



# BRITANNICA CAPITAL

## RISK FACTORS

# Risk Factors

Investing in hedge funds, structured credit, and private debt involves significant risk and should only be considered by investors who can bear the potential loss of capital.

The risks outlined below are not exhaustive but represent the primary considerations for investors evaluating Britannica Capital's investment products. Each investor should carefully assess their financial objectives, liquidity needs, and risk tolerance before making an investment decision.

## Market Risk

Market risk refers to the potential decline in asset value due to broader economic, financial, or geopolitical factors.

### **Britannica's funds may be affected by:**

- ✓ Stock market volatility – Prices of equities and related securities can fluctuate significantly.
- ✓ Interest rate changes – Rising interest rates can negatively impact fixed-income and credit investments.
- ✓ Global macroeconomic conditions – Inflation, currency movements, and central bank policies influence fund performance.
- ✓ Political & regulatory instability – Policy shifts, trade restrictions, and geopolitical events can impact asset valuations.

Market risk is inherent and cannot be completely eliminated, though the fund may

## Liquidity Risk

Liquidity risk arises when an asset cannot be easily sold or converted into cash without significantly affecting its price. Britannica Capital's funds have varying liquidity profiles, which may impact an investor's ability to redeem capital:

## Credit & Default Risk

Funds investing in credit markets are exposed to borrower default risk, which occurs when an issuer fails to meet its debt obligations. Risks include:

- ✓ Corporate bond defaults – Companies may be unable to repay principal or interest.
- ✓ Structured credit impairments – Collateralized securities (e.g., MBS, CLOs) may decline in value.
- ✓ Private credit non-performance – Direct lending agreements may face repayment delays or defaults.

To mitigate these risks, Britannica Capital employs due diligence, collateral-backed lending, and credit risk modeling.

## Leverage Risk

Leverage amplifies both potential gains and losses by using borrowed capital or derivatives. Britannica Fund may employ leverage through:

- ✓ Margin trading – Borrowing funds to increase asset exposure.
- ✓ Derivatives (options, swaps, futures) – Can be used for hedging but also introduce counterparty risk.
- ✓ Repo & securities lending – Engaging in repurchase agreements to generate additional return.

Excessive leverage can increase volatility and lead to larger drawdowns in unfavorable market conditions.

## Counterparty & Operational Risk

Investment funds rely on third parties for custody, execution, and risk management. Key risks include:

- ✓ Brokerage failures – If a trading counterparty defaults, funds may experience trading disruptions.
- ✓ Custodian insolvency – Custodians holding fund assets may face financial distress.
- ✓ Cybersecurity threats – Data breaches or cyberattacks could compromise investor information.
- ✓ Operational errors – Failures in trade execution, settlement, or fund reporting can impact investor returns.

To minimize these risks, Britannica Capital works with regulated counterparties and third-party administrators to ensure transparent governance.

## Regulatory & Compliance Risk

Britannica's funds operate under offshore jurisdictions (e.g., BVI, Cayman Islands) and SEC exemptions. Investors should be aware of:

- ✓ SEC 3(c)(7) limitations – U.S. investors must meet qualified purchaser criteria to participate.
- ✓ Tax compliance (FATCA, CRS) – Investors may have reporting obligations under U.S. and international tax laws.
- ✓ Anti-Money Laundering (AML) & KYC requirements – Investors must comply with verification checks before subscribing.
- ✓ Regulatory changes – New laws or tax policies may impact fund structure or investment strategy.

## Concentration Risk

Certain Britannica Capital funds may invest in specific sectors, asset classes, or geographic regions, leading to concentration risk. This can increase volatility if:

- ✓ A single sector (e.g., tech, real estate) experiences a downturn.
- ✓ A geopolitical crisis affects emerging markets investments.
- ✓ A large allocation to one security or issuer underperforms.

Portfolio diversification helps reduce, but does not eliminate, concentration risk.

## Tax Risks

Investors may be subject to varying tax treatments depending on their jurisdiction and residency. Tax-related risks include:

- ✓ U.S. vs. offshore tax treatment – Funds domiciled in BVI/Cayman may have different withholding tax rules.
- ✓ Capital gains vs. ordinary income classification – Returns may be taxed differently based on investment structure.
- ✓ Tax reporting obligations – FATCA/CRS compliance may require investors to disclose holdings.

Investors should consult with tax professionals to understand their specific tax obligations.

## Fund-Level Liquidity & Redemption Risks

Each fund has specific redemption policies that may restrict investor withdrawals:

- ✓ Britannica Fund: Annual redemption window, with possible gates during high-stress periods.
- ✓ Britannica Preferred: No redemptions before maturity (4-7 years).
- ✓ Britannica Debt: No redemptions before maturity (4-7 years).

The fund may suspend redemptions in times of market distress to prevent forced asset sales