

# Crestline Investors, Inc.

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## **Form ADV, Part 2A – Disclosure Brochure**

Date: March 31, 2011

This brochure provides information about the qualifications and business practices of Crestline Management, L.P. If you have any questions about the contents of this brochure, please contact us at (817) 339-7600. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state securities authority.

Additional information about Crestline Management, L.P. is also available on the SEC's website at [www.advisorsinfo.sec.gov](http://www.advisorsinfo.sec.gov).

Crestline Management, L.P., a federally registered investment adviser, acknowledges that such registration does not imply a certain level of skill or training.

## **Material Changes**

This brochure is a new document prepared in response to recent amendments to SEC Form ADV. It is materially different in structure and requires us to disclose certain new information about our business. In the future, this item will include a summary of material changes made to the brochure since the last annual update.

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## Advisory Business

Founded in 1997, Crestline Management, L.P. (“Crestline”) sponsors and provides investment management services to private pooled investment funds and private managed accounts (single investor funds) on a discretionary basis (together the “Funds”) that employ either a diversified low volatility strategy or an opportunistic investing strategy (blending fund of funds, private equity and direct investing seeking to capitalize on current market dislocations and inefficiencies). Crestline also provides “beta” solution services to certain of its Funds and investors.

Crestline is primarily a “fund of funds” manager/adviser whereby it identifies third-party investment management firms (the “Portfolio Managers”) whose investment strategies and styles are, in Crestline’s judgment, suited to the respective investment objectives, policies and restrictions of the relevant Funds, and then allocates and from time to time reallocates the capital of the Funds to the investment discretion of Portfolio Managers by investing in underlying private funds (“underlying private funds”) they manage. The Portfolio Managers, in turn, invest such assets using a number of investment strategies.

Also, if authorized by the Funds’ constituent and offering documents (“governing documents”), Crestline may from time to time invest directly in securities other than through investments with Portfolio Managers. The types of financial instruments range from marketable securities and options to illiquid investments, including, without limitation, private equity, private debt instruments and real estate related investments. As part of the investment program of certain Funds, Crestline may acquire investments in underlying private funds via the secondary market. When appropriate Crestline creates special purpose vehicles to pool Fund assets and invest in financial instruments and to invest with Portfolio Managers. Crestline may also invest Fund assets through discretionary managed accounts, entities consisting primarily of Crestline advised Funds as investors, swaps or other similar products.

Crestline also has a “beta” solutions business which customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant Fund or investor. See the section entitled “Methods of Analysis, Investment Strategies and Risk of Loss” for further discussion.

Crestline Investors, Inc. is the general partner of Crestline Management, L.P., and Crestline Associates, L.P. Crestline Associates, L.P. serves as the general partner of the domestic limited partnership Funds managed by Crestline Management, L.P. Crestline Offshore Associates, Ltd. serves as the general partner of the offshore limited partnership investment Funds managed by Crestline Management, L.P. Crestline Canada, Inc. is an investment manager doing business in Canada that provides the “beta” overlay advice to Crestline Management, L.P. and certain Canadian trusts. Crestline Management, L.P. has been registered as an investment adviser with the SEC since 2002.

Crestline’s principal owner is Mr. Douglas K. Bratton, minority owners include Ms. Caroline Cooley and Mr. John Cochran. The owners of Crestline also own Crestline Canada, Inc.

As of January 31, 2011, Crestline managed approximately \$5,445,957,264 which includes notional “beta” overlay amounts managed by Crestline and \$1,020,540,337 of notional assets managed by Crestline Canada, Inc. also in “beta” overlay strategies.

## Fees and Compensation

Each Fund sets forth its specific fee structure (including how it charges fees) in a confidential explanatory memorandum, similar disclosure document or account agreement provided to (in the case of an account agreement, executed by) prospective investors in such Fund.

Fees charged to the Funds are payable either monthly or quarterly, and either in advance (but not more than three months in advance) or arrears depending on the individual Fund. Fees are deducted directly from the Funds. Crestline generally charges one of, or a combination of, the following:

1. management fees are computed on a percentage of assets under management (based on the net or total asset value before performance based compensation), which: (A) may be on a sliding scale; (B) may be subject to a minimum floor (expressed in dollars or as a percentage of assets under management); and (C) currently range from 0.50% per annum to 1.75% per annum depending on the Fund;
2. performance based allocations, performance based fees and carried interest compensation (“performance based compensation”) are computed on the percentage of capital appreciation experienced by the relevant Fund and range from 5% per annum to 20% per annum and may be subject to a “hurdle,” “preferred return” and/or a “high watermark.” Certain Funds give Crestline the ability to make direct investments in securities (as opposed to investments in underlying private funds) via special purpose vehicles which are subject to additional performance based compensation to Crestline. Carried interest compensation is a term that generally refers to performance based compensation to the relevant fund’s general partner or investment manager after repayment of any capital contributions and an agreed upon preferred return to the investor.

In computing net asset values on which to charge fees/allocations, the Funds and Crestline place a substantial degree of reliance on the accuracy of the valuations and performance results provided by the underlying private funds.

Allocations/fees are generally not negotiable, but under special circumstances other rates may be agreed upon and charged. Crestline may enter into agreements with certain Fund investors that may provide different terms to such investors. Management agreements to which Crestline is a party are terminable based on the provisions outlined in each Fund’s governing documents and in each relevant management agreement. In the event of termination of an investment advisory contract or management agreement, all unearned, prepaid fees are prorated and refunded to the client. Crestline’s management fee and performance based compensation may be waived for certain of its related persons or service providers invested in the Funds.

In addition to the fees paid by the Funds to Crestline Management, L.P., to Associates and to Offshore Associates, the underlying private funds in which the Funds invest generally also charge expenses such as those set forth in the following paragraph and an asset-based management fee and performance based-

allocation or fee to the Funds which is paid by the Funds, thereby resulting in two layers of expenses, fees and allocations.

Funds may also pay other expenses in addition to the fees paid to Crestline. For example, Funds may pay portfolio transaction costs, brokerage commissions, transaction fees, custodial and administration fees, audit and legal fees, registration, licensing, governmental filing fees, costs of Portfolio Manager background checks, lender expenses, transfer taxes, wire transfer fees and other related fees and taxes. Certain research and/or due diligence expenses of Crestline (i.e. travel expenses incurred while visiting prospective or existing Portfolio Managers) are absorbed by the Funds and/or Crestline. Please refer to the relevant Fund's governing documents for further details.

Certain principal owners of Crestline have a direct or indirect ownership interest in the Portfolio Managers Restoration Capital Management LLC and DC Funding Partners LLC. See the section entitled "Other Financial Industry Activities and Affiliations" for further discussion. Neither Crestline nor any of its employees accept any other compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

## **Performance-Based Fees and Side-By-Side Management**

Crestline may receive performance based compensation from certain Funds it manages. Crestline also manages Funds that pay only asset based fees and do not pay performance based compensation or that pay lower performance based compensation. Managing both types of Funds creates potential conflicts of interest. Crestline can potentially receive higher fees from Funds with higher performance based compensation arrangements than from Funds with lower performance based compensation arrangements or from Funds that pay only asset based fees. As a result, Crestline may have an incentive to favor the Funds paying the highest performance based compensation by directing the best investment ideas to such Funds or taking on increased investment risk in the portfolios of such Funds. Crestline has established investment allocation procedures designed to prevent these conflicts from influencing the allocation of investment opportunities among Funds and to ensure all Funds are treated fairly and equally and in accordance with such Fund's investment strategy. When allocating investment opportunities, Crestline considers several factors, including, without limitation:

- investment strategy,
- current strategy allocation and concentration within each Fund,
- capital available for investment,
- anticipated redemptions and/or subscriptions by investors within each Fund,
- diversification within each Fund's portfolio, and
- the risk/return objectives of each Fund and minimum investment requirements of the underlying private funds.

In addition, certain Funds managed by Crestline require the approval of an investor-composed advisory committee before Crestline can structure investments in investment vehicles where Crestline may receive additional performance based compensation.

Crestline recognizes its fiduciary duties owed to the Funds and will act in good faith and with fairness in all its dealings with the Funds. Crestline will take such duties into account in dealing with all actual and potential conflicts of interest.



## **Types of Clients**

Crestline serves as the investment manager to private domestic Funds that were formed for the benefit of U.S. investors, and private offshore Funds that were formed for the benefit of non-US investors and U.S. tax-exempt investors. As used herein the term “Funds” includes private pooled investment funds and private managed accounts (single investor funds).

Investors in the Funds include:

- governmental plans, state pension and permanent funds, sovereign wealth funds,
- private retirement plans, corporate pensions, multi-employer pensions,
- financial institutions and other institutional clients,
- foundations, endowments and other charitable organizations,
- family offices, and high net worth individuals.

In determining whether to launch a Fund, Crestline will look to whether it will have sufficient capital to meet the Fund’s investment objectives and return goal. Crestline generally requires investors in the Funds to be qualified purchasers as defined in the Investment Company Act of 1940, as amended, and generally requires a minimum investment of \$1,000,000 (\$500,000 in the case of Crestline Plus, L.P. and \$100,000, €100,000, or Canadian \$100,000 in the case of a limited class of interests in Crestline Offshore Fund, Ltd.), although Crestline reserves the right to accept lesser amounts.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

Crestline provides discretionary investment advisory services to Funds with investment strategies that are generally either diversified low volatility fund of funds or opportunistic investing funds (including distressed investment and secondary trade funds).

Crestline also has a “beta” solutions business which customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant Fund or investor. Beta management can be applied as a means of providing portable alpha and other beta management applications such as portfolio hedging.

### **Investment Strategies**

The Funds Crestline manages, both diversified low volatility and opportunistic investing Funds, generally allocate assets to a variety of Portfolio Managers through direct investments in underlying private funds (partnerships, limited liability companies, corporations or similar limited liability entities), through acquisition of investments in underlying private funds managed by Portfolio Managers via the secondary market and, in certain instances, through discretionary managed accounts, single purpose entities, entities consisting primarily of Crestline advised Funds or through swaps or other similar products. Additionally, certain Funds will make direct investments in securities as opposed to via an investment in an underlying private fund.

The underlying private funds we invest in pursue a variety of absolute return or event driven strategies including, without limitation, convertible arbitrage, derivative arbitrage, distressed securities/bank debt, bank loans, fixed income arbitrage, market-neutral equity, capital structure arbitrage, CTAs/managed futures, financing strategies, equity long/short, commodity relative value, credit/structured products, credit relative value, merger arbitrage and special situations/other. Certain of these strategies involve complex and sophisticated analysis, modeling, and/or trading techniques, and involve complex, exotic, and/or hard to price securities. Additionally, many of these strategies involve leverage and/or varying degrees of operational and legal complexity and sophistication. A more detailed description of these strategies is set forth in the relevant Funds’ governing documents.

### **Investment Process**

The following investment process summary applies when Crestline is investing with a Portfolio Manager directly, rather than acquiring an investment via the secondary market. See below for a discussion of secondary market investments.

### **Investment Due Diligence**

With respect to the Funds with a diversified low volatility strategy, Crestline employs a top-down, forward-looking approach to investing. Crestline’s goal is to understand the potential drivers of returns going forward and in that manner select investment strategies it believes will generate desired returns. We then select Portfolio Managers we believe can execute on the investment strategies we have identified. Using a variety of sources including databases (internal and external), prime brokers, professional contacts, existing Portfolio Manager relationships, industry publications and other investors

we are able to identify potential Portfolio Managers we believe can execute on a given strategy. As part of the initial identification and screening process Crestline's investment professionals gather the Portfolio Managers' marketing materials and other fund materials, set up calls or office meetings, check references, and perform a quantitative analysis of historical returns. A Portfolio Manager is moved into the due diligence process only after enough preliminary work has been done to know whether we like the basic fundamentals of the Portfolio Manager, the strategy, the returns and the risk profile. Portfolio construction goes hand in hand with the investment process as Fund governing documents dictate the appropriate blend of investments, both minimum and maximum.

The due diligence process is very thorough and includes a range of personnel and resources across the Crestline organization.

Additional information that we gather and analyze during the investment due diligence process may include, without limitation: due diligence questionnaires, legal documents (offering memoranda, organizational documents, investment management agreements), regulatory filings (Form ADV, Schedules 13D, 13G, 13F, Section 16 filings, Rule 8 filings, etc.), reference checks, background checks, portfolio and risk information, assessment of historical returns, investment analysis, models, and risk tools. We seek to analyze a prospective underlying investment fund's investment strategy and opportunity set, the quality and skills of the Portfolio Manager, the identifiable risks involved in the strategy and firm and how they are managed or mitigated. During the due diligence process on-site visits are made by separate investment and operational research teams. Other participants in the process include our risk and legal teams.

### **Operational Due Diligence**

Another core tenet of our investment process is operational due diligence of Portfolio Managers and the underlying private funds they manage. The operational due diligence team focuses extensively on the quality of the operational procedures, infrastructure, internal controls, legal and regulatory compliance, trade capture, execution, reconciliation, cash management, disaster recovery and business continuity, technology systems, valuation and third party service providers. Crestline may cause a Portfolio Manager to change procedures and institute better internal controls as a pre-condition for an investment by a Fund. A Portfolio Manager must meet our strict operational due diligence guidelines or they will be dismissed from further consideration. Operational due diligence is an ongoing process with ongoing monitoring of active Portfolio Managers. The operational due diligence team reports to a veto power holding member of the Investment Committee.

### **Risk Management**

Risk management is integrated throughout all the steps in our investment process. Crestline has a dedicated Chief Risk Officer, a risk team, and a Risk Committee. The primary role of our risk team is to enhance our risk management capabilities by integrating position level analysis and additional quantitative tools into our initial fund due diligence, risk monitoring and portfolio construction process. The risk management functions and team are structured separately from portfolio management to insure independence. Because of the importance of having independent oversight on issues relating to

portfolio/risk of underlying private funds, risk management reports to a veto power holding member of the Investment Committee.

Crestline has an Investment Committee composed of senior investment and operational staff that ultimately vote on investments.

### **Ongoing Monitoring**

The diligence process continues after we make an investment. After investment Crestline continues to monitor the underlying private funds in much the same way as prior to investing. The ongoing monitoring of underlying private funds includes (i) annual front office and back office reviews, (ii) quarterly calls (more frequent if necessary), (iii) review of financial statements and quarterly letters, (iv) portfolio monitoring (through managers' risk reports, position reports and/or third party risk aggregation reports), (v) quarterly questionnaires, (vi) annual due diligence questionnaires, (vii) review of regulatory filings, (viii) updated background checks and (ix) monthly media sweeps.

Portfolio Managers are covered by an investment team within Crestline that is responsible for monitoring their respective managers and sectors, and must evaluate each Portfolio Manager on a formal basis quarterly. Portfolio Managers determined to have issues of concern are addressed weekly in the regular weekly investment review meeting. Additionally, information that is gathered through the monitoring process is stored in our database and is also monitored by our risk department. The risk department has established Flags (up to 500 different items per underlying private fund) for each of the data items being monitored and will separately bring flagged issues of concern to the Investment Committee.

In addition, Crestline's operational due diligence process is a continuous process with respect to active underlying private funds (as opposed to underlying private funds where we are waiting to receive redemption proceeds). We gather a significant amount of information from the fund on a monthly/quarterly basis which is reviewed by both the investment team, risk team, and operations teams at Crestline. The review of such information is complemented by calls with management to discuss any identified risks, issues, or other items that require additional clarity. In addition, the operational due diligence team will conduct at a minimum an annual on-site visit to each ongoing underlying private fund in the portfolio. Operational issues discovered by the operational due diligence team from their on-going monitoring of underlying private funds are discussed during Crestline's quarterly meetings. With respect to underlying private funds where we are waiting to receive redemption proceeds, the investment staff will monitor such underlying private funds and will involve the operational due diligence and risk management teams as necessary.

### **Beta Overlay**

Crestline also has a "beta" solutions business which customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant Fund or investor. A "beta" overlay involves investing a notional amount via a derivative contract with the objective of earning the return on a benchmark index or customized basket of securities. Crestline will periodically rebalance the account and the derivative contract exposures at pre-determined rebalancing points or as required by the relevant agreements. Crestline also employs derivatives to manage or eliminate an investor or Fund's foreign exposure to risk factors such as currency risk or interest rate risk. To support these overlay and

hedging programs, Crestline performs daily monitoring and risk management functions and provides liquidity and collateral management services.

### **Opportunistic Investing**

Certain Funds have an “opportunistic” investment strategy that generally follows the same due diligence process outlined above when such Funds invest in underlying private funds. The investment diligence and portfolio construction process of such Funds, however, is different from the process outlined above in that the opportunistic Funds seek investment opportunities that are more market driven or that seek to capitalize on more immediate market trends and dislocations. The opportunistic Funds are designed to have more concentrated portfolios with more overall market exposure. A primary factor in opportunistic fund portfolio construction is the return profile of the target portfolio.

### **Secondary Market Transactions**

Certain Funds acquire investments in underlying private funds managed by Portfolio Managers via the secondary market. Crestline uses a variety of sources to find sellers of underlying private funds, including, but not limited to its industry contacts and intermediaries. Using its proprietary valuation models and methodology Crestline is able to evaluate potential transactions and establishes a price we are willing to pay for an investment. As part of establishing its price for an asset, Crestline will conduct due diligence on assets held by underlying private funds to determine fair value and expected hold period of the underlying asset. For certain asset classes, the team in charge of secondary market transactions will leverage the expertise of the broader Crestline organization or various external relationships that possess relevant expertise. After an investment is identified for purchase Crestline will use its established closing process to acquire the investment. The closing process for secondary market investments is complicated and requires coordination across multiple internal and external teams. Through the use of in-house and external counsel the acquisition of investments is structured and negotiated, deal documentation is prepared and the accounting and operations teams ensure all subscription and transfer documentation is in order when closing transactions.

The investment process with respect to direct investments is similar to the investment process involved in opportunistic investing and secondary market transactions. The investment team uses proprietary valuation models and methodology, internal resources and external relationships to evaluate direct investment opportunities and establish pricing and expected hold periods.

### **Risks**

Investing in securities involves risk of loss that clients should be prepared to bear. Crestline’s investment strategies entail substantial risks and there can be no assurance that the investment objectives will be achieved. Material risks include:

- Dependence on Portfolio Managers – Crestline invests Fund assets primarily through Portfolio Managers. The success of the Funds depends upon Crestline’s and the Portfolio Manager’s ability to develop and implement investment strategies that achieve the Funds’ investment objectives;

- Liquidity – Some investments may lack liquidity due to underlying private funds having the right to suspend payment of withdrawals under certain circumstances as well as Funds being subject to lock-ups, gates and redemption fees, in addition certain underlying private funds invest in or hold illiquid securities;
- General Economic Conditions – General economic conditions may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets which could lead to unexpected volatility or illiquidity;
- Leverage – Some underlying private funds and some Funds employ leverage (direct or notional) which may increase the risk of loss;
- Non U.S. Investments – Some underlying private funds invest in securities, commodities and other financial instruments of non U.S. corporations and governments which may be subject to political and economic instability;
- Currency – Some investments may be made in currencies other than U.S. dollars. Crestline may hedge a Fund's exposure to currency fluctuations between the U.S. dollar and other currencies which may increase the risk of loss;
- Special Situations – Certain underlying private funds may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, take considerable time or result in a distribution of cash or a new security the value of which will be less than the purchase price to the underlying private fund of the security or other financial instrument in respect of which such distribution is received;
- Equity Securities – The investment portfolios of underlying private funds may include positions in common stocks, preferred stocks and convertible securities. The underlying private funds also may invest in depositary receipts relating to non-U.S. securities. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete and industry market conditions and general economic environments;
- Short Sales – Some underlying private funds may sell securities short. Selling securities short risks losing an amount greater than the proceeds received;
- Counterparty Creditworthiness – An underlying private fund may hold assets in one or more accounts maintained for such fund by counterparties, including their prime brokers. There is a risk that any of such counterparties could become insolvent. The insolvency of counterparties is likely to impair the operational capabilities or the assets of such fund. This risk is heightened when underlying private funds use counterparties located in various jurisdictions outside the United States because the laws applicable to such counterparties may have substantial limitations and uncertainties;
- Distressed Securities – An underlying private fund may invest in “below investment grade” securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky

investments although they may also offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers;

- Derivatives – Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Since many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the investor to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk;
- Restrictions on transfers of secondary interests – The secondary investment interests in which certain Funds invest may be highly illiquid and typically subject to significant restrictions on transfer, including a requirement for approval of the transfer by the general partner or the investment manager of the underlying private fund, and often rights of first refusal in favor of other investors. Completion of the transfer is often time-consuming and relatively difficult, as compared to a transfer of other securities.

To the extent Funds invest in securities directly (as opposed to via an investment in an underlying private fund), the risks outlined above are directly applicable to such Fund.

Other investment techniques that the underlying private funds may employ from time to time can, in certain circumstances, maximize the adverse impact of adverse market conditions or events to which the Funds may be subject. In addition to the risks associated with Crestline’s investment strategies and techniques, Fund investments are subject to other risks including but not limited to regulatory risks and market risks. Investors in Funds managed by Crestline should refer to the applicable Fund’s governing documents for additional risks.

## **Disciplinary Information**

Crestline has no legal or disciplinary event to report.



## Other Financial Industry Activities and Affiliations

### Funds

Crestline serves as investment manager and/or general partner of the following private pooled investment funds and private managed accounts:

Crestline Partners, L.P.

Crestline Plus, L.P.

Crestline Opportunity Partners, L.P.

Crestline Recovery Fund, L.P.

Crestline Recovery Fund II, L.P.

Crestline 20/20 Fund, L.P.

Crestline 20/20 Offshore Trust

Crestline Offshore Fund, Ltd.

Crestline ERISA Fund, Ltd.

Crestline ERISA Master Fund, Ltd.

Crestline Offshore Opportunity Fund, Ltd.

Crestline OT Opportunity Fund, L.P.

Crestline Offshore Opportunity Fund Partners, L.P.

CL Opportunity Master Fund, L.P.

Crestline Offshore Recovery Fund, L.P.

Crestline Offshore Recovery Fund II, L.P.

Crestline AK Permanent Fund, L.P.

Crestline AK Distressed Investments Fund, L.P.

Blue Glacier Fund, L.P.

Trent River Offshore Limited

Special Offshore Ltd. E

Eli Lilly Retirement Plan Master Trust

Crestline IDF Partners, L.P.

Crestline CS 3000 Fund, L.P.

Crestline CS Fund, L.P.

Crestline Enchantment Fund, L.L.C.

Crestline Murray Hill Partners LP

Crestline Event Arbitrage, L.P.

Crestline Event Arbitrage Offshore Fund, Ltd.

Crestline Plus Offshore Fund, Ltd.

Crestline Plus Trust

Crestline Event Arbitrage Trust

Crestline Event Arbitrage Trust (II)

As related entities, the above entities do not negotiate their terms on an arm's length basis with Crestline. Crestline fully discloses its fees prior to investors purchasing interests in the above Funds.

Certain principal owners of Crestline have a direct or indirect ownership interest in the following Portfolio Managers: Restoration Capital Management LLC (“RCM”) and DC Funding Partners LLC (“DCF”). Because of the ownership interest in these Portfolio Managers, such related persons share in the fees, revenues or profits that are generated by the Portfolio Managers. Currently, Crestline has placed and may continue to place assets of Crestline Opportunity Fund, L.P., Crestline Offshore Opportunity Fund, Ltd. and Crestline OT Opportunity Fund, L.P. (together, the “Opportunity Funds”) under the management of such Portfolio Managers. These fee-sharing arrangements provide an incentive to Crestline’s principals to maintain or increase investment in these Portfolio Managers. In addition, investments made by the Opportunity Funds may enhance the ability of these Portfolio Managers to raise additional fee-, revenue- or profit-generating capital from third parties. This conflict could affect Crestline’s objectivity and the performance of the Funds. Crestline disclosed the conflict to the investors in the Opportunity Funds and received approval of the investments.

In limited circumstances, Crestline may establish and manage a new Fund, the initial funding for which may be derived from the spin-off of an existing Fund or which may be seeded by an existing Fund, thereby creating the potential for conflict of interest. In such circumstances the investors in the existing Fund are informed and consent to the investment.

RCM is primarily engaged in the management of private investment funds that are offered exclusively to institutions and wealthy individual investors. RCM primarily invests in distressed securities. Funds that invested in RCM Funds may have done so on terms that were more advantageous than those applicable to the investments made by unaffiliated investors.

DCF is primarily engaged in the management of offshore pooled investment vehicles and is primarily involved in the purchase and sale of debt obligations. Funds that invested in DCF Funds did so pursuant to the same terms and conditions applicable to unaffiliated investors therein.

Principal executive officers of Crestline are also associated with Bratton Capital Management, LP (“BCM”) a firm that acts as the investment adviser and general partner to single family-office-related investments. Crestline and BCM are under common control. The investment advice provided by the principals of Crestline to Crestline and BCM may be similar. However, the principals are not obligated to acquire for any account any security that they believe, in their absolute discretion, is not suitable for the Funds managed by Crestline or clients of BCM.

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

Crestline acts as an investment manager to various Funds. Crestline and certain of its related persons have invested their personal funds in these Funds. Crestline may give advice and take action in the performance of its duties to its investors and Funds which differs from the advice given, or the timing and nature of action taken, with respect to the accounts of its affiliates and/or other investors and Funds.

### Code of Ethics and Personal Trading

To avoid any potential conflicts of interest involving personal trades, Crestline has adopted a written trading policies and procedures code (the “Code of Ethics”) for its employees which includes a formal code of ethics and insider trading policies and procedures. Procedures have been adopted to ensure compliance with the provisions of the Code of Ethics, including pre-approval of certain personal securities transactions as required by applicable regulations, initial, quarterly and annual holdings reports and affirmations of compliance and regular reviews of holdings and transactions. A copy of Crestline’s Code of Ethics shall be provided to any client or prospective client upon request.

Crestline may from time to time cause a Fund to invest all or any portion of its assets in another Fund managed by Crestline or in an investment product managed or advised by a Portfolio Manager in which Crestline or its related persons may have an ownership interest thereby creating the potential for a conflict of interest. As discussed in response to the section “Other Financial Industry Activities and Affiliations,” certain principal owners of Crestline have a direct or indirect ownership interest in the following Portfolio Managers: Restoration Capital Management LLC and DC Funding Partners LLC. See the section entitled “Other Financial Industry Activities and Affiliations” for further discussion.

In the past, certain Crestline related parties were permitted to invest, on a limited basis, in the same underlying private funds in which the Funds invest. Crestline has made the decision to no longer permit such investments and the related parties are in the process of liquidating such investments. Crestline employees may benefit from educational events sponsored by industry service providers such as prime brokers, administrators, law firms, audit firms, and other such professional service firms.

## **Brokerage Practices**

Subject to applicable investment policies set forth in the governing documents and account agreements of the Funds and restrictions contained in agreements with individual investors, there is no limitation on Crestline's authority to determine, without obtaining specific client consent, the interest in underlying private funds to be bought or sold and the amount of such interests to be bought or sold. Other than in connection with secondary market transactions, Crestline rarely utilizes brokers or dealers in connection with the investment programs of the Funds, which, as described above, involves the allocation of assets to Portfolio Managers through a variety of underlying private funds, other than for purposes of administering cash balances held by the Funds. However, there are no restrictions on Crestline's authority to determine, without obtaining specific client consent, the brokers or dealers used for this purpose. Thus, to the limited extent the Funds engage in transactions other than investments with Portfolio Managers, Crestline has the authority to determine the financial intermediaries to be used in connection with such transactions and to negotiate the amount of commission or other compensation to be paid to such intermediaries in connection with such transactions. Crestline negotiates such compensation and seeks best execution for its clients and does not seek to obtain products or "soft dollars," research or services other than transactional services from such intermediaries. Crestline periodically reviews arrangements with intermediaries to assess the quality of services provided by such intermediaries.

## **Review of Accounts**

Crestline's principals will review, on a monthly basis or more frequently (depending on market conditions or in special circumstances), client accounts (i.e., the Funds) to ensure consistency with their objectives and restrictions. Investors in the Funds receive monthly unaudited performance reports related to the Fund in which they are invested, quarterly reports that include a discussion of investment performance along with data related to the relevant Fund and annual audited financial statements of the relevant Fund. In addition, Crestline or another related person may agree to provide certain investors more frequent or more detailed reports of the Funds' portfolio holdings or performance. Crestline's compliance department monitors each Fund's investment activity to compare it to Fund investment guidelines.

## **Client Referrals and Other Compensation**

From time to time, Crestline may enter into agreements with unaffiliated broker-dealers, investment advisers or solicitors (together “Solicitors”) regarding the solicitation and referral of investors to the Funds for compensation. Crestline pays a percentage of the management fee and/or performance based compensation collected from the Funds to Solicitors. The structure of any referral agreements, including the compensation, will be disclosed to the relevant investor in the Funds and to the Funds to the extent required by applicable law. The fact that Crestline may share with Solicitors a portion of the compensation it receives for investment management services will not result in any investor in the Funds or in the Funds being charged a higher management fee rate or performance based compensation rate than Crestline customarily charges investors in its Funds for similar services, nor will Crestline charge such investor or Fund any other amount for the purpose of offsetting its cost of obtaining an account through a Solicitor. Different Solicitors may receive varying amounts of compensation for their services.

Crestline’s related person, RCM, has entered into arrangements with third party consultants, pursuant to which such third parties provide consulting services, which may include referral of investors to RCM, in consideration for payment of a one-time fee and a percentage of management fees and incentive fees received by RCM. Such fees are paid to the consultants entirely by RCM.

## **Custody**

Each Fund's third party administrator sends monthly statements directly to the Funds' investors. In addition, Crestline delivers to each Fund investor audited financial statements for such Fund within 180 days of the Fund's calendar year end. Investors are advised to carefully review their account statements and audited financial statements.

## **Investment Discretion**

Crestline accepts discretionary authority to manage each Fund and its assets. Crestline typically receives discretionary authority, including a power of attorney, through a limited partnership agreement, subscription agreement, investment management or similar agreement between Crestline and the applicable Fund. In all cases, however, such discretion is exercised in a manner consistent with the stated investment objectives for the particular Fund.



## Voting Client Securities

As primarily a fund of hedge funds advisor, Crestline is rarely required to vote the proxies of public or private corporations or other such entities. In cases where Crestline needs to vote proxies for public or private corporations or securities, it is Crestline's policy to vote proxies in the interest of maximizing shareholder or investor value. To that end, Crestline will vote in a way that it believes, consistent with its fiduciary duty, will cause the issue to increase the most or decline the least in value. Consideration will be given to both the short and long term implications of the proposal to be voted on when considering the optimal vote. In addition, Crestline from time to time is requested to vote on behalf of the Funds it advises in their capacities as investors in the underlying private funds advised by Portfolio Managers, on certain proposals, amendments, consents or resolutions (collectively, "Proxies") with respect to the underlying private funds.

In voting Proxies, Crestline has adopted proxy voting policies and procedures (the "Proxy Policies"). The Proxy Policies generally require Crestline to vote all Proxies in a manner that serves the best interest of the Funds, taking into account relevant factors including: i) the impact on the value of or on the prospective returns of the underlying private fund or security; ii) the attraction of additional capital to the underlying private fund or security; iii) alignment of the Portfolio Manager's interests with the interests of the underlying private fund's or security's investors; iv) costs associated with the Proxy; v) impact on the Fund's redemption or withdrawal rights; vi) the continued or increased availability of information regarding the underlying private fund's portfolio; vii) industry developments and business practices; and viii) consistency with the Funds' stated investment objectives.

In general, Crestline segregates Proxies into two categories: i) those covering primarily administrative or routine matters on which a vote is requested; and ii) non-recurring or extraordinary matters, such as a material change in the terms of the underlying private funds. Absent a particular reason to the contrary, it is Crestline's general policy to vote in accordance with the recommendation of the underlying private fund's Portfolio Manager or the security's management on administrative or routine matters.

In the case of non-recurring or extraordinary matters, Crestline's Investment Committee considers such Proxies on a case-by-case basis and has established procedures to ensure such Proxies are voted, including using independent third parties or committees to assist in voting a Proxy. The approval of a majority of the members of the Investment Committee is necessary and Crestline votes such Proxies as recommended by the Investment Committee (or by the independent third party or committee, if applicable).

The Funds can vote their own securities but the investors in the Funds generally may not direct the voting of securities.

A copy of Crestline's Proxy Policies and procedures and information on how Proxies were voted may be obtained by investors by contacting Crestline.

## **Financial Information**

Crestline has no financial commitment or condition that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.