

DC FUNDING PARTNERS LLC  
FORM ADV PART 2A

**ITEM 1. COVER PAGE**

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NOTE: THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF DC FUNDING PARTNERS LLC. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT 630-928-2570 OR [DDEKKER@DENALICAP.COM](mailto:DDEKKER@DENALICAP.COM). THE INFORMATION IN THIS BROCHURE HAS NOT BEEN APPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR BY ANY STATE SECURITIES AUTHORITY.

DC FUNDING PARTNERS LLC IS A REGISTERED INVESTMENT ADVISER. REGISTRATION DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

ADDITIONAL INFORMATION ABOUT DC FUNDING PARTNERS LLC ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).

**ITEM 2. MATERIAL CHANGES**

There have been no material changes in the business of DC Funding since the filing of its last brochure in March 2010. The format and certain required contents have changed since that time, per changes in SEC requirements that are effective with this filing.

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#### **ITEM 4. ADVISORY BUSINESS**

DC Funding Partners LLC (“DC Funding”) is an investment management firm specializing in the sourcing, investment, and management of non-investment grade bank loans. DC Funding has been in business since March of 2001 and is owned by Mountain Line L.P. and Denali Capital LLC (“Denali”). Denali is the managing member of DC Funding. DC Funding is managed by Denali, which essentially provides all advisory services to the funds.

As of December 31, 2010 DC Funding had approximately \$3.0 billion of bank loans under management across six leveraged, structured finance funds. DC Funding is currently managing five collateralized loan obligation funds (“CLOs”) and one hedge fund (the “Credit Opportunity Fund” or “COF”). DC Funding has full discretionary authority over all funds under its management.

The advisory services offered by DC Funding are tailored to the specific needs of each of its client funds, as set forth in their operative or offering documents. The funds are subject to strict guidelines on the types of securities they may own. Where a fund is in terms of its life cycle (i.e. warehouse, reinvestment or amortization period) may influence security selection. Day to day monitoring of a fund’s portfolio composition enables DC Funding to customize its services to the needs of each of its client funds.

Substantially all investment advice offered by DC Funding is within the bank loan market. DC Funding only advises entities with which it has entered into a management contract.

DC Funding does not participate in wrap programs.

#### **ITEM 5. FEES AND COMPENSATION**

The management and incentive fees of each client fund are established during the structuring of the fund and are set forth in the offering documents provided to fund investors.

Management fees are determined either as a percentage of fund assets (“AUM”) or net asset value (“NAV”), are billed quarterly, and, depending on the fund, are either prepaid or paid in arrears. Management fees range between .40% and .525%, per annum, of AUM for the CLOs and either .50%, per annum, of AUM or 1%, per annum, of NAV for the COF. In instances where management fees are prepaid, funds may obtain a prorated refund of any unearned management fee in the event of a termination prior to the end of a quarterly payment period.

Incentive fees are contingent on meeting specified fund returns and are determined either as a percentage of AUM or as a percentage of fund total return. Depending on the client agreement, incentive fees may be billed and paid either quarterly or at other periodic times based upon the achievement of the specified return. The trustees of each fund confirm all management and incentive fee calculations and distribute the fees to DC Funding on predetermined payment dates. DC Funding does not deduct fees directly from any client's account.

Other expenses funds may pay besides management and incentive fees include, but are not limited to, interest expense on securities outstanding and bank borrowings and fees for placement, structuring, trustee, legal, rating agency, accounting, tax, and loan pricing services. Clients may also incur brokerage and other transaction related costs. See Item 12 of this brochure for more information on DC Funding's brokerage practices.

Funds may only terminate advisory services in accordance with the terms of the advisory contract.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As mentioned in "Item 5. Fees and Compensation", DC Funding is entitled to receive incentive fees from funds under its management upon achieving fund-specific levels of return on investment. Conflicts may arise in the management of the funds, as DC Funding may have an incentive to favor funds for which the attainment of the incentive is more likely. As a registered investment adviser DC Funding acknowledges it has a fiduciary duty to act in the best interest of each fund regardless of compensation. DC Funding operates under Denali's credit policy ("CPM") and compliance manuals which contain policies and procedures to mitigate any incentive to favor one fund over another fund.

Conflicts of interest may arise when deciding on how to allocate loan purchases to the funds under management by DC Funding. The CPM states that, in determining allocations of approved purchases, the Investment Committee ("IC") shall take into consideration all pertinent information concerning the specific characteristics of the asset being purchased in light of the investment parameters of each fund. When an asset to be purchased is equally attractive for more than one fund, the IC will generally allocate its anticipated assignment amount proportionally among the funds. Given limited availability, the anticipated assignment amount may be too small to proportionally allocate among all relevant funds, in which case the IC may prioritize the allocation amount first to the fund(s) whose investment parameters are best matched to the specific characteristics of the asset and second to the fund(s) which have the most available capital to invest. The IC may also take into account other similar opportunities concurrently available when allocating among its funds (especially when there are several similar trade opportunities) with an overall objective that each fund receive its proportional share of all relevant trade opportunities over time. Additionally, closed funds may receive preference of allocations over funds still in the warehouse phase.

Additional considerations may apply with respect to trades intended to be held for the short term only and sold at a profit. In the course of reviewing investment opportunities, DC Funding may determine that the anticipated market demand for a new loan offering vis-à-vis secondary trading levels for loans of similar type may provide an opportunity to realize a gain on the purchase, short term hold (“STH”), and subsequent sale of the loan. Due to the high market demand that gives rise to Denali's determination that a STH trade opportunity exists, DC Funding may not be allocated a sufficient amount to fill the order on behalf of all eligible funds. As a result, DC Funding allocates STH trades on a rotational basis among those funds for which STH trading is an express or implied investment strategy and excludes any fund that expressly excludes STH trading from its investment strategy. Currently Denali Capital CLO VI, Ltd. and Denali Capital CLO VII, Ltd. are excluded due to this provision. In addition, a fund will be bypassed in the rotation if the loan asset subject to the STH trade would be ineligible for investment by the fund. Limitations on discretionary trading by certain funds may also affect the allocation of STH trades. Finally, any fund that is a CLO that has not yet issued its permanent debt and equity securities will not be included in the STH rotation. This exclusion is based on the fact that DC Funding, or its affiliates, may be a direct beneficiary of any STH trade gains realized during the warehouse period because it typically has provided all or a substantial portion of the "first loss" capital in support of the temporary financing facility. Only non-proprietary funds are eligible to participate in the STH rotation.

## **ITEM 7. TYPES OF CLIENTS**

The typical fund managed by DC Funding is an offshore, non-public, closed-end, pooled investment fund often structured as either a CLO or hedge fund. While each fund is structured separately, the funds operate very similarly to one another. Each fund will be owned by a group of investors who will contribute typically 8% to 25% of the total capital structure. DC Funding is often, but not always, a member of this ownership group. Debt investors will contribute the remaining portion of the capital structure. The money provided by the debt and equity investors will be managed by DC Funding per each fund's operative agreement to purchase primarily portions of syndicated, below investment grade, commercial bank loans and selectively other assets. All funds currently managed by DC Funding are closed to new investors.

DC Funding participates in a unique environment which makes it impractical to establish a minimum client fund size requirement. DC Funding's decisions to enter into and maintain fund advisory engagements are primarily based on the amount and likelihood of receipt of management and incentive fees.

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

DC Funding will tailor its investment strategy, which is best summarized as long only, buy and hold, to each fund. DC Funding attempts to keep its funds reasonably fully invested at all times by purchasing primarily first lien senior secured non-investment grade bank loan obligations of large to middle market U.S.-based companies operating across numerous industries. These diverse investment portfolios are intended to help mitigate default risk and to enable its funds to profit from the interest rate arbitrage between the interest earned on the underlying investment pool and the interest paid on its borrowing source. DC Funding targets small investment positions typically equal to .3% - 2.0% of an individual fund's total size in an effort to minimize individual obligor default risk.

DC Funding will generally invest only in bank loan obligations possessing the following core credit attributes:

- A private company transaction sponsored by private equity sponsor firm having significant or meaningful capital invested or at risk or a transaction with a public or privately-held company represented by a financial intermediary.
- The borrower will have a professional management team with a combination of experience, balance and depth.
- The borrower will be a market leader or possess a demonstrable strategic advantage.
- The borrower will have a proven or provable record of earnings in line with the capital structure in place or proposed.
- The transactions will be generally structured along one or more of the following key financial ratios:
  - Pro forma Senior Debt/EBITDA average of 3.5x (4.0x upper range)
  - Pro forma Total Debt/EBITDA average of 5.0x (5.5x upper range)
  - Pro forma Cash Flow Interest Coverage greater than 2.0x
  - Pro forma Fixed Charge Coverage greater than 1.2x
  - Sub-debt plus equity at least 40% of total capitalization
  - Cash equity at least 20% of total capitalization

The investment strategies of DC Funding pose the following material risks to its funds under management and fund investors:

- Limited Liquidity: There is limited ability to sell the funds' investments as secondary markets often do not exist and the ability to transfer ownership to another entity is restricted. This risk may be heightened in times of economic downturn or in response to a specific economic event. In addition, loans to middle market companies trade less frequently than loans to larger companies and, in some instances, have no, or only a limited, trading market.

- **High Leverage:** The fund is highly leveraged and this may result in situations where the interest expense due is greater than interest income collected. The more subordinate the investor, the greater risk of non-payment.
- **Credit:** There is risk that a company may not make required principal or interest payment under its borrowing terms.
- **Interest rate and prepayment:** Companies are likely to prepay their outstanding loans during periods of declining interest rates. Proceeds received from prepayment may be reinvested in a lower yielding investment.
- **Non-investment grade investments:** Non-investment grade loans will have greater credit and liquidity risk than investment grade obligations and are more likely to be impaired during periods of economic downturn.

Clients and their investors should be prepared to bear the risk of loss of principal when investing in bank loans.

#### **ITEM 9. DISCIPLINARY INFORMATION**

DC Funding has no disciplinary information to report.

#### **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

DC Funding has arrangements, with Denali, a related party, that are material to its advisory business. Denali is a registered investment adviser and serves as the managing member of DC Funding. DC Funding has no employees. Denali's employees essentially perform all advisory services for the funds managed by DC Funding.

All limited partners of the COF with ownership levels in excess of thirty percent are entitled to appoint a representative to the COF's Advisory Board (the "AB"). The AB meets with DC Funding principals to discuss and make non-binding recommendations on the COF's investment portfolio and decisions regarding capital calls and distributions. Because AB membership is contingent on ownership levels, a potential conflict may arise between AB members and non-AB members. However, while AB members may have more input on the operating activities of the COF, ultimately all partners will share in the COF's economics proportionately to their ownership level. This prevents any AB member from benefiting differently than non-AB members.

DC Funding does not select or recommend other advisers for its funds.

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

In order to meet its obligations as a fiduciary, DC Funding and Denali have adopted a Code of Ethics (the Code) which incorporates general principles which all Denali employees are expected to uphold. As an investment adviser, DC Funding is a fiduciary of its funds. Accordingly, DC Funding has a fiduciary duty at all times to place the interests of its funds before the interests of DC Funding and all access persons.

In accordance with the Code, neither DC Funding nor a related person buys or sells for funds securities in which DC Funding has a material financial interest. Neither DC Funding nor a related person may invest or is permitted to invest in the same, or similar, securities that it recommends to funds.

Under the Code, all employees are deemed to be access persons and required to provide all personal securities transaction reports to Denali's compliance area. Access persons also must obtain the pre-approval of the compliance area before entering into trades involving initial public offerings or private placements. All employee personal securities transactions must be conducted in a manner consistent with the Code and avoid any actual or potential conflicts of interest or any abuse of an employee's position. Employees may not take any inappropriate advantage of their positions at Denali. Information concerning the identity of securities and financial circumstances of funds and their investors must be kept confidential. DC Funding maintains a list of all companies with public debt or equity from whom it has received financial or other material information. This list of companies (Restricted List) is updated and available to all employees on a weekly basis. All employee brokerage accounts are monitored for any activity with companies on the Restricted List.

Employees are prohibited from accepting or giving a gift, favor, entertainment, special accommodation, or other item of value of more than de minimis value (\$200).

A copy of the Code is available to any fund or prospective fund upon request. You may obtain a free copy of the Code by contacting Dave Dekker at 630-928-2570 or [ddekker@denalicap.com](mailto:ddekker@denalicap.com).

## **ITEM 12. BROKERAGE PRACTICES**

DC Funding trades on behalf of its funds in bank loans on both a primary and secondary basis. A primary transaction occurs when an issue first comes to market, as a result of an acquisition, refinance or recapitulation of a company or business. DC Funding typically accesses a primary transaction through large commercial or investment banks, regional banks or specialty finance companies. In a primary transaction one organization is usually responsible for the syndication of the bank debt and as such is the party with whom DC Funding negotiates the possible purchase. A secondary transaction involves one existing holder of the bank debt selling its position, in full or part, to another institution. These transactions usually occur through a trading desk whose function is to

bring buyers and sellers together. DC Funding is from time to time both a seller and a buyer in the secondary market. As a result of DC Funding's long standing participation in this market sector, it believes it has more than adequate access to assets for each of its managed funds.

DC Funding has full discretionary authority to place trades on behalf of its clients. As a result, DC Funding is obligated to obtain best execution for client securities transactions. Best execution is generally described as a duty to execute securities transactions so that a client's total costs or proceeds are the most favorable under the circumstances. The Securities and Exchange Commission (the "SEC") has stated that, when seeking best execution, an adviser should consider the full range and quality of a broker-dealer's services in placing trades. Best execution therefore is not necessarily determined by the lowest possible commission costs, but rather by the best qualitative execution. Factors DC Funding may consider when selecting broker-dealers generally include price, execution risk, market conditions, and historical performance.

In placing specific orders to purchase and sell securities for its funds, DC Funding considers a number of factors in selecting the appropriate broker-dealer, such as:

- (i) determining which broker-dealers with whom DC Funding conducts business make an active market in the asset;
- (ii) determining what their respective current bid or offer prices, as applicable, are;
- (iii) comparing what, if any, assignment fees may be charged depending on which broker-dealer is selected;
- (iv) taking into account whether the quoted prices are immediately actionable (i.e. whether the broker-dealer actually owns and is ready to sell an asset, or is ready to confirm an order for purchase).

DC Funding may from time to time direct the purchase of a loan from, or the sale of a loan to, another fund managed by DC Funding in a combined transaction (a "Cross Trade"). DC Funding has established a policy on Cross Trade transactions, which states that Cross Trade transactions must be conducted on an arm's-length basis and be at an established fair market value of the particular loan. Because of the nature of these transactions, Cross Trades present a potential conflict of interest. DC Funding will not conduct Cross Trade transactions with any fund in which DC Funding, Denali, or any affiliates or Members thereof, have an ownership interest unless DC Funding obtains the written approval of such funds third party fiduciary. Additional information regarding DC Funding's Cross Trade activities is available to any fund or prospective fund upon request.

### **ITEM 13. REVIEW OF ACCOUNTS**

Weekly reviews of fund performance and portfolio composition are performed by middle and senior management to ensure each fund is managed in accordance with operative agreements. In addition to internally performed reviews, third party service providers such as administrators, accounting firms, and trustees independently review fund and

advisory activities monthly to ensure further compliance with each fund's governing document.

Reports are distributed to each fund and its investors as required by each fund operative agreement. Middle and senior management perform a detailed review of all reports for accuracy and compliance prior to distribution. Reporting requirements differ by fund and range from detailed reports of underlying transactions to a summarized view of fund activity. Denali, on behalf of DC Funding, or third party service providers prepare quarterly investor letters, monthly return, and NAV reports. These documents may be distributed directly to investors by Denali, on behalf of DC Funding, or by the service provider.

#### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

Neither DC Funding nor its related persons operate under any arrangement where it or they receive compensation or any economic benefit from a non-client for providing advisory services to a client.

In consideration for certain holders of a class of security in a CLO not initially managed by DC Funding nominating DC Funding for appointment as the successor to the previous collateral manager, DC Funding has agreed to share with such holders a substantial percentage of each type of management fee paid by this CLO. These amounts are payable to such holders solely when the management fees are paid in cash from the CLO.

#### **ITEM 15. CUSTODY**

As the general partner of the COF, DC Funding has custody of the fund. The COF and its investors receive account statements, prepared independently from DC Funding, directly from the administrator and/or the trustee. The COF and its investors should carefully review these account statements and are encouraged to compare these account statements with those statements and letters it receives from DC Funding or from Denali, on behalf of DC Funding. Audited financial statements prepared in accordance with Generally Accepted Accounting Principles ("GAAP") are prepared for the COF and disseminated to COF investors within 120 days of the funds fiscal year end.

DC Funding does not have custody of the CLOs. Any cash and securities owned by the CLOs is maintained with trustees and can be used by the fund only according to defined reasons as outlined in each CLO's operative agreements. The CLOs and its investors receive account statements, prepared independently from DC Funding, directly from the trustees. The CLOs and its investors should carefully review these account statements and are encouraged to compare these account statements with those statements and letters it receives from DC Funding or from Denali on behalf of DC Funding.

#### **ITEM 16. INVESTMENT DISCRETION**

DC Funding has full discretionary authority over all client funds to operate within the parameters of each fund's operative agreements. DC Funding performs a thorough review

of its clients' operative agreements and engages in day to day monitoring of its funds performance and portfolio composition to ensure customization of its services to the needs of each of its clients.

#### **ITEM 17. VOTING CLIENT SECURITIES**

DC Funding does not engage in typical proxy voting activities as defined by the SEC but considers voting on loan amendments, modifications, waivers, and other similar items to be similar to proxy voting. DC Funding has authority to vote on behalf of funds as granted to it within each fund management agreement.

The chief credit officer of Denali possesses the overall responsibility to ensure compliance with procedures relating to approval of amendments, modifications and waivers, and other similar items. All positions with respect to such items must be approved by the required individuals in accordance with Denali's current Delegations of Authority and Pre-Funding and Amendment Authority matrices.

DC Funding's general policy is to vote in favor of proposed amendments it believes are a necessary aspect of a business' operations and/or that DC Funding believes will preserve or enhance the value of the investment for each fund. DC Funding must act as a fiduciary when voting on behalf of its funds. In that regard, DC Funding will seek to avoid possible conflicts of interest in connection with voting. If a conflict of interest with respect to voting exists, DC Funding must either seek the client's informed direction or abstain from voting. DC Funding will not make any decisions as to whether to participate or opt out of a class action involving securities in which clients are invested.

Additional information regarding DC Funding's voting policies and procedures and any specific voting decision are available upon request. Contact Dave Dekker at 630-928-2570 or [ddekker@denalicap.com](mailto:ddekker@denalicap.com) to obtain further information.

#### **ITEM 18. FINACIAL INFORMATION**

As of the date of this report, to the best of DC Funding's knowledge, no financial condition exists that is reasonably likely to impair DC Funding's ability to meet contractual commitments to the funds.