



Deerfield Capital Management LLC  
Part 2A of Form ADV  
The Brochure

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Deerfield Capital Management LLC (“DCM”) and is delivered to you pursuant to Rule 204-3 under the Investment Advisers Act of 1940, as amended. If you have any questions about the Brochure’s contents, please contact Robert C. Milton III, DCM’s Chief Compliance Officer (“CCO”), at [rmilton@cific.com](mailto:rmilton@cific.com) or (212) 624-1213. The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “SEC”) or any state securities authority. Additional information about DCM is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). DCM’s registration with the SEC as an investment adviser does not imply a certain level of skill or training.

This Brochure is an annual update of DCM's Brochure.

This Brochure is necessarily general in nature and qualified in its entirety by the offering memorandum or other disclosure document for the DCM program in which you are invested or considering for investment, which you should carefully read before investing or making other investment decisions regarding the program.

When this Brochure refers to "clients," it is referring only to direct clients and not, in the case of clients that are commingled investment vehicles, to the investors in the vehicle.

Any statements herein that are not historical facts are based on current expectations, speak only as of the date of the presentation, and are susceptible to various risks and uncertainties. The actual results of investment programs may differ materially from results that might be inferred from such forward-looking statements. Many factors could cause such differences, including dislocations in credit markets, liquidity and volatility in those markets, changes in interest rates or the general economy, changes in governmental regulations or taxation rates, the availability of investment opportunities, and the degree and nature of competition. New risks and uncertainties, which cannot be predicted, may occur. DCM assumes no obligation to update any forward-looking statements except as required by federal securities laws.

The information herein is current as of the date hereof. The delivery of this Brochure after that date does not imply that the Brochure is current as of that later date.

## **Item 2. Material Changes**

Item 6 was shortened to remove references to the Advisers high yield proprietary trading business, as the Advisers have exited that business.

Item 11 has been expanded to provide increased disclosure regarding Cross Transactions (as defined therein).

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## Item 4. Advisory Business

### Recent Events

DCM is a member of the CIFIC Corp. family of investment advisers, consisting of DCM and three other investment advisers—CIFIC Asset Management LLC (“CIFIC”), Columbus Nova Credit Investments Management LLC (“CNCIM”) and CypressTree Investment Management, LLC (“CypressTree”). This Brochure refers to the four advisers collectively as the “Advisers.”

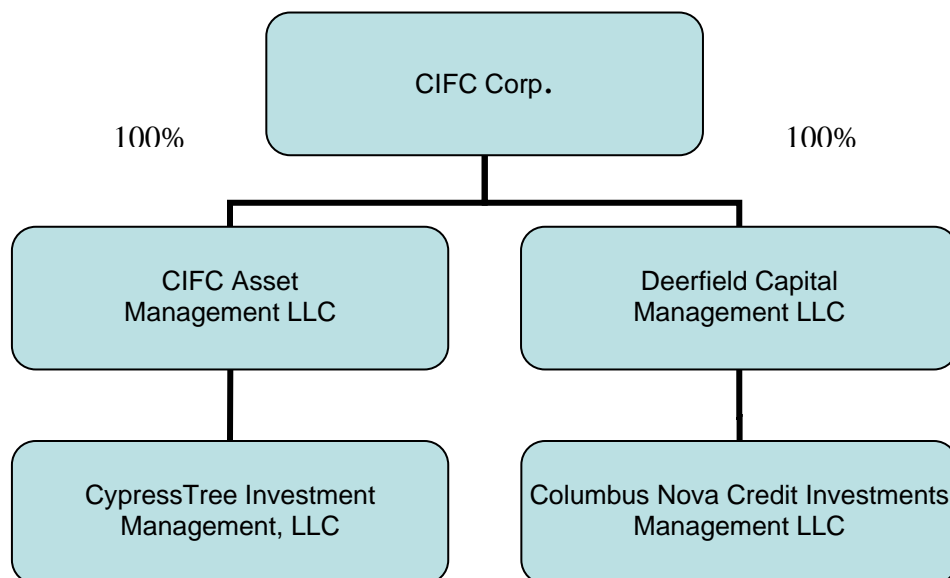
The CIFIC Corp. family of investment advisers was created in April 2011 as a result of a merger (the “Merger”) involving Deerfield Capital Corp. and Commercial Industrial Finance Corp.

In connection with the Merger, Deerfield Capital Corp.’s name was changed to “CIFIC Deerfield Corp.” and shortly thereafter to “CIFIC Corp.” on July 19, 2011. Additionally, CIFIC became the successor entity of Commercial Industrial Finance Corp. in connection with the Merger and shortly thereafter effected a name change to CIFIC Asset Management LLC from CIFIC Investment Management LLC on July 14, 2011.

Among other changes resulting from the Merger, the Chief Executive Officer of CIFIC became the Chief Executive Officer of CIFIC Corp. and the composition of CIFIC Corp. board of directors changed to include members from the both CIFIC Corp. and CIFIC pre-Merger boards of directors.

Prior to and unrelated to the Merger, DCM acquired CNCIM in June 2010.

The Advisers’ post-Merger legal structure can be summarized as follows:



Each Adviser has its own employees but a substantial portion of the employees are involved in the portfolio management and related servicing of all or most of the Advisers' clients, and the Advisers have many shared functions, including a single Investment Management team and a single Fund and Product Management team (see Item 13) and a joint Code of Ethics (see Item 11). The Advisers will provide each client with Brochure Supplements containing the names and experience for the principal members of the Investment Management team and Fund and Product Management team.

In addition to DCM, CIFIC, CypressTree and CNCIM are also registered with the SEC as investment advisers. You can obtain their Brochures from our CCO.

#### General description of advisory business

The Advisers are predominantly in the corporate credit asset management business, combining credit practices of banks and asset managers. As such, the Advisers are proactive, fundamentals-based managers that typically make credit decisions assuming that each loan invested in may be held until repayment. The Advisers focus on credits with robust recovery values supported by a cushion comprising collateral and enterprise value. As part of ongoing portfolio management, the Advisers also re-assess the investments held by each client relative to the target investment criteria of the client.

The substantial majority of the Advisers' clients are pooled investment vehicles that are collateralized loan obligation funds ("CLOs") where the fund invests principally in senior secured corporate loans ("SSCLs"). DCM also manages certain other pooled investment vehicles that invest in corporate bonds and asset-backed securities and that may be collateralized debt obligation vehicles ("CDOs"). Unless the context otherwise requires or is otherwise specified, the references herein to CDOs include CLOs. DCM has been in the advisory business since 1993 and CIFIC since 2005.

#### Principal owners

Each Adviser is owned 100% (indirectly) by CIFIC Corp., a public company listed on the NASDAQ Stock Market under the "DFR" symbol. CIFIC Corp. is a financial services company. When this Brochure refers to "clients," it does not include CIFIC Corp. in that term.

As a public company, CIFIC Corp.'s ownership can change significantly from time to time. As of April 13, 2011, CIFIC Corp. was owned approximately 44.5% by CIFIC Parent Holdings LLC (the former 100% owner of CIFIC), 22.3% by DFR Holdings, LLC (a former affiliate of CNCIM) and the balance by other persons. The filings that CIFIC Corp. makes with the SEC from time to time may contain information about changes in the ownership of CIFIC Corp.

### Type of advisory services that are offered

The Advisers are in the corporate credit asset management business combining credit practices of banks and asset managers. They serve as the investment manager or subadviser primarily for various CLOs and other investment funds, including, in the case of DCM, certain CDOs (collectively, “funds”), and a managed account, and accordingly provide investment supervisory services to each fund and the managed account. They invest the funds’ assets primarily in SSCLs and equivalent exposures in the primary and secondary markets.

The Advisers currently have discretionary trading authority over all the client accounts they manage.

### How advisory services are tailored to clients’ needs

The Advisers tailor their advisory services to the individual needs of their clients/funds. Generally, at the time a fund is structured, there is discussion between the Adviser and the fund, and those that invest in the fund, regarding the investment strategy and risk, investment restrictions and investment structure and on other aspects of the Advisers’ management of their portfolios.

### Amount of client assets under management (“AUM”)

As of December 31, 2011: (a) CIFIC and CypressTree together managed approximately \$5.65 billion of client assets on a discretionary basis and (b) DCM and CNCIM together managed approximately \$8.23 billion of such assets.<sup>1</sup>

### Other

The Advisers do not currently engage in business activities other than investment management. The Advisers do not currently provide financial planning or similar services nor participate in wrap fee programs. In addition to its main business office in New York City, CIFIC Corp. maintains an office in Rosemont, Illinois.

CIFIC Corp.’s website, [www.CIFIC.com](http://www.CIFIC.com), contains additional information about the Advisers that may be useful to you.

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<sup>1</sup> AUM of (1) CIFIC and CypressTree and (2) DCM and CNCIM, respectively, are combined because, as of April 13, 2011, CypressTree was a wholly-owned subsidiary of CIFIC and CNCIM was a wholly-owned subsidiary of DCM, and in each case, each respective set of advisers shared a substantial amount of asset management and related personnel.

## **Item 5. Fees and Compensation**

The Advisers' fees are negotiable and typically include a senior management fee, a subordinated management fee and incentive management fees. Fees are not required to be paid in advance and we do not have a set fee schedule. Specific fee rates and the methodology for calculating fees are agreed to at the time a particular fund closes, are described in each fund's investment advisory agreement, and remain for the life of the fund. The senior and subordinate management fees are determined and paid quarterly, depending on certain cash distribution constraints governing the funds, generally calculated as a percentage of AUM for the particular fund. However, once a CLO or CDO has closed, fees for the life of the fund are not negotiable, but an Adviser may in its discretion waive all or part of its fees.

The Advisers' fees are described in each fund's offering document and other constituent documents of the funds, which are finalized when the fund closes and made available to the fund's investors on the Advisers' website, for the life of the fund. Clients are not billed for fees directly. Instead, fees are determined quarterly (in arrears) by the fund's trustee (based on the specific fee rates and methodology in each fund's constituent documents) and paid by the trustee on behalf of the fund to the Adviser. Fees are deducted from client assets by the trustee.

In accordance with the terms of the Advisers' investment advisory agreements with fund clients, the funds generally reimburse the Advisers from time to time for certain out-of-pocket expenses related to the services provided by the Advisers and third parties to the fund. Among other things, the funds may reimburse the Advisers for fees and expenses relating to establishing the fund, accountants, rating agencies, loan pricing services, software providers, custodial fees, commissions, trade settlement fees, legal and consultant fees and expenses, exchange fees, bank service fees, income withholding or transfer taxes, expenses related to proposed transactions that are not ultimately executed, and fees of other service providers. A service provider may be affiliated with the Advisers, in which case the Advisers use commercially reasonable efforts to ensure that the services are on terms that are no less favorable than would apply in an arms-length transaction.

The Advisers' clients generally pay other fees in connection with the Advisers' advisory services, relating to the establishment or ongoing operation of the client's account. The types of such fees depend on the nature of the account. If the account is a CLO or CDO, the additional fees may include those of the CLO or CDO's trustee, collateral administrator, administrator, accountants, and lawyers, rating agency, and regulators. If the account is an investment fund, the additional fees may include certain of the above fees and also securities brokerage commissions and fees of auditors and consultants. If the account is a managed account, the fees are likely to include custodial and related costs. Clients will also in effect bear the costs of the spreads or markup typically charged by securities dealers on the account's fixed income transactions with the dealers.

If an Adviser is responsible for calculating the advisory fees it charges to your account, it may have an incentive to over-value your account's assets, in order to increase those fees. If an Adviser charges your account a performance fee, it may have an incentive to trade the account more aggressively than in the absence of a performance fee.

## **Item 6. Performance Based Fees and Side-by-Side Management**

In addition to senior and subordinate management fees, the Advisers' fees typically include performance incentive fees, and in some cases, two tiers of performance incentive fees (a "Tier I" fee and a "Tier II" fee). They are typically generated and paid quarterly, depending on certain cash distribution restrictions governing the funds, and are determined based on: (a) an additional percentage of AUM after the fund reaches a performance hurdle, and/or (b) a specified percentage of remaining investment proceeds above a separate performance hurdle. The performance hurdles for these calculations are determined as proceeds from the fund investments result in the fund residual interest tranche investors (i.e., the "equity" investors in the fund) receiving a cash-on-cash return or an internal rate of return ("IRR") above specified percentages on their net invested capital.

When the Advisers manage accounts with similar strategies (which thus might "compete" with each other for investment opportunities or otherwise), the Advisers do not expect that some of the accounts will be charged only a management fee and others also a performance fee, or that the portfolio managers for the accounts will receive performance-based compensation from the Advisers with respect to some of the accounts but not others.

If this occurred, however, the Advisers might have an incentive to favor the account that is also charged a performance fee (or the portfolio managers for the accounts might have such incentive with respect to the accounts for which they receive performance-based compensation from us). The Advisers would address this potential conflict mainly by following their policies regarding equitable allocation of investment opportunities and transaction executions among similar-strategy accounts.



## **Item 7. Types of Clients**

The Advisers primarily provide investment management services to pooled investment vehicles that are collateralized loan obligation (“CLO”) issuers. We refer to these pooled investment vehicles herein as CLOs or “funds”. DCM also provides investment management services to collateralized debt obligation (“CDO”) issuers. We may provide investment advice, generally through managed accounts, to other types of investors.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

### Methods of the Advisers’ investment analysis

The Advisers are proactive, fundamentals-based corporate credit managers that strive to provide best-in-class processes and controls and full transparency to investors, combining best credit practices of banks and asset managers. A focus on loan repayment by borrowers, in contrast to dependency on asset sales as a primary risk management tool, is integrated with disciplined portfolio diversification, an adherence to strict risk/return criteria and an overlay of portfolio rebalancing to enhance the risk profile of the funds.

The Advisers make most investment decision under the assumption that the asset will be held to maturity, with emphasis on each loan’s repayment prospects or collectability in the event of default. To that end, the Advisers seek loans with robust recovery values supported by a cushion comprised of collateral and enterprise value. Rather than relying on the views of rating agencies or implied signals from market prices, the Advisers’ credit analysis focuses on industry, the borrower’s business, management capabilities, debt service capacity, legal structure, collateral value and use of proceeds.

The Advisers’ fundamentals-based investing strategy incorporates an overlay of relative value loan trading and portfolio rebalancing in a continual, disciplined reassessment of every loan in the funds they manage. In so doing, the Advisers seek to identify relative value differentials, loan market inefficiencies and technical imbalances in order to arbitrage differences between expected recovery rates and market prices, to build loan loss reserves, and to take defensive actions.

Guided by their continuously updated credit views, the Advisers sell loans when more attractive loans can be purchased at comparable price points to optimize portfolio composition and target performance. In addition, the Advisers employ a workout approach to stressed loans with a focus on ultimate recovery (soon-to-default or actual default sales are exceptions and undertaken only where price exceeds expected recovery). Within their diligent, detail-oriented fund management process, the Advisers also prioritize concentration and correlation avoidance and reassesses investments relative to the target investment criteria of each fund.

Ultimately, the Advisers focus on the preservation of capital invested and seek to deliver consistently attractive risk adjusted returns according to the original outlined investment strategy and to maintain high transparency and accountability with their investors.

The Advisers primarily invest for relatively long time horizons, often for multiple years, although market developments could cause the Advisers to sell investments more quickly.

The Advisers invest predominantly in senior secured corporate loans (“SSCLs”). The client accounts they currently manage are primarily CLOs that invest in SSCLs, with limited investments in senior unsecured or senior subordinated term loans, and, in each case, participations in the foregoing. Most of these loans have been originated by banks and other financial institutions. DCM also manages certain CDOs that invest in asset-backed securities (securities for which the underlying collateral consists of assets such as credit card receivables, home equity loans, leases, commercial mortgage loans and debt obligations); and corporate bonds (investment grade and non-investment grade—i.e., high-yield—debt securities of companies domiciled in the U.S. and certain non-U.S. countries).

The Advisers may also invest in other financial instruments, such as government securities, interest rate and credit default swaps, interest rate or other options, futures or forwards, mortgage-backed securities, distressed securities, foreign exchange, and structured finance obligations (such as collateralized bond obligations, collateralized loan obligations, and collateralized debt obligations).

The funds managed by the Advisers are offered to investors pursuant to disclosure documents that contain detailed information about the risks of investing in the funds, including the risks relating to the securities issued to investors by the funds and those relating to the underlying assets held by the funds. With respect to each fund the Advisers manage, the summary of fund investment risks in this Brochure is qualified in its entirety by the disclosure document for the particular fund. You should carefully review each fund’s offering circular before investing in the fund or making an investment decision to buy, sell or hold the securities issued by the fund.

#### Methods of the Advisers’ investment strategies

The Advisers’ investment strategies generally involve those described in “Methods of Investment Analysis” above, as well as modeling and stress testing of investment portfolios, portfolio diversification across issuers and industries, and ongoing risk monitoring of portfolio holdings. The Advisers may in some cases seek enhanced returns through tactical or opportunistic trading that seeks to capitalize on pricing inefficiencies with respect to the rating, credit quality and seniority in the issuer’s capital structure of the related loan or other credit product. The Advisers may also use strategies, particularly as related to high yield bonds, involving short sales, margining, borrowing or other leverage, options or other derivatives, spreading, arbitrage, and strategies specific to fixed income instruments such as duration management.

#### General investment risks

All investing in securities involves risk of loss that you should be prepared to bear. The securities the Advisers invest in are subject to credit, liquidity, interest rate and exchange rate risks, general economic conditions, operational risks, structural risks, the condition of financial

markets, political events, developments or trends in any particular industry, changes in prevailing interest rates and periods of adverse performance.

Some of the securities may be debt obligations that pay interest based upon floating rates. During periods of rising interest rates, the total payment obligations of the issuers or obligors of floating rate debt will increase, perhaps significantly. This in turn could lead to an increase in default rates on such securities.

#### Risks of the Advisers' investment analysis methods

The Advisers consider the material risks of their investment analysis methods to include the unpredictability of general economic, financial, industry and issuer-specific conditions; and lack of sufficient financial information.

#### Risks of investing in CLOs

The material risks of investing in CLOs generally consist of those relating to the securities issued to investors by the CLOs and the underlying SSCLs and other investments held by the CLOs. The former risks are typically the lack of liquidity of the interests, their subordination to more senior interests in the CLO's capital structure, the limited recourse nature of the interests, and the uncertainty of the CLO making payments on the interests. The latter risks are described in more detail below.

#### Risks of investing in SSCLs and other bank loans

The Advisers primarily invest in bank loans that are SSCLs.

The investment risks of SSCLs and other bank loans include limited liquidity and secondary market support, the limited supply of some new issue bank loans, the possibility that earnings of the loan obligor may be insufficient to meet its debt service, the declining creditworthiness and potential for insolvency of the obligor of bank loans during periods of economic downturn, spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received, and if subordinated, subordination to the prior claims of other loans or senior lenders. An economic downturn could severely disrupt the market for bank loans and adversely affect the value of outstanding bank loans and the ability of the obligors to repay principal and pay interest.

In allocating limited supply new issue SSCLs among CLOs that are eligible to invest in them, the Advisers will endeavor, in their judgment and on an overall basis, to treat each CLO in a manner the Advisers consider equitable in light of all relevant factors. These factors may include the relative sizes, investment capacities and ages of the CLOs (including whether the CLO is in its 'warehousing' phase); differences in indenture restrictions and requirements among the CLOs; efficient transaction sizes; and the relative positions of the CLOs in terms of portfolio ramping. For example, in order to enable a ramping warehouse to acquire sufficient collateral to launch a new CLO, the Advisers may accord it temporary preferences in the allocation of new issue SSCL opportunities.

If a default occurs with respect to an SSCL, and the holder of the SSCL sells or otherwise disposes of the SSCL, the proceeds of the sale or disposition will likely be less than the unpaid principal and interest thereon.

SSCLs may become non-performing for a variety of reasons and as a result may require substantial workout negotiations or restructuring that may include a substantial reduction in the interest rate, a substantial reduction of the principal or a substantial extension of the amortization or maturity date of the loan. Any such event will likely cause a significant decrease in the interest collections on the loan and or a significant decrease in the principal collections on the loans.

The SSCL investor (i.e. typically one of our funds) generally will purchase an assignment of, or a participation in, an SSCL issued under a loan facility to which more than one lender is a party. These loan facilities are most often administered by agent lenders on behalf of the lenders pursuant to a loan agreement. In addition, because of the unique and customized nature of a loan and the private syndication of a loan, certain syndicated loans may not be purchased or sold as easily as publicly traded securities, and the trading volume in the syndicated loan market has been small relative to the market for high-yield bonds. Trading in loans is subject to delays due to their unique and customized nature, and transfers may require extensive documentation, the payment of significant fees and the consent of an agent bank or the underlying obligor. In addition, the investor may incur additional expenses to the extent it is required to seek recovery upon a default or to participate in the restructuring of a loan.

Historical information regarding default and recovery rates of SSCLs is limited. Actual default and recovery rates could vary significantly from historical observations. Historical information on the market value volatility of SSCLs is limited, and SSCLs could be subject to market volatility not apparent from historical volatility studies. Such volatility could be significant at times.

Some bank loans in which the Advisers invest on behalf of the CLOs may be junior loans or subordinated loans, which are typically subject to intercreditor arrangements, which may prohibit or restrict the ability of the investor to exercise rights against the obligor with respect to their second liens, to challenge any exercise of remedies against the collateral by the first lien lenders with respect to their first liens, to challenge the enforceability or priority of the first liens on the collateral, and to exercise certain other secured creditor rights, both before and during a default or bankruptcy of the obligor.

During a bankruptcy of the obligor, the holder of a junior loan may have to give advance consent to any use of cash collateral approved by the first lien creditors, sales of collateral approved by the first lien lenders and the bankruptcy court, and debtor-in-possession financings.

Bank loans are generally prepayable in whole or in part at any time at the option of the obligor thereof at par plus accrued unpaid interest thereon. Prepayments may be caused by a variety of factors which are often difficult to predict. Consequently, there exists a risk that bank loans purchased at a price greater than par may experience a capital loss as a result of such a prepayment.

In recent years, a number of judicial decisions in the U.S. have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories. Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the obligor or has assumed a degree of control over the obligor that creates a fiduciary duty owed to the obligor or its other creditors or shareholders. Because of the nature of bank loans, the investor could be subject to allegations of lender liability made against it as part of a group of lenders and may be liable for pro rata liabilities of the agent or lead lender.

#### Risks of investing in high-yield (“HY”) bonds

While the Advisers primarily invest in SSCLs, certain of the funds they manage hold a limited number of HY bonds (particularly those funds managed by CypressTree).

HY bonds are rated below investment grade and thus have greater credit and liquidity risk than investment grade obligations. HY bonds typically pay a fixed rate of interest and are generally unsecured and may be subordinated to other obligations of the issuer. The lower ratings of HY obligations reflect a greater possibility that adverse changes in the financial condition of the issuer or in general economic conditions may impair the ability of the issuer to make payments of principal and interest.

Risks of HY bonds also include limited liability and secondary market support, substantial market price volatility resulting from changes in prevailing interest rates, subordination to the prior claims of banks and other senior lenders, the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the investor to reinvest premature redemption proceeds in lower-yielding bonds, the possibility that earnings of the issuer may be insufficient to meet its debt service, and the declining creditworthiness and potential for insolvency of the issuer during periods of rising interest rates or economic downturn.

An economic downturn or an increase in interest rates could severely disrupt the market for HY bonds and adversely affect the value of outstanding HY bonds and the ability of the issuers thereof to repay principal and interest. The market for both investment grade and HY bonds is not liquid at all times and for all issuers. Particular issues may be concentrated in the hands of only a few investors, many of such bonds are not registered under securities laws and most are not listed, and market-making activity, if any, may cease.

#### Risk of investing in structured finance obligations (“SFOs”)

While the Advisers primarily invest in SSCLs, certain of the funds they manage hold a limited number of structured finance obligations (“SFOs”). SFOs may entail various unique risks, such as prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on an SFO changes based on multiples of changes in interests rates or inversely to changes in interest rates). In addition, the performance of an SFO will be affected by a variety of factors, including its priority in the

capital structure of the obligor, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

#### Risk of investing in synthetic obligations (“SOs”)

While the Advisers primarily invest in SSCLs, certain of the funds they manage hold a limited number of synthetic obligations (“SOs”). Investments in SOs (the reference obligations of which are themselves loan collateral debt obligations, SFOs or high yield collateral debt obligations) present risks in addition to those resulting from direct purchases of the reference obligations (“ROs”) underlying such synthetic obligations. With respect to each SO, the issuer will usually have a contractual relationship only with the counterparty of the SO and not the obligor on the RO.

The issuer generally will have no right directly to enforce compliance by the obligor with the terms of the RO nor any rights of set-off against the obligor (and may be subject to set-off rights exercised by the obligor against the counterparty or another person or entity), nor have any voting or other consensual rights of ownership with respect to the RO.

The SO investor will not directly benefit from any collateral supporting the RO and will not have the benefit of the remedies that would normally be available to a holder of such RO. In an insolvency of the counterparty, the investor will be treated as a general creditor of the counterparty, and will not have any claim with respect to the RO. Consequently, the investor will be subject to the credit risk of the counterparty as well as that of the obligor.

All investing involves a risk of loss.

#### **Item 9. Disciplinary Information**

Item 9 requires the disclosure of any legal or disciplinary event that is material to a client’s or prospective client’s evaluation of DCM’s advisory business or the integrity of its management. While DCM does not view the following disciplinary event as material to it, please note that in February 2011, Deerfield Capital Corp. (prior to the Merger transaction with CIFIC and its name change to CIFIC Corp.), without admitting or denying the allegations or findings, consented to the SEC’s issuance of a final order making findings and imposing a cease and desist order from violating specified books and records and internal control provisions of the Securities Exchange Act of 1934 and rules thereunder (namely, Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) and Rules 12b-20, 13a-1, and 13a-13), disgorgement and related payment of prejudgment interest. The SEC’s disciplinary action related to Deerfield Capital Corp.’s accounting treatment for three sets of mortgage-securities transactions that it conducted approximately five years ago. None of the CIFIC, DCM or the other Advisers or their current management persons was alleged by the SEC to have engaged in any violation.

## **Item 10. Other Financial Industry Activities and Affiliations**

None of the Advisers is registered as a securities broker-dealer.

As noted above, the Advisers are affiliated with each other (and with CIFIC Corp.), as each of them is wholly-owned indirect subsidiary of CIFIC Corp. (other than CIFIC Asset Management, which is a wholly-owned direct subsidiary of CIFIC Corp.).

The Advisers' affiliations with each other might create conflicts of interest for clients, in that there might be an incentive, as among the Advisers, to favor certain client accounts over others, for example in allocating limited supply new issue bank loans (see Items 6 and 8) among client accounts.

The Advisers have relationships with various banks and other financial institutions, largely as a result of the Advisers' transacting with these institutions in the purchase and sale of securities for client accounts. The Advisers might have an incentive to engage in these transactions with particular institutions if they referred prospective clients to the Advisers.

Certain of the Advisers' Related Persons (i.e. entities under common control with the Advisers) may be general partners or manager of investment-related entities, but the Advisers' clients are not currently solicited to invest in those entities, although the Advisers might solicit such investment in the future.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### Code of Ethics

The Advisers have a joint Code of Ethics (the "Code") that is a guide to the legal and ethical behavior of their directors, officers and employees. You may obtain a copy of the Code from the CCO.

The Code addresses the general responsibilities of the directors and employees; standards of business conduct, avoidance of conflicts of interest, reporting of personal securities transactions, the reporting of violations of the Code, any other policy of the Advisers or applicable law, political contributions; protection of confidential information; maintenance of data security, equal opportunity for Adviser employees, prohibitions on workplace harassment, proper use of Adviser property, recording of conversations; and recordkeeping.

### Participation or interest in client transactions

The Advisers or their Related Persons may recommend to you that you buy securities in which they have a material financial interest, in that they may recommend that you invest in an investment fund that they manage, or that they may be an investor in, and in which they thus have a financial interest. The Advisers would recommend the investment only if they considered it in your best interest to make the investment.

The Advisers or their Related Persons may invest in the same or related securities that they recommend to you, in that, as noted above, they may be investors in investment funds that they recommend to you. The Advisers do not consider this to involve a conflict of interest, as they believe that the investment by them or their Related Persons in a fund that they recommend to you helps to align the Advisers' interests with yours.

The Advisers or their Related Persons may recommend securities to you at or about the same time that they buy or sell the same securities for their own account, in that, as noted above, they may recommend to you that you invest in an investment fund the Advisers manage at or about the same time that they invest in the fund. The Advisers do not consider this to involve a conflict of interest.

The Advisers or their Related Persons may buy or sell securities for their own account, in that they may cause an account in which the Advisers or such persons have a material ownership or other financial interest to engage in such principal trades with a client account. The Advisers would effectuate such trades only if they considered them to be in the best interests of the client account, principally because they considered the trade desirable for the client account and the trade price to be better than they could have obtained for the client account in an open market transaction. The Advisers will generally disclose in the disclosure document for the client account that they may engage in such principal trades with the account.

The Advisers, if authorized to do so pursuant to a particular client advisory agreement or by a particular client, execute cross transactions and agency cross transactions (collectively, "**Cross Transactions**") in accordance with the Adviser's policies and the Investment Advisers Act of 1940, as amended. Cross Transactions include transactions between two separate client accounts managed by an Adviser. The Advisers believe that such Cross Transactions may enable it to purchase or sell an SSCL or other security or a block of securities for each client account and possibly avoid or minimize transaction costs or unfavorable price movements. The Advisers believe that such transactions may provide meaningful benefits for its clients.

The Advisers have various policies and procedures setting forth the terms under which they may engage in principal trades, including that they be approved in advance by the CCO. Such principal trades could create a conflict of interest for the Advisers, in that they might have an incentive to favor an account in which they or their Related Persons have a financial interest over the client account that they arrange to buy securities from or sell securities to such proprietary account.



## Personal trading by Related Persons

The Advisers generally address conflicts that may arise in the personal trading of securities by their Related Persons through their Code of Ethics and their review of the personal trading of their Related Persons who have access to pre-trade information about orders the Advisers place for client accounts. The Code contains general prohibitions on (and the Advisers review their Related Persons' reports of personal trading for) personal trading that would conflict with their clients' interests, "front running" of clients' transactions (purchasing securities in advance of causing client accounts to purchase the same securities), and that would involve the use of material non-public information.

In addition, certain "knowledgeable employees" indirectly have a beneficial ownership in CIFIC's funds, as these employees, in prior years, have chosen to defer a portion of their annual compensation to a plan whose return tracks the returns on the CIFIC equity invested in funds that it manages.

### **Item 12. Brokerage Practices**

The Advisers may buy or sell loans through numerous agent banks for new issue loans and through numerous banks and other trading counterparties for secondary market loan trading. The Advisers have full discretion to determine its trading counterparties, but it typically trades with the trading counterparty offering the most favorable price. The Advisers' trading counterparties generally do not charge commissions, instead earning a return on the bid/ask spread of the securities that they trade. When considering the reasonableness of a bid/ask spread, the Advisers may consider a loan's yield, the loan's availability through other agent banks, and prevailing market conditions, among other things.

Additionally, the Advisers typically have authority to determine the broker or dealer to be used for the accounts they manage (to the extent relevant for a particular account), and the commission rate to be paid to brokers. The only limitations on their authority in this regard would be those agreed to with the client.

The factors the Advisers consider in determining the broker or dealer to be used and the reasonableness of the commission rate paid are mainly the quality of execution, the financial condition of the broker or dealer, and the overall quality of the broker or dealer's services, which may include services other than execution of a specific trade, such as general market or company research the broker or dealer provides to us or specific trading ideas. The research generated by a client's trading may be used for the benefit of other clients, and not all clients will benefit from all research obtained, but the Advisers do not have any "soft dollar" arrangements.

Certain brokers and dealers may introduce prospective clients to the Advisers or prospective investors to the investment funds they manage. This might give the Advisers an incentive to cause client accounts to use those firms as brokers and trade counterparties, whether or not they provide best execution, the lowest commission rate, or the best transaction prices or terms.

## **Item 13. Review of Accounts**

### General

The Advisers' investment platform is comprised of two closely integrated but distinct functions: the Investment Management function and the Fund & Product Management function. Members of each team typically meet daily. All fund investments (including both purchases and sales) are reviewed per an approval process that addresses credit acceptability approval, portfolio attractiveness approval and final investment approval.

### Investment Management

The Investment Management team analyzes current and potential investments, makes research recommendations and provides ongoing oversight of individual investment positions.

Investments are reviewed quarterly, upon significant events, and upon receipt of an amendment request or other specific action request with respect to a particular loan or other investment. The Investment Committee reviews include industry reviews, financial and operating performance vs. plan, covenant compliance, collateral valuation, significant events, stress testing and portfolio optimization.

### Fund and Product Management

Compliance with a fund's particular investment restrictions is the responsibility of the Fund and Product Management team, which actively manages applicable fund investment guidelines, including collateral quality and coverage tests and concentration limitations.

An independent trustee for all of our CLO and CDO clients is responsible for preparing monthly reports and distributing them to each fund's investors. These reports contain information about the fund's payments to investors as well as information about the securities that serve as collateral. Prior to a distribution by the trustee, the Advisers review the monthly reports and reconcile their contents against the Advisers' own records.

### Other

The Advisers aggregate the purchase or sale of securities for various client accounts in an effort to achieve best execution for them.

The Advisers also typically prepare a quarterly letter and makes other information available to the investors in each fund. This information supplements and explains information in the trustees' reports.

The trustee reports, quarterly letters and other information are in PDF file format made available to the fund investors on a secure basis via the Advisers' website. In addition, the independent trustees for the funds make the reports available to the fund investors.

#### **Item 14. Client Referrals and Other Compensation**

The Advisers do not currently have any arrangement whereby they receive an economic benefit from a person who is not a client for providing investment advice or other advisory services to clients. The Advisers and their Related Persons do not currently have any arrangement whereby they directly or indirectly compensate any person for client referrals, except that CIFIC currently has a client referral agreement with an unaffiliated firm, providing for CIFIC to pay the firm a portion of the management fees CIFIC receives from certain types of clients referred to it by the firm.

In the future, however, the Advisers might have the first of the above-described types of arrangements, and the Advisers or their Related Persons may have additional arrangements of the second type described above.

#### **Item 15. Custody**

The Advisers do not currently have custody of client funds or securities but might do so in the future. In that case, and if a qualified custodian sends quarterly or more frequent account statements directly to you, you should carefully review those statements. If in addition an Adviser sends account statements to you, you should compare those statements to the custodian's account statement.

#### **Item 16. Investment Discretion**

The Advisers currently have discretionary authorization with respect to the client accounts they manage. Before they assume this authority, they enter into either an investment management or similar agreement with the client, or a limited power of attorney, establishing the authority and specifying any limitations on the authority. The Advisers' clients customarily limit the Advisers' discretionary authority through specific restrictions or requirements relating to the investing the Advisers may conduct for their accounts within such authority, such as restrictions on the types of instruments they may trade for the account.

## **Item 17. Voting Client Securities**

The Advisers have, and will accept, authority to vote client securities.

The Advisers' policies for voting client securities are, in brief, as follows. The Advisers vote in a manner that they determine, in their discretion, is in the best interest of the clients and consistent with their duty of care and loyalty to their clients. The Advisers will generally vote for proposals that they believe maximize the value of the security. The factors they consider will vary from security to security and from client to client, and may include market information, liquidity, the debtor's financial situation, the industry, and the client's investment guidelines.

If the Advisers deem there is a conflict between their interests and those of the client with respect to the voting of a client security, the Advisers will generally address the conflict by establishing a committee likely including the Chief Investment Officer and the Chief Compliance Officer. For example, if a client account holds a defaulting bond whose issuer is negotiating financing with a financial institution with which the Advisers have a business relationship, the committee will review the voting action, and if it determines that no actual conflict is present it will approve the proxy vote.

By request to the Chief Compliance Officer, you may obtain information about how the Advisers voted your securities, obtain a copy of the Advisers' proxy voting policies and procedures, and direct the Advisers to vote in any particular situation.

## **Item 18. Financial Information**

You may visit the Advisers' website, [www.CIFC.com](http://www.CIFC.com), to obtain significant additional information about the Advisers that is not in this Brochure, including CIFC Corp.'s filings with the SEC, which contain additional information about the Advisers and CIFC Corp. Additional information about DCM is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 19. Requirements for State-Registered Advisers**

DCM is not registered with any state securities authorities (pursuant to various exemptions from such registration).