persons, as defined below, must sign an acknowledgment that they have received, read and understand the provisions of the Code and agree to be subject to the Code, and any amendments. Access persons are directors, officers, employees and other supervised persons who may have access to non-public information regarding a Client’s purchase or sale of securities or to non-public information regarding portfolio holdings, who may be involved in making securities recommendations to Clients, or who may have access to such recommendations that are non-public.

The Code includes a personal securities investment and reporting policy. This policy, among other things, restricts an employee’s ability to engage in certain personal securities transactions without the prior approval of HSCM’s chief compliance officer (or delegate) and requires reporting of any such transactions.

In addition, the Code generally seeks to prohibit access persons from buying or selling any security for his or her account if he or she knows at the time of the transaction that the security is being purchased or sold or is being considered for purchase or sale by an HSCM Fund, subject to certain exceptions. The Code enables access persons to purchase securities in private placements, provided that he or she makes certain representations and obtains prior approval from HSCM’s chief compliance officer (or delegate). The Code also requires confidential treatment of information acquired at HSCM, and contains political contributions, outside activities and gift and entertainment policies, among other items.

A copy of HSCM’s Code of Ethics will be provided upon request.

### *Participation or Interest in Client Transactions*

From time to time, HSCM, its officers, directors and employees may have a material financial interest in securities or investments that are recommended to Clients for purchase or sale and may buy or sell securities or investments that are recommended to Clients for purchase or sale. HSCM recognizes that this practice may result in conflicts of interest.

It is HSCM's policy that neither HSCM, nor any person in a control relationship with HSCM, nor any employee of HSCM shall affect transactions as a principal with any HSCM Fund unless such transactions are in compliance with the provisions of Section 206(3) of the Advisers Act. HSCM has adopted a cross trade policy to govern how HSCM processes a coordinated purchase of a security or investment on behalf of one HSCM Fund and a sale of the same security or investment on behalf of another HSCM Fund at the same time (a "cross trade"), which includes monthly rebalancing of a fund's portfolio.

HSCM, its affiliates, their employees and relatives of the employees from time to time invest, directly or indirectly, in HSCM Funds to the extent that they meet the relevant fund's suitability requirements. The terms of investment, including economic and liquidity terms, applicable to such investors, as well as certain large or strategic investors may be more favorable than the terms available to other investors in a fund and the other investors will not be provided with notice of such terms or an opportunity to invest on such terms absent an express contractual undertaking on behalf of HSCM. Additionally, HSCM employees and certain former employees and their family members may be charged a lower (or no) advisory and performance fee than other fund investors. Strategic investors also have certain rights with respect to HSCM, including, without limitation: (i) information and transparency rights, (ii) co investment rights, (iii) favorable economic arrangements, including discounts to management and performance-based fees, (iv) "most favored nations" rights, and (v) reserved capacity to invest in certain funds managed by HSCM currently or in the future. In addition, HSCM has agreed to provide a strategic investor, subject to certain conditions, with certain investment opportunities in an insurance or reinsurance policy. The strategic investors or their affiliates may also provide insurance and/or insurance-related services to HSCM or HSCM-sponsored vehicles. The strategic investors could take priority over funds or clients in any investment opportunities offered to them, including opportunities for re/insurance investments ceded by portfolio companies in which funds or clients of HSCM invest or other opportunities suitable for the funds or clients of HSCM.

HSCM, its officers, directors and employees from time to time trade securities or investments for their own accounts, including securities or investments held by an HSCM Fund. HSCM, its officers, directors and employees may from time to time take positions in their proprietary accounts that are opposite the positions taken for, or held by, a fund or Client. HSCM, its officers, directors and employee may receive more favorable execution than the funds or Clients. Personal transactions should comply with the Code, which is discussed above.

#### *Allocation of Investment Opportunities*

In allocating investment opportunities among Clients, it is HSCM's policy that Clients should be treated fairly over time and that, to the extent possible, Clients should receive equivalent treatment. Notwithstanding the foregoing statement, HSCM had an investor (Blackstone) whose investment allows them to have certain decision-making rights with respect to which investments they may make. These rights, which are different than certain other investors may have, are fully disclosed in HSCM's private placement documents. Circumstances may exist where HSCM Funds investing in reinsurance contracts may incur losses due to insurance or other events for which, reinsurance or other cover may have been provided. As a result, investments in certain counterparties, recognizing the previous losses, may provide these Clients preferential treatment, in terms of rates, rights of investment to HSCM Clients that suffered losses in similar contracts for previous periods. Opportunities to invest in the renewal of such reinsurance contract may be given priority to HSCM Funds that invested in original contracts which incurred the losses.

There is a potential conflict of interest when determining the allocation of limited investment opportunities across Clients with similar investment mandates. To mitigate the risk of favoring certain funds over others, HSCM has adopted an allocation policy pursuant to which it will seek to allocate investment opportunities among its Clients in a manner that, over time, is on a fair and equitable basis. In allocating investment opportunities among its Clients, HSCM makes a determination, exercising its judgment in good faith, as to

whether an opportunity is appropriate for each Client. Factors in making such a determination may include, among others, a Client's liquidity, investment objectives and investment strategies of the Client, the Client's risk profile and tax status, the regulatory constraints of the Client, the composition of the Client's existing portfolio, the current total portfolio of invested positions, the size, timing or amount of the available opportunity, the nature of the securities or investments involved, the liquidity of the markets in which the investments trade, the risks involved, a Client's ability to opt-out of an investment, and any other factors determined to be relevant to the fair allocation of investment opportunities. In connection with certain venture/growth investments, HSCM may have preemptive rights on the investment, which rights are afforded to the HSCM Funds originally invested. If such HSCM Funds, however, do not participate in the investment due to liquidity, investment objective and investment strategy or other constraints, the investment may be allocated to other HSCM Funds.

The HSCM InsurTech Funds seeks to build a portfolio of earlier stage venture/growth investments compared to other HSCM Funds that invest in reinsurance opportunities with a lower risk profile seeking a mezzanine level risk and return. While these portfolios have different risk profiles, the Chief Investment Officer and principal portfolio manager of the HSCM Funds that invest in reinsurance opportunities seek to participate in such earlier stage venture/growth investments in a limited manner by holding lower portfolio weightings than that of the HSCM Bermuda InsurTech Fund to better suit its risk profile. To resolve the conflict in determining the allocation of such opportunities, HSCM will have a majority of the opportunity go to the HSCM InsurTech Funds whose risk profile is better suited for these investments with the remaining allocation going to other eligible HSCM Funds on a fair and equitable basis consistent with its existing allocation policies. Each opportunity is evaluated, and allocation its can be adjusted based on its judgement in good faith as to whether an opportunity is in fact appropriate for each Fund consistent with the principals described in the paragraph above.

#### *Co-Investments*

- HSCM will evaluate if privately placed investment opportunities are of a size and nature that they would be suitable for co-investments, including factors such as the dollar size of the opportunity, the aggregate size of the Clients' orders, the issuer's or counter-party's interest in having additional investors in addition to the Client funds, the advantages to the Client funds in the immediate transaction or long-term based on development of relationships and industry reputation that arises from making larger aggregate size investments in private investment opportunities, and the likely interest of investors in the Client funds and other parties in making co-investments.
- If HSCM determines that an investment opportunity is suitable for co-investment it will offer it to any parties to whom it has contractually agreed to provide co-investment opportunities based on the terms of such agreement, other investors and third parties whom HSCM believes would have financial resources and sophistication that would enable them to act on in a timely and effective manner and would be interested in such co-investment based on their expressed interest in co-investments in various sectors, and principals and sophisticated employees of HSCM.
- HSCM may permit principals and sophisticated employees to invest in co-investment opportunities, which are unavailable for investment by Clients and/or do not fall within HSCM's currently offered investment strategies. In instances in which an investment opportunity falls within one of HSCM's investment strategies, HSCM will determine if an investment by its principals and/or sophisticated employees is appropriate.
- All co-investors including principals and sophisticated employees of HSCM will participate in co-investments on a pari passu basis based on their respective order sizes.

- Client funds will receive preference on allocations of any investments in which co-investors participate, and if there after investment orders have been submitted the opportunity is cut-back by the issuer or counter-party, co-investors are expected to have their orders cut back pro rata prior to any cut-back of Client funds' order.

HSCM may in its sole discretion structure any co-investment opportunity such that the proposed participants in such co-investment opportunity do not bear any broken deal expenses, with the result that an HSCM Fund will bear all such broken deal expenses; provided, if so structured, that such participants will not be entitled to receive any break-up or similar fee income, if any, that may be earned with respect to such transaction. Consequently, an HSCM Fund typically bears all such broken deal expenses (and in such case would be entitled to any such break-up or similar fee income, but there may be instances in which an HSCM Fund will bear all broken deal expenses without the benefit of any break-up or similar fees). Alternatively, HSCM may determine, if able, to allocate broken deal expenses on a pro rata basis between an HSCM Fund, Clients and the co-investors.

### *Trade Errors*

HSCM will seek to detect prior to settlement and promptly correct and mitigate any losses resulting from trade errors and similar human errors involving any transaction on behalf of an HSCM Fund, including: (i) the placement of orders (either purchases or sales) in excess of the amount of securities or investments the HSCM Fund intended to trade; (ii) the sale of a security or investment when it should have been purchased; (iii) the purchase of a security or investment when it should have been sold; (iv) the purchase or sale of the wrong security or investment; (v) the purchase or sale of a security or investment contrary to regulatory restrictions or investment guidelines or restrictions; and (vi) incorrect allocations of securities or investments (collectively, "Trade Errors"). If HSCM or other indemnified person, as set out in the applicable investment management agreement ("Management Agreement") between an HSCM Fund and HSCM, (or broker or agent selected, engaged or retained by an indemnified person) is entitled to exculpation pursuant to the Management Agreement in connection with acts or omissions that result in any realized and unrealized depreciation in the value of, and expense or other loss incurred with respect to, a security or investment held by the HSCM Fund attributable to any Trade Error ("Trade Error Loss"), such Trade Error Loss will be borne directly out of the assets of the HSCM Fund. HSCM will evaluate each Trade Error to determine whether a particular Trade Error Loss should be borne by an HSCM Fund. To the extent that a Trade Error is caused by a counterparty of an HSCM Fund, such as a broker or agent, HSCM will seek to recover any related Trade Error Losses from such counterparty. Any Trade Error Losses for which HSCM or an indemnified person is liable will be netted against any realized and unrealized appreciation in the value of, and dividend, interest or other gain earned with respect to, securities or investments held by an HSCM Fund attributable to Trade Errors.

## ITEM 12: BROKERAGE PRACTICES

### *Selecting or Recommending Broker-Dealers*

HSCM is authorized to select securities brokers on behalf of the HSCM Funds and may change brokers in its sole discretion. HSCM is not required to consider any particular criteria in choosing brokers and dealers. HSCM seeks “best execution” of transactions. What constitutes “best execution” and determining how to achieve it involves many factors, including subjective factors. In evaluating whether a broker or dealer will provide best execution, HSCM considers a range of factors. These include, among others:

- financial stability and the reputation of the broker or intermediary;
- the actual executed price of the investment and the commission rates of the broker or intermediary;
- the quality of the research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis), custodial and other services provided by such brokers and/or dealers or intermediaries that are expected to enhance HSCM’s general portfolio management capabilities;
- the size and type of the transaction;
- the difficulty of execution and the ability to handle difficult trades;
- the known availability of the investments through other brokers or intermediaries;
- the access to future investments through such broker or intermediary;
- the private or other limited nature of such investment;
- the operational facilities of the brokers and/or dealers or intermediaries involved (including back office efficiency, speed of execution, past history of execution and clearance and settlement capabilities);
- the ability to handle a block order for securities and distribution capabilities;
- ability to maintain confidentiality;
- handling of trade errors; and,
- availability of technology to process data about markets.

Investors should note that size and other constraints may limit the number of brokers willing to work with an HSCM Fund due to the expected limited nature of the HSCM Funds’ investment in public securities , and the HSCM Fund and HSCM may elect to choose brokers based solely on cost considerations and availability to the HSCM Fund. Although the obligation to obtain best execution is typically referred to in the context of public securities, HSCM’s obligation to seek best execution extends to private investments, and HSCM will seek to ensure that a Client pays no more than HSCM’s perceived fair value for a private investment, as well as reasonable and customary fees for services consumed to complete the transactions.

The reinsurance contracts and other insurance-related investments in which the HSCM Funds participate either through a given transformer or otherwise may be (and in the insurance sector, tend to be) brokered by re/insurance brokers and intermediaries acting on behalf of the reinsureds or other parties. HSCM is not in a position to select the re/insurance broker or intermediary for a particular transaction, but rather submits bids to and negotiates with such intermediary as the agent for the reinsured or other party. A limited number of large international reinsurance intermediaries dominate the re/insurance brokerage industry, and these brokers can be expected to account for a large portion of the re/insurance contracts and other insurance-related investments in which the HSCM Funds participate. The loss of all or a substantial portion of the



business provided by these brokers could have a material adverse effect on the HSCM Funds.

#### *Research and Other Soft Dollar Benefits*

HSCM may select broker-dealers in recognition of the value of various services or products, beyond transaction execution, that they provide to an HSCM Fund, to HSCM or to its Clients. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with “soft dollars.” The amount of compensation (including markups, markdowns and commission equivalents on principal transactions with market-makers) a Client pays a broker-dealer who provides such services and/or products may be higher than what another, equally capable broker-dealer might charge. Any soft-dollar arrangements entered with a broker-dealer will be consistent with Section 28(e) of the Securities Exchange Act of 1934, which permits the use of soft dollars in certain circumstances. Where research services also assist HSCM in performing non-investment decision-making functions (such as accounting, record keeping or administrative services), HSCM will, as applicable, make a reasonable allocation of the cost of the service according to its use and use brokerage commissions to pay only for the research-related component.

#### *Brokerage for Client Referrals*

In selecting or recommending a broker-dealer, HSCM does not consider as a factor whether or not HSCM will receive Client or investor referrals from a broker-dealer or third party.

#### *Directed Brokerage*

HSCM determines the selection of particular broker-dealers for investment transactions of Clients, subject to HSCM’s policy to seek best execution for such transactions. HSCM does not recommend, request or require that an HSCM Fund or Client direct it to execute transactions through a specified broker-dealer, nor does HSCM permit HSCM Funds or Clients to direct brokerage.

#### *Aggregation of Client Orders*

From time to time, it may be appropriate for HSCM to aggregate Client orders for the purchase or sale of securities and other investments at the same broker-dealer or with the same issuer or counterparty. HSCM will generally follow the guidelines set out below in aggregating Client orders, including any orders placed for private investment vehicles:

- No investment advisory Client will be favored over any other investment advisory Client unless otherwise permitted or allowed under appropriate policies and procedures; and
- Each Client that participates in an aggregated order will participate at the average price for HSCM’s transactions in that investment on a given business day or such shorter period, as applicable and transaction costs will be shared pro rata based on each Client’s participation in the aggregated order.

Specific allocations of orders will generally be made as set out below.

- If each portfolio for more than one Client is generally similar in investment strategy and composition, the order may be allocated pari passu based on the aggregate of the net asset value and undrawn capital commitments of such Client fund (or expected assets under management) based on the appropriate sizing of the position as a percentage of each Client fund’s size. If the aggregate order cannot be filled in its entirety for each Client, it will be allocated to each Client on a pro rata basis as set forth above.

- If each portfolio for more than one Client is not generally similar in investment strategy and composition, the order may be allocated pari passu based on order size or in a manner described in Item 11 for the HSCM InsurTech Funds. HSCM would determine in good faith the optimal order size for each Client based on factors set forth above as well as other considerations. If the aggregate order cannot be filled in its entirety for each Client, it will be allocated to each Client pro rata to the order size for each Client.
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### ITEM 13: REVIEW OF ACCOUNTS

HSCM's management and Investment Committee are responsible for reviewing each HSCM Fund's portfolio on a regular basis. The Investment Committee of the HSCM Re/Insurance Funds and the Transport Funds is comprised of Mr. Millette and other senior investment professionals of HSCM and at least one member of HSCM's Board of Advisors. The Investment Committee of the NS Funds is comprised of senior investment professionals of HSCM. The responsibilities of the Investment Committee with respect to the HSCM Re/Insurance Funds generally include (i) determining the risk/return appetite of the Client; (ii) creating "target" portfolios which help guide the sourcing of risk that generates the risk/return objectives for the Client; (iii) reviewing individual investment proposals for the Client developed by the HSCM's underwriters; and (iv) ensuring the adherence to any risk constraints adopted for the Client as market conditions develop. The responsibilities of the Investment Committee with respect to HSCM's Transport Funds and NS Funds generally include reviewing (i) investment and portfolio allocation strategies for the Client; (ii) individual investment proposals for the Client developed by HSCM's investment team; and (iii) adherence to any risk constraints already established within the investment guidelines or that may be adopted for the Client as market conditions develop.

HSCM's partners are active in overseeing and participating in investment and business decisions for HSCM's Clients, including discretionary and non-discretionary Clients as applicable and deemed appropriate, as well as decisions with respect to co-investment opportunities and vehicles. HSCM has structured the investment approval, portfolio construction and exposure monitoring process to assure rigorous risk analysis. HSCM conducts quarterly reviews of macro, sector and subsector trends and outlooks to seek to identify and adjust the portfolios to potential risks.

Investors in each HSCM Fund will receive monthly unaudited account statements, periodic performance reports from HSCM and annual audited financial statements.

Certain investors in the HSCM Funds may request additional information relating to the HSCM Funds and, to the extent such information is readily available or may be obtained without unreasonable effort or expense, HSCM generally will provide such investors with the information requested. Investors that request and receive such information will consequently possess information regarding the business and affairs of the HSCM Funds that may not be known to other investors. As a result, certain investors may be able to take actions based on such information which, in the absence of such information, other investors do not take.

#### ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

HSCM does not participate in arrangements with non-Clients that result in HSCM receiving an economic benefit for providing investment advice or other services to its Clients. HSCM has arrangements (and may enter into additional future arrangements) whereby it or an affiliate compensates placement agents/brokers or other parties in amounts generally equal to a percentage of the aggregate interests that are subscribed for by certain investors in HSCM Funds or other Clients.

If third-party solicitors are engaged, a prospective investor solicited by a third party will be informed of (and may be asked to acknowledge in writing its understanding of) any such arrangement. All fees for such solicitation services will be ultimately paid/borne by HSCM and none of the investors in the HSCM Funds will be subject to any increased or additional fees or charges. Third-party solicitors in the U.S. may be registered as broker-dealers with the SEC. Third-party solicitors outside the U.S. will be registered with a non-U.S. regulatory body to the extent such registration is required in the applicable non-U.S. jurisdiction.

#### ITEM 15: CUSTODY

HSCM may be deemed to have custody, as defined under Rule 206(4)-2 under the Advisers Act, of funds, investments or securities of the HSCM Funds or Clients. HSCM relies on the “audit exemption” under Rule 206(4)-2(b)(4) under the Advisers Act, which generally exempts an adviser to a limited partnership, limited liability company or other pooled investment vehicle from the requirement to deliver account statements to its Clients if the adviser requires the vehicle to be audited annually by an independent public accountant that is registered with the Public Company Accounting Oversight Board and distributes the audited financial statements annually to the investors in the vehicle.



#### ITEM 16: INVESTMENT DISCRETION

HSCM has discretionary authority to manage the portfolios of the HSCM Funds and certain other Clients pursuant to investment management agreements with the HSCM Funds and such other Clients, which customarily do not place limitations on HSCM's authority to manage a Client's portfolio.

#### ITEM 17: VOTING CLIENT SECURITIES

HSCM has adopted proxy voting policies and procedures, which are summarized below.

HSCM's policy is to vote or abstain from voting proxy proposals, amendments, consents, or resolutions (collectively, "proxies") on behalf of accounts managed by HSCM in a manner that serves the best interests of the HSCM Funds or respective Clients. Prior to voting any proxies with respect to an HSCM Fund or other Client, HSCM will review the applicable proxy solicitation materials for any potential material conflicts of interest. If a material conflict of interest is identified, HSCM will determine what course of action is in the best interests of the HSCM Fund or another Client.

HSCM's chief compliance officer (or delegate) will periodically review HSCM's proxy voting practices.

Upon request of a Client to HSCM's chief financial officer, HSCM will provide a copy of its proxy voting policies and procedures and provide information regarding how proxies have been voted.

Notwithstanding the foregoing, because proxy proposals and individual company facts and circumstances may vary, HSCM may not always vote proxies in accordance with the Policy.

#### ITEM 18: FINANCIAL INFORMATION

HSCM does not require the payment of fees or other compensation six months or more in advance. There exists no financial condition of which HSCM is currently aware that would impair HSCM's ability to meet contractual commitments to its Clients. HSCM has not been the subject of a bankruptcy petition within the past 10 years.

ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

This Item is not applicable to HSCM.