



HATTERAS  
FUNDS

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February 27, 2017

Dear Hatteras Funds' Partners,

Hatteras Funds' foundation was based on the desire to solve problems that advisors face when allocating to alternative investments. We were then, and remain today, driven by the relentless pursuit of a better way to invest. Since our founding, we have believed in several unwavering principles: we will provide unparalleled service; we will always be transparent with financial advisors; we are passionate about serving the advisor community; and we believe that an evergreen private investment program can help advisors build better portfolios.

While we seek to identify and create new private investment solutions that make it easier for advisors to invest, we also maintain a deep and on-going responsibility to improve upon what we have already introduced. Today, we write to discuss with you a strategic shift that we believe will enhance the performance of our fund offerings.

*The Hatteras Core Alternatives Fund -*

In 2003, we created the Core Alternatives Fund to deliver the risk mitigation benefits of a portfolio of hedge funds and the potential return enhancement produced by a diversified, seasoned evergreen private investment program. At that time, building such a portfolio was difficult to explain, harder to implement, and mostly available only to large institutional investors.

We partnered with Morgan Creek Capital Management to build and manage this portfolio to complement the "long only" or traditional portfolios that were already available to investors. We hoped to challenge the barriers that investors faced when seeking an allocation to alternative investments – especially amongst private investments.

At every juncture, we have asked ourselves the question(s) of whether or not we are living up to our commitment to investors and their advisors. Is there more we can do to find a better way to manage a particular portfolio? Have we considered every shortcoming and addressed it with an improved solution? Along the way, we have implemented multiple portfolio management, structural, and communication improvements.

Today, as we reflect upon the experience our investors have had in the Core Alternatives Fund, we are disappointed. We have not lived up to expectations. We face an inflection point at which more must be done to fulfill the promise of this program, and more importantly, the commitment we have to our investors. We were forced to consider all options for improvement.

*Defining Alternatives*



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The Board of Directors for the Hatteras Core Alternatives Fund has lost confidence in Morgan Creek Capital Management. Today, after thoughtful consideration, the Board terminated the sub-advisory agreement with Morgan Creek. Our management team and Board did not come to this decision easily, as Morgan Creek has been a valued partner for many years. We determined that team resources, depth, and strategic focus were no longer consistent with the Core Fund's ability to meet investor needs.

Over the course of the past year, Hatteras Funds embarked upon a manager search for a new evergreen private investments platform. During the course of this process, we were consistently impressed by the team depth, strategy expertise, and senior experience available at multiple industry-leading private investment firms.

The Core Fund's private investment portfolio should generate significant return of capital over the next few years. As that capital returns, our goal of maintaining a diversified, evergreen private investments program will demand the utilization of secondary private investments (rather than continued reliance upon primary investments). This requires an investment team with demonstrated experience, depth, and relationships. Additionally, we believe there should be more prudent utilization of hedge fund strategies that are designed to achieve true risk mitigation and liquidity management, rather than budgeting those allocations to seek opportunistic return enhancement in concentrated themes or regions.

Today, we are pleased to announce that our Board of Directors has approved Portfolio Advisors (Darien, CT) as sub-advisor to the Core Fund. We are impressed by Portfolio Advisors' strong long-term performance track record and deep experience across a breadth of private investment strategies. They possess both the experience, and the necessary relationships, to utilize secondary funds successfully. Portfolio Advisors has over 90 investment professionals across private equity, private credit, private real estate, secondary and direct investment teams. Portfolio Advisors manages over \$36 billion across 29 different funds. Our Board was very impressed by Portfolio Advisors' founder Brian Murphy's vision, experience, and especially his commitment to maintaining a world-class team of investment professionals. We have great confidence in their ability to help manage the portfolio moving forward. We are excited to embark on this new partnership and a shared commitment to improving the Core Alternatives Fund's investment processes and performance.

#### *Introducing the Evergreen Private Investments Platform -*

Many advisors have faced the common experience of seeking the benefits of private investments, but encountering the (many) difficult hurdles of building and maintaining a private portfolio diversified by vintage year, manager, stage, investment strategy, and geography. We are very excited to share that we are building an evergreen private equity solution that should help advisors allocate to private equity.



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Over the coming year, we are excited to offer other opportunities in our Evergreen Private Investments Platform, including targeted strategies that offer alternative sources of income and growth such as real estate and private credit.

*Our Commitment -*

Hatteras Funds is committed to providing unique alternative investment solutions for Financial Advisors and their clients. We are driven by a relentless pursuit of a better way to invest. We seek to create solutions that help Advisors and their clients build better portfolios. It is this desire that drove us to make the changes aforementioned in this letter.

We believe the enhancements made today will benefit investors. Thank you for your continued interest and confidence in Hatteras and we welcome any questions or comments you might have.

My very best,

David B. Perkins  
Founder and CEO