

## **OZ Management LP**

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Form ADV Part 2 — March 30, 2012

### **Item 1 – Cover Page**

**This brochure provides information about the qualifications and business practices of OZ Management LP (the “Registrant”) and its Relying Advisers OZ Management II LP, Och-Ziff Real Estate Advisors LP, Och-Ziff Management Europe Limited, Och-Ziff Capital Management Hong Kong Limited, Och-Ziff India Private Limited and Och-Ziff Consulting (Beijing) Limited (collectively “Och-Ziff”, “us” or “we”). If you have any questions about the contents of this brochure, please contact us at (212) 790-0041 or by email at [ADV@ozcap.com](mailto:ADV@ozcap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration as an investment adviser does not imply any level of skill or training.**

**Additional information about Och-Ziff is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

### **Item 2 – Material Changes**

The following is a discussion of material changes to the brochure since the Registrant’s last annual updating amendment on March 31, 2011.

Effective March 30, 2012, in reliance on SEC staff guidance, the Registrant began treating certain of its affiliated entities, including certain of its affiliates that had been separately registered as investment advisers, as “relying advisers.” As a result, this year’s brochure incorporates additional information regarding our real estate investment management business. While the majority of this new information was previously contained in a separate brochure for Och-Ziff Real Estate Advisors LP, it is newly incorporated into this brochure. The brochure also provides some additional information regarding the foreign affiliated entities that provide subadvisory services to our clients. Under the relevant SEC staff guidance, each relying adviser identified in this brochure is deemed to be a registered investment adviser. Information regarding this change is reflected in each relevant Item in the brochure.

As part of the annual update to our Code of Ethics, we have imposed a number of new restrictions on personal securities transactions by our personnel and their immediate family members or domestic partners living in the same household. With limited exceptions, our Code of Ethics now prohibits all acquisitions of new positions in common stock, debt instruments of public companies, derivatives, and interests in third party hedge funds. Additional information regarding these changes is provided in Item 11.

Och-Ziff will ensure that you receive a summary of any material changes to this and subsequent brochures within 120 days of the close of its fiscal year. Och-Ziff may also provide you with additional updates or other disclosure information at other times during the year in the event of any material changes to its business.

You may request the most recent version of this brochure by contacting us at [ADV@ozcap.com](mailto:ADV@ozcap.com).

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## **Item 4 – Advisory Business**

The Registrant was founded in 1994, and along with its affiliated entities, is indirectly owned by Och-Ziff Capital Management Group LLC (“OZCMG”), a publicly traded company listed on the New York Stock Exchange (NYSE: OZM). The Registrant is also owned in part by its limited partners, who are principals of the Registrant or of other affiliated entities, including Daniel S. Och, who is the CEO and an Executive Managing Director of the Registrant. As of December 31, 2011, Mr. Och remains the controlling shareholder of OZCMG. Och-Ziff is a global institutional asset management firm providing advice on a discretionary basis to approximately \$29.5 billion in asset under management as of March 1, 2012. Och-Ziff and its affiliates serve as the management companies and general partners for alternative asset and real estate funds (the “Funds”) and manage investment advisory accounts (including separate vehicles set up for a single “investor” for a variety of purposes), for institutional clients (such as separately managed accounts), together with the Funds, collectively referred to herein as “Clients”. We provide advice to Clients regarding equity securities, convertible securities, debt instruments, options, futures, swaps, other derivatives, private securities, loans, structured products, individual real estate assets, multi-property portfolios, joint ventures, public and private real estate related securities and other investments and instruments. We generally permit separately managed account Clients to impose restrictions on their accounts with respect to: (1) the specific types of investments or asset classes that we will or will not purchase for their account; (2) the nature of the issuers of investments that we will or will not purchase for their account (e.g., specific industries or sectors); or (3) the risk profile of instruments we will or will not purchase for their account; or (4) the risk profile of the account as a whole. Throughout this brochure, we disclose a number of conflicts of interest and provide summaries of a number of our policies and procedures designed to detect and address these conflicts and others. We encourage Fund investors, Clients and prospective clients to review our policies and procedures and inquire directly with us about our conflicts. Our compliance policies and procedures are available for review by Fund investors and Clients in our New York, London, and Hong Kong offices. In addition, conflicts of interest and specific risks are identified in the offering materials of Funds that we manage. Please request a copy of the relevant Fund’s most current offering materials for a description of other conflicts and risks that might exist.

## **Item 5 – Fees and Compensation**

With respect to all types of Clients, we receive a management fee (a percentage of assets under management) and incentive income (based on net capital appreciation).

## ***Funds***

Typically, Funds pay us a management fee that ranges from 1.5% to 2.5% annually, which is typically based on the net asset value of the Fund. The management fee is generally accrued monthly and billed quarterly in advance. However, our real estate Funds fees are calculated differently, as they pay us a management fee based on the amount of capital contributed by each investor. Management fees for real estate Funds are generally determined based on the following fee schedule:

<u>Amount Invested</u>	<u>Management Fee</u>
Up to and including \$50,000,000	1.50%
\$50,000,001 to \$100,000,000	1.25%
\$100,000,001 to \$199,999,999	1.00%
Greater than \$199,999,999	0.75%

We also receive incentive income, typically 20% of the net capital appreciation allocated to each investor in a Fund, subject to certain limitations. Management fees and incentive allocations are calculated based on the terms set forth in each Fund's offering materials and other constituent documents. In addition, because we (or our partners, principals, or employees) may invest in certain of the Funds, we participate alongside other investors in the investments of those Funds *pro rata* in accordance with our capital accounts in the Fund. Fund investors should carefully review the specific terms set forth in the relevant Fund's offering documents.

We may negotiate specific terms of investment for certain prospective investors of the Funds that will differ from the terms applicable to other investors. However, when we enter into these arrangements, certain terms are not negotiable, including: (1) the kinds of investments the particular Fund will invest in; and (2) the management fee or incentive allocation we receive with respect to a tranche of interests in the Fund.

Different tranches of interests in certain of the Funds may have materially different terms, including terms regarding: (1) fees charged; (2) minimum subscriptions; (3) withdrawal rights; and (4) investment options. In accordance with the terms of the Funds, we are generally permitted to open new tranches for Funds that have different terms at the request of an incoming investor. When we open these new tranches, we sometimes grant requests from existing Fund investors to transfer their interest in the relevant Fund to the newly established tranche, subject to certain terms and conditions; we may also issue interests in the new tranche to persons and entities with whom we are affiliated. Such affiliated investors are permitted to withdraw from the Funds more frequently than other investors and may not pay management fees and incentive allocations.

Certain other types of Funds we manage are assessed fees on a different basis. These Funds are charged a management fee generally based on capital commitments or contributed capital, and our incentive income is paid out upon divestment of portfolio holdings, subject to the distribution waterfall specified in the Fund's organizational documents.

## ***Separately Managed Accounts***

Separately managed account Clients generally have fee arrangements that are similar to the Funds, as described above. However, we may negotiate different terms and conditions (including different fee and redemption arrangements) in respect of separately managed account Clients than the terms and conditions that apply to any of the Funds.

## ***Additional Expenses***

Our fees are exclusive of brokerage commissions, transaction fees, custodial fees, expenses relating to short sales, clearing and settlement charges, initial and variation margin, interest expense, pricing services, consulting and other professional fees relating to particular investments (including consulting fees and expenses payable to our affiliates), travel expenses incurred in connection with due diligence and the expenses related to investments, legal expenses, systems and technology expenses, audit and tax preparation expenses, corporate licensing, organizational expenses, and other related costs and expenses, all of which are incurred by the Client. In addition, Funds also bear expenses incurred in connection with the offering and sale of interests in the Fund and the fees and expenses of the Fund's administrator(s), if applicable, and certain other service providers. To the extent that we initially bear any of these expenses, Clients reimburse us.

Please refer to Item 12 for additional information regarding the factors we consider in selecting broker-dealers for Client transactions, and in determining the reasonableness of their compensation.

## ***Related Conflicts***

Strategic Relationships and Joint Ventures. We (and our affiliates) periodically establish joint ventures or other strategic relationships in which we will own an economic interest, which may be a majority interest. We may invest Client assets in investment funds managed by these entities. When making these investments, Clients do not receive an economic interest in the management or parent company.

If we receive incentive income or management fees from a Client that has invested in an investment fund managed by a joint venture which we manage or own or other are otherwise affiliated with, we will offset that incentive income or management fee against the income and fees that we would otherwise receive. However, any expenses of Client assets managed by the joint venture, and any incentive income or management fee that benefits our unaffiliated joint venture partner, will not be offset against fees we receive.

Even though we will offset the fees we receive in connection with these affiliated joint ventures, we may still benefit indirectly from investing Client capital in joint ventures because these investments can help develop goodwill and provide other intangible benefits. We have a conflict of interest in determining whether to invest Clients' capital in any other account or investment fund managed by a joint venture or an entity with which we have a strategic relationship.

Och-Ziff or its affiliates may sponsor and manage collateralized loan obligations (an "Affiliated CLO") and Clients may be allocated, from time to time, a subordinated note or equity investment in such Affiliated CLO as we believe is appropriate in accordance with each Client's investment objectives and our Allocation policies and procedures. Please refer to "Allocation of Aggregated Orders and Other Investment Opportunities" of Item 12 for more detailed information regarding our allocation policies. Clients may also, under certain circumstances, purchase other tranches of securities (in addition to subordinated notes) issued by an Affiliated CLO and purchase subordinated notes or such other tranches of securities in the secondary market. We will waive or rebate all fees and performance based compensation payable by the Affiliated CLO proportional to the Client's investment therein so that a Client will not bear two layers of compensation with respect to such investments. Investors should note that when a Client purchases newly issued subordinated notes or equity tranches of an Affiliated CLO, that such purchase may facilitate a successful launch of such Affiliated CLO and, although Och-Ziff and our affiliates will not receive additional fees or performance based compensation from the Affiliated CLO, such investment in the newly issued subordinated notes or equity may provide additional intangible benefits to us such as the development of good will.

Affiliated and Unaffiliated Sub-Advisers. As discussed in Item 8 below, from time to time, we may retain sub-advisers to provide investment research and analysis and/or discretionary management to the Funds and other Clients (directly, or through investment funds, managed accounts or other structures) with respect to discrete portions of Client assets. Compensation (including, without limitation, management and other fees, carried interest, profit participation and reimbursement of operating and other expenses) to sub-advisers that are not affiliated with us will be borne by Clients, and we will not offset, or pay such sub-advisers from, our management fees or incentive income. However, we do offset the compensation we receive against compensation received by sub-advisers that are our wholly-owned subsidiaries.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

As noted in Item 5 above, all Clients pay us certain performance-based fees in the form of incentive income—typically 20% of annual net capital appreciation allocated to each investor in a Fund or, in the case of managed account Clients, the net capital appreciation allocated to such managed account Client, subject to certain limitations. Net capital appreciation generally includes: (1) unrealized appreciation of assets; (2) realized gains and losses; and (3) with respect to Special Investments (as defined in Item 8 below), gains or losses that have been realized by us. A minority of the Funds calculate incentive income solely with respect to realized gains (*i.e.*, for those funds, we do not receive incentive income with respect to unrealized gains). For certain other Funds we manage, our incentive income is paid out upon divestment of portfolio holdings, subject to the distribution waterfall specified in the Fund's organizational documents. All performance-based income is calculated and paid in accordance with Section 205 and Rule 205-3 under the Investment Advisers Act of 1940.

Our receipt of incentive income may motivate us to make investments that are riskier or more speculative than we would make if we did not receive incentive income. This incentive may be particularly acute when our incentive fee is payable only upon exceeding a hurdle rate or high

water mark and performance of Client accounts is below any such hurdle or high water mark. Because net capital appreciation generally includes unrealized appreciation of Client assets (other than unrealized appreciation of Special Investments), it may result in our receiving more incentive income than if net capital appreciation were based solely on realized gains. Where applicable, we face a conflict of interest when we deem a Special Investment to be realized, but not sold, because we will receive incentive income based, in part, on any gain from the deemed realized Special Investment. We also face a potential conflict of interest when determining whether to realize a Special Investment at a loss because to do so would reduce the amount of incentive income payable to us.

We and our affiliates sponsor or manage other investment funds and managed accounts, some of which have objectives that are similar to, or which overlap with, those of other Clients. Additionally, we and our affiliates typically own interests in those investment funds. In certain circumstances, particularly when we or our affiliates sponsor a new product or platform (because we and our affiliates typically provide most of the initial seed money), such product or platform may be wholly or majority owned by us or our affiliates. In such a case, we face a potential conflict of interest in determining the allocation of investment opportunities because we may allocate those opportunities believed to be attractive to those accounts in which we have an ownership interest.

We and our affiliates may give advice and recommend securities to Clients which differs or conflicts with advice given to, or securities recommended or bought for, other Clients, even though the investment objectives of the respective Clients are the same or similar. As discussed in Item 12 below, we and our affiliates seek to allocate investment opportunities fairly and equitably across Clients to the extent such opportunities are appropriate for such Clients. However, there may be certain situations in which a Client has a specific geographical, sector or strategy focus, or situations where an agreement exists with an unaffiliated co-sponsor or joint venture partner or other Client, such that investment opportunities that may be appropriate for one Client are first referred to and/or allocated to another Client, with any remaining portions allocated to other Clients, as appropriate. Client accounts that receive investment opportunities in priority to other Clients may have been initially seeded by us or our affiliates, and, at the time of a referral or priority allocation, may, to the extent there has been only limited investment by third party investors, remain wholly or principally owned by us or our affiliates. If a Client does not receive an investment opportunity, it will not benefit from, and will have no right to profits arising out of, investments made by Clients that did receive the investment opportunity.

Sometimes, following an investment by a Client, we have the opportunity to make an additional or follow-on investment in the same entity or a related entity. Occasionally, rather than allocate these additional or follow-on investment opportunities to the Client(s) that made the original investment, we may allocate the opportunity among other Clients (including Clients that may be wholly or principally owned by us or our affiliates) and one or more strategic investors (which may include third parties and/or Fund investors). Typically, we make these allocations in circumstances where the additional investment opportunity or follow-on investment could not, because of available capital, risk limits, size, tax considerations, concentration or other reasons, be allocated in the same manner as the original investment to which it relates. Additional investment opportunities and follow-on investments may be more or less profitable than the original investment to which they relate.



From time to time, a Client account may make firm commitments to provide capital for investments at a certain date in the future. At the time any such investment requires funding, we may allocate the investment opportunity among such Client, other Clients eligible to participate in the investment (including other Clients that may be wholly or principally owned by us or our affiliates) and/or one or more strategic investors (which may include third parties and/or Fund investors). In addition, we and our affiliates may establish investment platforms or strategic relationships with institutional and other clients to facilitate the investment of Clients in certain opportunities. To the extent that any other Clients make an initial investment in or increase their investment in an investment platform, such investment will dilute the existing interest holders (and the underlying investments therein) unless we determine to increase the other interest holders' commitment to the platform on a proportionate basis. Accordingly, Clients may be disadvantaged if we allocate profitable opportunities away from them or if we allocate unprofitable opportunities to them.

The portfolio strategies we and our affiliates use for certain Clients could conflict with the transactions and strategies we employ in managing other Clients and may affect the prices and availability of the securities and other financial instruments in which Clients invest.

## **Item 7 – Types of Clients**

As noted in Item 4 above, we provide portfolio management services to the Funds (which may be organized as domestic or foreign partnerships, corporations, incorporated or unincorporated entities, or other similar entities) and we also advise separately managed accounts for institutions, including pension plans and corporations. Certain Funds require a minimum initial investment of \$5 million; this minimum may generally be waived in our discretion.

Termination provisions for advisory contracts are as follows: (1) generally, the Funds' investment advisory contracts may be terminated as of December 31 of any year upon 90 days' prior written notice, although certain Funds' advisory contracts may be terminated under other conditions set forth in each specific contract; (2) investment advisory contracts for real estate Funds may be terminated upon 60 days' prior written notice by either party, although certain advisory contracts may be terminated under other conditions set forth in each specific contract; and (3) termination provisions for advisory contracts for separately managed accounts are subject to negotiation but generally may be terminated upon mutually agreeable terms.

The beneficial owners of separately managed accounts generally receive more information (including portfolio composition information) and have more favorable liquidity rights than the investors in the Funds. We may also negotiate fees with beneficial owners of separately managed accounts that may be more favorable than the fees in place for comparable Fund tranches. The opportunity to open a separately managed account with us is not available to all prospective clients and is generally subject to minimum asset levels in our sole discretion. Our decision on whether to allow a prospective client to open a separately managed account with us is made based on a variety of factors.

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

We employ a wide range of investment strategies in managing Client assets, which include, but are not limited to:

- Risk or merger arbitrage
- Convertible/derivative arbitrage
- Credit
- Structured credit
- Long/short equity; special situations
- Capital structure arbitrage
- Private Investments

Please note that a Client may pursue one or more of the above strategies or one or more strategies not included in the list above. Furthermore, we may pursue additional strategies in the future.

In managing the real estate Funds, we employ a value-based, situationally-opportunistic investment rationale, investing primarily throughout the United States, although we may invest outside of the United States. We generally pursue investments with one or more of the following characteristics for our real estate Funds:

- Distressed situations both at the ownership level and asset level, in which alternative capital sources are unavailable or unwilling to participate in highly-complex restructurings, notwithstanding attractive underlying property fundamentals;
- Current return opportunities where we anticipate returning a substantial amount of invested capital and profits through operating distributions, significantly reducing dependence on exit valuations;
- Value enhancement opportunities where we can identify and reposition underperforming assets with correctable, temporary flaws including volatile tenancies, physical problems, disjointed ownership structures and liquidity constraints;
- Custom-tailored capital to meet a seller's objectives distinct from valuation that may offer more attractive risk return profiles;
- Timely macro-fundamental investments where supply/demand imbalances exist in given markets or asset classes;
- Relative inefficiencies where less efficient privately-negotiated real estate assets offer compelling investment opportunities on price or structure; and
- Contrarian asset classes where a particular geographic area, industry or asset type is out of favor and therefore mispriced due to fluctuations in capital flows.

Our real estate funds also seek to preserve capital and mitigate risk by (i) avoiding competitive situations, (ii) proprietary sourcing, (iii) discretion in deal selection, (iv) engaging in thorough due diligence, (v) having multiple defined exit strategies and (vi) structured downside protection. Och-Ziff believes that continual monitoring of real estate Fund investments should allow risks to be proactively managed and allow us to adapt investment strategies in anticipation of changes in

capital market and property market conditions. Finally, we generally seek to diversify investments across geography, asset types and transaction structures to actively balance portfolios.

### ***Investment Strategies and Related Risks***

Risk or Merger Arbitrage. Merger arbitrage strategies involve the purchase and sale of securities of companies involved in corporate reorganizations and business combinations, such as mergers, exchange offers, cash tender offers, spin-offs, leveraged buy-outs, restructurings and liquidations. Such strategies require an assessment of the likelihood of consummation of the proposed transaction, and an evaluation of the potential profits involved. If the event fails to occur or it does not have the effect foreseen, Clients may incur losses. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including, without limitation: (1) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (2) intervention of a regulatory agency; (3) efforts by the target company to pursue a “defensive” strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (4) in the case of a merger, failure to obtain the necessary stockholder or third party approvals; (5) market conditions resulting in material changes in securities prices; (6) compliance with applicable securities laws; and (7) inability to obtain adequate financing. Merger arbitrage positions also are subject to the risk of overall market movements. To the extent that a general increase or decline in equity values affects the stocks involved in a merger arbitrage position differently, the position may be exposed to loss. The success of merger arbitrage strategies depends on the overall volume of merger activity, which historically has been cyclical in nature.

The difference between the price paid by Clients for securities of a company involved in an announced extraordinary corporate transaction and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. Since the price for the securities of a company involved in an announced extraordinary corporate transaction is generally at a significant premium above the market price prior to the announcement, if the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the securities may decline sharply, often by more than the profit we anticipate for Clients, even if the security’s market price returns to a level comparable to that which exists prior to the announcement of the deal. Because of the inherently speculative nature of event-driven investing, the results of Client investments using this strategy may be expected to fluctuate from period to period. Accordingly, Clients should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

Long/Short Equity; Special Situations. This strategy involves, among other things, (1) fundamental value-driven investing and (2) event-driven investing where various corporate, legal or regulatory events would lead to a restructuring or alteration of the capital structure or operations of a corporation. This can involve investing and trading in a portfolio of equity securities and other assets, including common stock; preferred stock; cash and cash equivalents (including money market funds); options; futures; swaps; other derivatives or any other equity-like securities. Our allocation of capital across asset classes within this strategy will vary depending on market opportunities and other factors. This strategy uses both long and short

positions, and investments may be made on exchanges, in over-the-counter markets and in private transactions. In evaluating potential investments as part of this strategy, we perform extensive quantitative and qualitative analyses. We also perform risk analyses in order to seek to isolate corporate event exposure from systematic and macro-economic risk.

Convertible and Derivative Arbitrage. Convertible and derivative arbitrage strategies generally involve price spreads between the convertible and/or derivative security and the underlying equity security. To the extent the price relationships between such positions remain constant, no gain or loss on the position is likely to occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position. Substantial risks also are involved in borrowing and lending against such investments. The prices of these investments can be volatile, market movements are difficult to predict, and financing sources and related interest and exchange rates are subject to rapid change. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks. Government policies, especially those of the Federal Reserve Board and foreign central banks, have profound effects on interest and exchange rates that, in turn, affect prices in areas of the investment and trading activities of convertible arbitrage strategies. Many other unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations.

Capital Structure Arbitrage. This strategy is based on identifying and exploiting inefficiencies in the high yield and distressed debt securities markets related to the pricing and valuations of competing creditors within the same capital structure. The success of this strategy will depend on our ability to identify and exploit the relationships and discrepancies in price between movements in different securities and instruments within an issuer's capital structure (e.g., bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involves uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer's securities and instruments were to fail to materialize as we expected, Clients may incur a loss.

Credit. This strategy targets debt-oriented investment opportunities that are generated during the various phases of credit and economic cycles with a particular focus on investments in senior secured credit, distressed credit, special situation credit (long/short bonds) and investments in high yield, mezzanine and distressed debt securities.

Structured Credit. We have broadly organized the structured credit market opportunity into three distinct underlying credit categories: residential real estate credit, commercial real estate credit, and corporate credit. Based on current market conditions, this strategy generally involves investment broadly within the three areas, including more liquid, CUSIP-based securities, as well as less liquid, non-CUSIP investments such as whole loans and other related structured transactions. We could determine at any time to invest in other areas or products within the scope of the strategy.

Structured Credit generally includes investments in collateralized debt obligations ("CDOs") (including, without limitation, collateralized loan obligations, trust preferred CDOs, commercial real estate CDOs, collateralized synthetic obligations, multi-sector CDOs, other corporate CDOs and asset backed securities CDOs), asset backed securities (including, without limitation,

residential mortgage backed securities, commercial mortgage backed securities, agency residential mortgage backed derivatives, and non-mortgage asset backed securities), re-securitizations, re-remics, and residential, commercial and other asset backed loans and debt instruments, as well as synthetic or structured versions of any of the foregoing. Structured credit investments are subject to risks associated with defaults in the underlying assets as well as interest rate, market, documentation, prepayments, sovereign and other risks.

Private Investments. Certain Clients may acquire assets through private placements or in privately negotiated transactions and certain Client's investments programs are focused primarily on acquiring assets through privately negotiated transactions within a particular industry or investment strategy. Funds whose investment programs are focused on a particular sector may be subject to greater risk than an investment in a portfolio of securities representing a broader range of industries and may be subject to risks associated with concentration in a relatively small number of investments. In our sole discretion, we may designate assets or securities acquired through direct investments or private placements which we believe either lack a readily assessable market value, are illiquid, or should be held until the resolution of a special event or circumstance as "Special Investments" for some or all of our Clients. Investments in Special Investments may be limited in certain Funds and, in respect of any such Fund, we generally do not expect Special Investments to comprise more than 20% of the total assets of such Fund, as determined at the time the investment is made—however, this percentage may be exceeded due to market impact on portfolios holdings, a decline in value of other investments, or redemptions.

With respect to Special Investments held by Funds, only investors that hold an interest in the Fund at the time a Special Investment is designated by the Fund will have an interest in the related Special Investment. Accordingly, because the value and performance of Special Investments may vary, the return on investment among investors of that Fund may vary significantly depending on when an investor contributed capital to that Fund. Funds will generally only receive a return of capital and realize gains (if any) on Special Investments upon the partial or complete disposition of the asset. While it may be possible to sell certain Special Investments at any time, Special Investments may be held for a number of years after the investment has been made.

### ***Other Risks of Investing***

Investing in securities involves risk of loss that Clients should be prepared to bear. In addition, the investment strategies described above may also involve the following risks:

Liquidity of Investments. Our strategies may involve investments in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such securities tend to be volatile and Clients may be unable to sell them when desired, or to realize our perceived fair value of the investments in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the OTC markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

Non-U.S. Securities. Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated or whose prices are quoted in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include, expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of Clients, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of a financial instrument may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. In addition, less information may be available regarding securities of certain non-U.S. issuers and certain non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers. Transaction costs of investing in non-U.S. securities markets are generally higher than in the United States. There is generally less government supervision and regulation of exchanges, brokers and issuers outside the United States than there is in the United States. Clients might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the performance of Client accounts. Debt instruments issued by certain non-U.S. sovereign nations have recently suffered significant declines in value and are subject to potential default. Client accounts may be invested in such securities. Furthermore, certain hedging techniques may not be effective in limiting the downside risks of such investments.

The income Clients receive from sources within some non-U.S. countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes that Clients pay will reduce the net income or return from investments in such securities.

Uncertain Exit Strategies. Due to the illiquid nature of many of the positions which we expect Clients to invest in, we are unable to predict with confidence what the exit strategy will ultimately be for any such investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initially made may be unavailable at the time the investment is ready to be realized due to economic, legal, political or other factors.

Risks Associated with Distressed Investment Strategies. The success of many of our investment activities will depend to an extent on our ability to identify and exploit inefficiencies in the high yield and distressed debt securities markets. Identification and exploitation of these opportunities involves uncertainty. We cannot be certain that we will be able to locate investment opportunities or to correctly exploit inefficiencies in the markets. A reduction in inefficiencies that provide opportunities, for example, for covenant arbitrage or capital structure arbitrage will reduce the scope for those investment strategies. In the event that our perceived mispricings underlying Client positions fail to converge toward, or diverge further from, the relationships we expected, Clients may incur a loss. Further, the investments utilized in implementing such strategies will include derivatives, such as futures and options, which are themselves inherently volatile in the context of specific market movements.

Some of the distressed investment strategies we employ are based on historical relationships between prices. We cannot be certain that such historical relationships will continue, and we make no representations as to what results Clients will or are likely to achieve based on such trends and relationships.

Risks of Arbitrage Strategies. Some of the arbitrage strategies employed on behalf of Clients may result in high portfolio turnover and, consequently, greater transaction costs. Depending upon the investment strategies employed and market conditions, Clients may be adversely affected by unforeseen events involving such matters as changes in interest rates or the credit status of an issuer, forced redemptions of securities or acquisition proposals, break-up of planned mergers, unexpected changes in relative value, short squeezes, inability to short stock or changes in tax treatment. There can be no assurance that we will be able to locate investment opportunities or exploit pricing discrepancies.

Use of Leverage. In managing Client accounts, we sometimes employ leverage when we believe that the use of leverage may enable Clients to achieve a higher rate of return. Accordingly, we may cause Clients to pledge securities or provide other forms of security or assurance in order to borrow additional funds for investment purposes. We may also cause Clients to leverage investment return with options, commodity futures contracts, short sales, swaps, credit default swaps, forwards and other derivative instruments. The amount of borrowings which Clients may have outstanding at any time may be large in relation to the capital contributed to their account. Certain Funds have limitations on their ability to utilize leverage, which are described in their respective offering materials.

While leverage presents opportunities for increasing Clients' total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of a Client's investment would be magnified to the extent the Client's account is leveraged. This may result in a substantial loss to Client accounts, which would be greater than if we had not employed leverage in managing the account.

Short Selling. We may use short sales in managing Client accounts. Short selling involves selling securities which may or may not be owned and borrowing the same class of securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which we engage in short sales in a Client's account varies by investment strategy, and also depends on our perception of market direction. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to Clients of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase in the future. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Recent rulemaking by the SEC and other regulatory authorities outside the United States has imposed trading and reporting requirements on short selling, which could adversely affect trading opportunities, including hedging opportunities, for Client accounts.

Trading in Currencies. From time to time, we may engage in opportunistic currency trading strategies. A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex factors such as monetary supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments may intervene, directly or by regulation, in currency markets, with the specific effect, or intention, of influencing currency exchange rates, which may, together with other factors, cause rapid movements in currency exchange rates, which could adversely affect our currency trading strategies.

Interest Rate Risk. Changes in interest rates may affect a number of different investment strategies we use in managing Client accounts. For example, with respect to collateralized debt obligations and collateralized loan obligations (“Structured Products”), the collateral of a Structured Product may bear interest at a fixed rate while Structured Products may bear interest at a floating rate (or vice versa) with a resultant mismatch in payment obligations of the collateral and the relevant Structured Products. As a result of such mismatches, fluctuations in floating rate indices may adversely impact the ability of the issuer of the relevant Structured Products to make payments. In addition, the value of most mortgage-backed securities (“MBS”) and asset-backed securities (“ABS”), like traditional debt securities, tends to vary inversely with changes in interest rates. When interest rates rise, the value of MBS and ABS generally will decline; however, when interest rates decline, the value of MBS and ABS with prepayment features may not increase as much as other fixed income securities because prepayment of mortgages and other loans tends to accelerate during periods of declining interest rates. To the extent that Clients purchase MBS and ABS at a premium, prepayments (which may generally be made without penalty) may result in loss of the premium paid. Further, when mortgages and loans underlying MBS and ABS held by Clients are prepaid, Clients will receive principal repayments on the MBS and ABS, which it may reinvest in other securities where the yields will reflect interest rates prevailing at the time, which may be lower than the yield on the prepaid MBS or ABS. The value of MBS and ABS is also subject to extension risk, which is the reverse of prepayment risk. Extension, or slower prepayments of the underlying mortgages and loans, extends the time it takes to receive cash flows and generally compresses the yield on MBS and ABS and makes such instruments more sensitive to rising interest rates and price declines.

Counterparty Risk. Many of the markets in which we effect transactions for Client accounts are OTC or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight to the same extent as members of “exchange-based” markets. This exposes Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Client to suffer a loss. Although we intend that Clients will only enter into transactions with counterparties that we believe to be creditworthy and we attempt to reduce exposure by obtaining collateral in appropriate cases, there can be no assurance that a counterparty will not default and that Clients will not sustain a loss on a transaction as a result. In addition, concentration of transactions with a limited number of counterparties could increase the potential for losses by Clients. The ability of Clients to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties’ financial capabilities



and the absence of a regulated market to facilitate settlement may increase the potential for Client losses.

### ***Real Estate Fund Related Risks***

Investing in securities involves a risk of loss that Fund investors should be prepared to bear. The following are inherent risks involved with real estate investment strategies:

General Real Estate Considerations. Real property investments are subject to varying degrees of risk. Real estate values are affected by a number of factors, including changes in the general economic climate, local conditions, the quality and philosophy of management, competition based on rental rates, attractiveness and location of the properties, physical condition of the properties, financial condition of buyers and sellers of properties, quality of maintenance, insurance and management services, and changes in operating costs. If investments do not generate sufficient revenues to meet their operating expenses, including debt service and capital expenditures, a Fund's cash flow and ability to pay distributions to investors will be adversely affected. Certain significant expenditures associated with each equity investment (such as mortgage payments, real estate taxes, lease obligations and insurance and maintenance costs) are generally not reduced when circumstances cause a reduction in income from such investment. Real estate historically has experienced significant fluctuations and cycles in value and a RE Fund may buy and/or sell investments at less than optimal times. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes); interest rate levels; the availability of financing; participation by other investors in the financial markets; potential liability under changing laws; acts of God, including earthquakes, hurricanes and other natural disasters; acts of war; and acts of terrorism (any of which may result in uninsured losses).

Investment in Troubled Assets. A Fund may make investments in non-performing or other assets utilizing leveraged capital structures. By their nature, these investments can involve a high degree of financial risk, and there can be no assurance that there will be any return of capital. Investments in troubled assets are sometimes subject to certain additional potential liabilities which may exceed the value of a Fund's original investment. For example, under certain circumstances, lenders that have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Numerous other risks also arise in workout and bankruptcy contexts, including the possibility that payments to a Fund and distributions by the Fund to investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Investments in Real Estate Developments. A Fund may acquire for development direct or indirect interests in undeveloped real property, which is initially non-income producing property. To the extent that a Fund invests in such assets, it will be subject to the risks normally associated with such assets and development activities. Such risks include those relating to the availability, expense and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or

expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the financial condition and results of operations of the Fund and on the amount of funds available for distribution to investors. Properties under development or properties acquired for development may receive little or no cash flow from the date of acquisition through the date of completion of development and may still experience operating deficits well after the date of completion. In addition, market conditions may change during the course of development that make such investments less attractive than at the time they were commenced.

Potential Environmental Liability. The properties that we target for investment by real estate Funds will be subject to a variety of U.S. federal, state and local statutes, ordinances, rules and regulations concerning the protection of health and the environment. The particular environmental laws that apply to any given community vary greatly according to the community site, the site's environmental conditions and the present and former use of the site. Environmental laws may result in delays, may cause a Fund to incur substantial compliance and other costs and may prohibit or severely restrict development in certain environmentally sensitive regions or areas. Under various environmental laws, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such enactments often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. For example, the current owner of a parcel of land may be liable for environmental problems at, or emanating from, the parcel of land that were caused by a past owner or current operator of the site. The cost of any required remediation and the owner's liability in respect thereof is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral. In addition, remediated property may attract a limited number of potential purchasers because of the property's history of contamination, which might also adversely affect the owner's ability to sell the property. Further, a transfer of property does not relieve from liability a person who owned the property at a time when hazardous or toxic substances were disposed of on, or released from, such property. Also, noncompliance with environmental regulations may allow a governmental authority to order the owner/operator to cease operations at the property or to incur substantial costs and expenses to bring the property into compliance through the implementation of burdensome remediation or prophylactic measures. It is also possible that the owners of properties with significant contamination could be exposed to property damage in personal injury claims by adjoining or nearby landowners or residents. Finally, there can be no assurance that environmental laws relating to real estate transactions will not be amended in the future in ways that could adversely affect the Fund's investments.

Government Regulation. The real estate industry is extensively regulated and subject to frequent regulatory change. The adoption of new legislation or changes in existing laws or new interpretations of existing laws can have a significant impact on methods of doing business, costs of doing business and amounts of reimbursement from governmental and other agencies. The real estate industry is and will continue to be subject to varying degrees of regulation and licensing by federal and state regulatory authorities in various states and localities.

Use of Leverage. In employing our investment strategies, we may cause a Fund to leverage its investments with non-recourse debt financing, in which case a third party lender would be entitled to the cash flow generated by such investment prior to the Fund receiving a return of or on its investment. A Fund may also obtain recourse debt financing to allow the Fund to close transactions quickly and/or obtain more favorable terms. Although the use of leverage may enhance returns and increase the number of investments that can be made, it involves a heightened degree of risk, is inherently more sensitive to adverse economic factors (such as a significant rise in interest rates, a downturn in the economy, deterioration in the condition of such investments, declines in revenues and increases in expenses) and can exaggerate the financial effect of any increase or decrease in the value of such investments.

Any Client could be subject to material risks that are not described above and additional risks regarding Funds are disclosed in the offering materials of each Fund. We encourage investors to carefully review the full description of risk factors presented in their Fund's offering materials.

### ***Methods of Analysis***

In evaluating potential investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment bankers may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third party research. The due diligence that we carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, and such an evaluation will not necessarily result in the investment being successful. Moreover, the level of due diligence conducted with respect to a particular investment will vary and we may not properly assess the appropriate amount of diligence for each investment, which may result in losses to Clients.

Risk management is central to the operation of our business. We use both quantitative and qualitative analyses to monitor financial and event risk and manage volatility. We may seek to hedge credit, interest rate, currency and market exposures; however, there can be no assurances that appropriate hedges will be available or in place to successfully limit losses. We place substantial emphasis on portfolio diversification by asset class, industry sector and geography. The active management of positions in our funds allows for timely reallocation of capital in response to changes in business, market or economic conditions.

Our risk management processes are overseen by our Risk Committee. The Risk Committee meets regularly to review, among other information, sophisticated risk analysis, including the results of stress testing our portfolios under numerous scenarios. The Risk Committee also discusses other general risks, including, but not limited to, global economic, geopolitical, counterparty and operational risks. Additionally, our portfolio managers meet with our analysts daily to review inherent risks associated with the positions in each fund. The Risk Committee generally reviews Client portfolios as a whole and will not review the risks associated with each

investment contained in a portfolio. Accordingly, the risks associated with each investment may not be specifically reviewed by the Risk Committee. Notwithstanding the diligence that is conducted in connection with any investment, there can be no assurance that all risks will be identified or reviewed and that we will be able to prevent investment losses. Furthermore, it may not be possible to uncover fraud and other misconduct by issuers of securities in which we invest.

In addition to our longer term investment strategies, we also seek to capitalize on short-term trading opportunities in certain circumstances, which do not involve the extensive risk analysis described above.

Generally, the investment programs we employ for Clients give us the discretion to allocate capital to a wide variety of investment/asset types. Accordingly, Client portfolios will evolve over time and exposures to specific sectors, geographies, strategies and instruments will fluctuate. We make a reasonable effort to keep Clients (including Fund investors) informed of any investment strategies that constitute a material portion of their portfolio as soon as reasonably practicable.

### ***Master Funds***

Although we may invest the assets of certain Funds directly, we typically invest Fund assets in one or more master funds (collectively, the “Master Funds”). The use of a master-feeder structure in some Funds may create a conflict of interest among different feeders in that different tax and other structuring considerations for a Fund and other feeder funds may cause the Master Fund to structure or dispose of an investment in a manner that is more advantageous to one feeder fund. In addition, tax and regulatory considerations and other factors may require that investments be made in certain feeder funds and not others. As a result, participating feeder funds may experience higher portfolio concentration in certain sectors or strategies.

### ***Frequent Trading***

Some of the investment strategies we employ for Client accounts involve frequent trading of securities. When we employ these strategies for Clients, their portfolio turnover will be substantially greater than the turnover rates of other types of investment strategies that do not involve trading to such an extent. Consequently, certain expenses (e.g., brokerage commissions) may be greater than for other types of investments and there may also be additional tax considerations for certain types of Clients and Fund investors.

### ***Sub-Advisers***

We may allocate a portion of Client assets to other affiliated or unaffiliated portfolio managers for management through managed accounts, investment funds, or other structures. Sub-advisers will generally be retained for the purpose of allowing the Funds to participate in investments that are of strategic value. Some of these allocations may take the form of investments in public or private real estate investment trusts (“REITs”). For additional information regarding the fee arrangements related to sub-advisory relationships, please see Item 5 above.

## ***Other Related Procedures and Conflicts***

Valuation of Portfolio Holdings. We generally value securities and other assets held by Clients each business day in accordance with the constituent documents of each Client and our internal valuation policies and procedures, which consist of comprehensive guidelines designed to ensure independence in the valuation process. In this regard, securities that are traded on an exchange will be priced at the closing price on the principal exchange. Bank debt and over the counter securities will be priced using third party prices such as broker quotes and, in certain circumstances, independent pricing services. Certain illiquid investments, such as those investments held in side pockets and certain other private investments are valued monthly and sent to an independent third party for verification on a quarterly basis. Such independent third party provides positive assurance of the value ascribed to each such investment.

Our real estate Fund investments are valued at a fair market value on a quarterly basis and sent to an independent third party for verification on June 30 and December 31 of each year. In this regard, the independent third party provides positive assurance of the value ascribed to each such investment. The real estate Funds' investments are initially carried at cost, as an approximation of fair value. These values are adjusted for any distributed and undistributed results of operations of the Funds plus, if appropriate, an estimate of any unrealized appreciation/depreciation. These estimates are often based upon discounting the expected cash flows from the investment or a multiple of earnings. We also will consider recent sales as well as offers on investments that we believe are likely to close in the near future. In reaching our determination of fair value, we consider many factors including, but not limited to, the operating cash flows and financial performance of the properties relative to budgets or projections, property types and geographic locations, expected exit timing and strategy and any specific rights or terms associated with the investment. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the values that would be determined by negotiations held between parties in a sale transaction.

Och-Ziff engages Citco Fund Services (Cayman Islands) Limited ("Citco") to provide independent third party asset and pricing verification services to most Funds. Citco performs verification procedures on all items on a Fund's balance sheet and independent valuation of a Fund's assets on a monthly basis, and issues a letter directly to all investors in the Fund approximately 45 days after the end of each month detailing its findings. Internal valuation policies and procedures are also subject to review by Och-Ziff's external independent auditor, Ernst & Young LLP.

A complete copy of the most current valuation policies and procedures is available on the investor website, which is available to investors in the Funds. In addition, our valuation methodology is described more fully in the offering memorandum for each Fund. Please note that we may modify these policies and procedures at our sole discretion without notice to Clients or Fund investors.

Due Diligence Trips. From time to time, our analysts may go on due diligence trips related to a prospective investment. The expenses related to these trips may be paid for by the company in which the prospective investment would be made. To the extent we believe it appropriate, we may invest Client assets in these companies.

## **Item 9 – Disciplinary Information**

Form ADV Part 2 requires investment advisers to disclose legal or disciplinary events involving the firm or our partners, officers, or principals that are material to your evaluation of our advisory business or the integrity of our management. Neither the Registrant, nor any of its affiliates have information to report that is applicable to this item.

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

The Registrant and its affiliates provide a global institutional asset management business, with its accounting, compliance and legal functions centralized at its headquarters in New York. The Registrant has a number of material global relationships. OZ Management II LP, a relying adviser and a wholly-owned subsidiary of the Registrant, serves as the investment manager to certain related funds and managed accounts. OZ Advisors LP, an affiliate of the Registrant, generally serves as the direct or indirect general partner of the Funds organized in the United States. OZ Advisors II LP, another affiliate of the Registrant (a wholly-owned subsidiary thereof) generally serves as the direct or indirect general partner of the Funds organized outside of the United States. Och-Ziff Real Estate Capital L.P. and Och-Ziff Real Estate Capital II L.P., are affiliates of the Registrant and generally serve as the direct or indirect general partners of Och-Ziff's real estate funds. All direct general partners for Och-Ziff's Funds are listed in Schedule D of the Registrant's Form ADV.

The Registrant, OZ Management II LP, and OZ Advisors LP are each registered as Commodity Pool Operators, and the Registrant and OZ Management II LP are also registered as a Commodity Trading Advisors with the National Futures Association. relying adviser Och-Ziff Management Europe Limited, a private company limited by shares under the laws of England and Wales, is a relying adviser and a wholly-owned subsidiary of the Registrant, and an entity regulated by the U.K.'s Financial Services Authority, and Och-Ziff Capital Management Hong Kong Limited, an entity regulated by the Hong Kong Securities and Futures Commission and a relying adviser and a wholly-owned subsidiary of the Registrant, serve as sub-advisers to the Registrant and OZ Management II L.P. Och-Ziff India Private Limited and Och-Ziff Consulting (Beijing) Limited are both relying advisers and provide research services to the Registrant and to Och-Ziff Capital Management Hong Kong Limited. As noted in Item 5 above, we pay affiliated sub-advisers from the compensation we receive from Clients and no additional fees are charged by affiliated sub-advisers.

### ***Other Related Conflicts***

Fees Payable to Service Providers Which are Our Affiliates. Clients' portfolio investments may pay fees to our affiliates in connection with the operation of a business related to a portfolio investment (e.g., fees to operate or develop a business which are distinct from fees paid in connection with investment advisory services provided by us to the Client). These fees may include, for example, fees paid to consulting companies, real estate development companies or other operating businesses in which we have an interest. These fees will not be incurred for

investment management services but rather they relate to the day-to-day operations of portfolio investments.

We seek to ensure that the economic terms of any arrangement with our affiliates will be consistent with the terms that can be obtained in arm's-length, commercial negotiations with third parties for similar services, as we determine in our sole discretion. Fees paid to our affiliates that relate to the day-to-day operation of portfolio investments will not reduce or offset any fees we receive. We have a conflict of interest in selecting (or influencing a portfolio investment to select) any of our affiliates to provide these types of services.

In order to address this conflict, whenever a situation arises where we (or a portfolio investment) seek to hire an affiliate to provide these types of services, we generally bring the matter before our Conflicts Committee (discussed in greater detail in Item 11 below) to approve the hiring.

Publicly Held Company. OZCMG, our indirect parent company, is a publicly traded company listed on the New York Stock Exchange. OZCMG has significant economic and business interests and objectives that are different than or conflict with those of Clients. Accordingly, the interests of shareholders of OZCMG may not be aligned with the interests of Fund investors or other Clients. In situations where these interests are not aligned, we face a conflict of interest when we act or fail to act.

In this regard, OZCMG has direct relationships with Client counterparties—certain counterparties provide underwriting, consulting, administration and financing services to OZCMG. In particular, a financial services firm which provides a significant amount of services to Clients (such as prime brokerage, custodial, administration, and other services) has been a major source of liquidity for OZCMG through a term loan facility, the terms of which are disclosed in OZCMG's public disclosure documents which are available at [www.sec.gov](http://www.sec.gov). Moreover, certain Client counterparties have in the past, and may in the future, underwrite and analyze OZCMG's Class A shares.

In addition, third party service providers and counterparties that provide services to, or engage in transactions with, OZCMG or its subsidiaries also provide services to, or engage in transactions with, Clients. These service providers and counterparties also provide services to, or engage in transactions with, our partners and principals. We have a conflict of interest in selecting these service providers and counterparties on behalf of Clients because we may favor service providers and counterparties that provide service to OZCMG or its principals or subsidiaries for attractive fees or other terms of service. In order to address these conflicts, in certain situations, Och-Ziff may bring matters like these before the Conflicts Committee for review and approval of the resolution. Refer to "Other Related Conflicts and Practices" of Item 11 below for more detailed information on the Conflicts Committee.

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

*Code of Ethics and Personal Trading.* We strive to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust, and we have adopted a Code of Ethics (the “Code”) to help us meet these standards. The Code incorporates the following principles, among others:

- Employees must place the interests of Clients first at all times;
- Personal securities transactions in certain types of securities or asset classes are prohibited for all covered persons under Och-Ziff’s Code. Further details are provided in the first paragraph below.
- All other personal securities transactions that are permitted must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility must be avoided;
- Employees must not take any inappropriate advantage of their positions; and
- Information concerning the identity of securities and financial circumstances of Clients (and Fund investors, as applicable) must be kept confidential (except in furtherance of Client investment objectives and goals).

The Code places restrictions on personal trades by employees. With limited exceptions, the prohibited security types largely include: common stocks; bonds or debt instruments of public companies; options, futures & derivatives; and interests in third party hedge funds. Employees are required to disclose their personal securities holdings and transactions to us on a periodic basis. Employees are also required to seek pre-approval for personal securities transactions in certain security types that are not included in the category of prohibited investments. As such, provided that they comply with the Code and pre-approval requirements, our personnel are permitted to engage in limited personal securities transactions (including transactions in securities currently held in Client accounts or that may be appropriate for investment in such accounts) that not will result in a new or augmented position in the employee’s personal account. Clients, prospective clients, Fund investors, and prospective investors may obtain a copy of the Code by contacting us at the email address or telephone number listed on the first page of this document. A copy of the Code is also posted on the Client investor website at <http://ir.ozcap.com>, which is available to investors in certain of the Funds.

Personal Trading. Subject to the Code, as described above, we and our partners, principals, employees, and other affiliates may engage in limited investment activities for our own account or for the accounts of immediate family members and/or domestic partners living in the same household. These activities may involve the sale or purchases of securities that are similar to or the same as, but in different concentrations or effected at different times and prices than, those purchased or sold for Client accounts. These activities may also involve the purchase and sale of certain types of securities that are different from those purchased for Client accounts.



The Funds typically impose minimum holding periods during which interest holders may not withdraw from the Funds in which they have invested. To the extent that our partners, principals, employees and their respective family members (and those of our affiliates) also own interests in Funds, they will generally be permitted to withdraw from the Funds at more frequent intervals than other investors. If a Fund is required to liquidate holdings to satisfy these withdrawal requests, additional costs and expenses will be incurred and will be borne primarily by the remaining investors in the Fund.

As noted above, our partners, principals, employees and those of our affiliates invest in the Funds—in fact, many investors insist upon such personal investments in a Fund before committing their own capital. The amount of proprietary investment by our partners, principals, employees and other affiliates differs from Fund to Fund, with the highest percentage of aggregate proprietary versus non-proprietary investments tending to occur in the early, start-up phase of a Fund. To the extent that third party investments in such Funds are limited, a substantial level of proprietary ownership may continue for an indefinite period. Because our allocation policies are designed to facilitate getting new Client accounts to a fully invested posture, we may make greater allocations of investment opportunities (including limited investment opportunities) to new Funds, even if such Funds are predominantly comprised of affiliated capital. In making these allocations, we face a potential conflict of interest with other Clients for whom the same investments would be appropriate, because the over-allocation to the new Fund could be seen as allocating investment opportunities to the proprietary accounts of our partners, principals, and employees, or those of our affiliates, to the extent they comprise a substantial portion of the investor base of the new Fund. In addition, certain Funds in which our partners, principals and employees invest are sector or geographic specific Funds; under our allocation policies, these types of Funds receive increased allocations based on their more focused investment strategy, which generally continues for the life of the Fund. Please also see Item 12 below for additional information regarding our allocation policies.

### ***Other Related Conflicts and Practices:***

Conflicts Committee. From time to time, under circumstances addressed in this brochure or as otherwise appropriate, we bring issues that raise potential conflicts of interest before our internal conflicts committee (“Conflicts Committee”) to determine how we will proceed. The Conflicts Committee is composed of our Chief Financial Officer, Chief Legal Officer, Chief Operating Officer, Fund Controller, Chief Compliance Officer and certain General Counsels responsible for various business units. The Committee is responsible for reviewing conflicts and potential conflicts between us and our Clients and/or the public shareholders of our parent company, OZCMG. Committee meetings may involve participation by outside parties or our employees including, but not limited to, members of our research, portfolio management, accounting, legal, compliance or internal audit group. However, only members of the Committee are permitted to vote on any actions put before the Committee.

Side Letters. We and our affiliates sometimes enter into agreements with prospective investors that allow for different terms of investment in a Fund than the terms applicable to other Fund investors. As a result of such side letters, certain Fund investors may receive additional benefits that other investors in the same Fund will not receive. In general, we will not notify Fund investors when we enter into these agreements. In addition, Fund investors may review redacted

versions of any side letter agreements we have entered into with respect to their Fund at our New York office.

Disclosure of Portfolio and Other Information. We sometimes provide portfolio holdings information to entities that have been retained by Fund investors to evaluate portfolio risk. We provide this information in our sole discretion, and reserve the right to cease providing information at any time. We make reasonable efforts to preserve the confidentiality of the information we provide, such as by entering into non-disclosure agreements, but we cannot ensure that the entities to which we provide information will fulfill their confidentiality obligations.

In the course of conducting due diligence, Fund investors periodically request information pertaining to their investments, and pertaining to us and our affiliates. We may respond to these requests, and may provide information that is not generally made available to other Fund investors. When we provide this information, we do so without an obligation to inform other Fund investors or to update any such information provided.

Gifts and Entertainment; Political Contributions. Brokers, counterparties, service providers and other third parties with whom we do business occasionally provide gifts and entertainment to our partners, principals, and employees. We and our affiliates may enter into business transactions and relationships on behalf of a Client with such entities. Such gifts and entertainment may create a conflict of interest in our selection and retention of these donors. To address this conflict, we have adopted policies and procedures to: 1) monitor gifts and entertainment provided to or received by our partners, principals, and employees; and 2) limit the value of gifts and monitor the appropriateness of entertainment received. We also have policies and procedures in place to help us monitor, and in certain cases limit, the political contributions that our partners, principals, and employees make to public officials and candidates for elected office.

## Item 12 – Brokerage Practices

### *General Brokerage Practices*

We allocate portfolio transactions for Client accounts to broker-dealers on the basis of best execution available—i.e., execution in a manner that the Client’s total cost or proceeds in each transaction is most favorable under the circumstances. For portfolio transactions executed in the our New York office, we consider a variety of factors regarding broker-dealers in seeking best execution, including, but not limited to:

- Quality of execution
- Financial strength and stability
- Willingness and ability to execute difficult transactions
- Access to underwritten offerings and secondary markets
- Overall cost of trade (including commissions, mark-ups, mark-downs, spreads, and other costs)
- Desired timing of the transaction
- Confidentiality of trading activity
- Idea generation
- Sourcing of investment opportunities by the broker and its affiliates
- Provision of research or brokerage services
- Provision of financing and similar services
- Reputation
- Block trading and block positioning capabilities
- Willingness and ability to commit capital (i.e., loss ratios)
- Ongoing reliability
- Nature of the security and available market makers
- Desired size of the trade
- Market intelligence
- Availability of stocks to borrow
- Quality and timeliness of market information provided
- Other similar services
- Ability to provide competitive term financing across a variety of asset classes

Certain affiliated offices are prohibited by applicable regulatory authority from taking certain of the above referenced factors into account prior to executing portfolio transactions.

Clients should expect that their securities transactions will generate a substantial amount of brokerage commissions and other costs, all of which is borne by the Client, and not us. Unless we receive instructions from a separately managed account Client to use a specific broker-dealer, we generally have complete discretion to decide what broker-dealers or other counterparties will be used in executing transactions for Clients, and we negotiate the rates of compensation that Clients will pay. We do not currently have any such instructions. Some of these broker-dealers and other counterparties we select have (or are affiliates of entities that have) other material business relationships with us or our affiliates, with our parent company OZCMG, or with our principals.

In addition to using brokers as “agents” and paying resulting commissions, we sometimes cause Client accounts to buy or sell securities directly from or to dealers acting as principals at prices that include mark-ups or mark-downs, and may also cause Client accounts to buy securities from

underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

### ***Research and Other Soft Dollar Benefits***

General Information. Clients may pay for research and execution services with “soft” or commission dollars. While Clients benefit from many of the services obtained with “soft dollars” generated by Client trades, each Client will not benefit exclusively.

In addition to the benefits received by Clients, we and our affiliates may also derive direct or indirect benefits from soft dollar services—this is particularly true to the extent that we use “soft” or commission dollars to pay for expenses that we would otherwise be required to pay for without reimbursement from Clients. Therefore, we may have an incentive to select broker-dealers based on our interest in receiving the research or other products or services at reduced cost to us, rather than based on the lowest available commission rate.

We do not seek to allocate soft dollar benefits to Client accounts proportionally to the soft dollar credits those accounts generate. Rather, we use soft dollar benefits to service *all* Clients’ accounts. However, each Client may not benefit from each of the services that we pay for with soft dollars, and therefore, in the case of any particular transaction or transactions, a Client may pay higher commission rates without receiving any benefit.

We may allocate soft dollars to pay brokers that provide us with information, insight or market color, in addition to or rather than tangible research, as well as access to third party research. Some of these brokers also have (or are affiliates of entities that have) other material business relationships with us. We determine the amount of these broker payments based on our assessment of the value of the relationship, and in that regard, this determination is inherently subjective and we cannot assure Clients that they will benefit from these payments.

As noted above, in allocating Client brokerage, we generally consider, among other things, research and execution services provided by brokers. We do not exclusively use brokers that provide research and other soft dollar services, but the proposed relationships with brokerage firms that provide soft dollar services to us may influence our judgment in allocating brokerage business and creates a conflict of interest. We believe that our allocation of brokerage business will help Clients to obtain research and execution capabilities and will provide other benefits to Clients, but Client trades executed through these brokers or dealers or any other brokerage firm may or may not be at the best or lowest price otherwise available.

Brokers sometimes suggest the level of business they would like to receive in return for the various services they provide. However, we have no obligation to meet such levels.

Section 28(e) Safe Harbor. Section 28(e) of the federal Securities Exchange Act of 1934 provides a “safe harbor” to investment advisers who use commission dollars of their advised accounts to obtain certain research and brokerage services. We intend that all soft dollar payments will fall within the safe harbor of Section 28(e). Section 28(e) permits an investment adviser, under certain circumstances, to cause an account to pay a broker a commission for effecting a transaction in excess of the amount of commission another broker would have

charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker. Below we have described SEC guidance we follow in determining whether a service is within the safe harbor and examples of research and brokerage services that fall within the safe harbor of Section 28(e). We may use commissions that Clients generate for any of these eligible research and brokerage services as well as any others not described in this brochure that fall within the safe harbor of Section 28(e). Compliance reviews and approves requests to use soft dollars as payment to providers of research and brokerage services. Furthermore, in certain circumstances, prior to use by our Clients, third party providers of the research services described below are fully vetted and approved by our Compliance department where the provider undergoes a thorough due diligence process.

Guidance provided by the SEC with respect to research services indicates that research services must consist of either advice, analyses or reports that relate to certain permissible subject matters defined in Section 28(e) and reflect substantive content (i.e., the expression of reasoning or knowledge). For example, under Section 28(e), eligible research services may include: traditional research reports analyzing the performance of a particular company or stock; discussions with research analysts; meetings with corporate executives; seminars and conferences which relate to research, such as discussions of issuers, industries and securities; participation in other broker-sponsored events where investments are discussed; corporate governance research analytics and rating services (e.g., services which provide reports and analyses about issuers, which can have a bearing on the companies' performance outlook); software that provides analyses of securities portfolios; market data, such as stock quotes, last sale prices and trading volumes; financial, economic and similar data; advice, analyses and reports regarding the market for securities (i.e., "market research"); pre-trade and post-trade analytics, software and other products that depend on market information to generate market research, including research on optimal execution venues and trading strategies (including trade analytics transmitted through order management systems ("OMS")); advice from broker-dealers on order execution, including advice on execution strategies, market color, and the availability of buyers and sellers (and software that provides these types of market research); advice and information on industries, the economy (such as unemployment and inflation rates or gross domestic product figures), world conditions, portfolio strategy (which may have implications in terms of the securities markets as a whole or in terms of the past, present or future values of individual securities or groups of securities); reports concerning political factors that are interrelated with economic factors; company financial data; trade analytical software; non-mass marketed publications such as financial newsletters and other financial and economic publications that are not targeted to a wide, public audience and trade magazines and technical journals concerning specific industries or product lines marketed to, and intended to serve the interests of a narrow audience rather than the general public; research consultant services; proxy products that contain reports and analyses on issuers, securities, and the advisability of investing in securities (but not the portion that assists us in deciding how to vote); sourcing of investment opportunities by brokers or their affiliates; and legal services related to the investment decision-making process.

Guidance provided by the SEC with respect to brokerage services establishes a temporal standard for permissible brokerage services that begins when the investment manager communicates with the broker-dealer for the purpose of transmitting an order for execution and ends when funds or securities are delivered or paid to clear and settle the transaction. For

example, under Section 28(e), eligible “brokerage” services may include: clearance, settlement and custody services in connection with trades effected by the broker; connectivity service between the investment manager and the broker-dealer and other relevant parties such as custodians, which includes dedicated lines between the broker-dealer and investment manager’s order management system, dedicated lines between the broker-dealer and order management systems operated by third party vendors, dedicated lines providing direct dial-up service between the investment manager and the trading desk at the broker-dealer and message services used to transmit orders to broker-dealers for execution; trading software used to route orders to market centers; software that provides algorithmic trading strategies; software used to transmit orders to direct market access systems; post-trade services such as post-trade matching of trade information, other exchanges of messages among broker-dealers, custodians and institutions related to a trade, electronic communication of allocation instructions between institutions and broker-dealers, routing settlement instructions to custodian banks and broker-dealers’ clearing agents and short-term custody related to effecting particular transactions in relation to clearance and settlement of the trade; and comparison services required by the SEC or SRO rules.

Where we receive both eligible research and brokerage services and non-eligible services from brokers (“mixed-use services”), we make a good faith allocation between the eligible research and brokerage services and non-eligible services, and will pay for any non-eligible services with cash. We may face a conflict of interest in making these good faith allocations. Examples of mixed-use services may include: consultant services; market research products and services that also contain functionality that is not within the Section 28(e) safe harbor (e.g., portfolio performance evaluation services or reports); proxy products or services; OMS; and trade analytical software (to the extent it is used for recordkeeping, administrative or compliance purposes).

When our affiliates serve as sub-advisers to Clients they also receive research in connection with the execution of Client transactions. Such research may be used principally or solely by such sub-advisers, but not directly by us. In this regard, our affiliates use research in connection with providing investment advisory services to our Clients exclusively, as they have no other client relationships. In addition, our affiliated sub-advisors are further limited by local soft commission rules and regulations and therefore different rules may apply in such jurisdictions regarding eligible and non-eligible services.

### ***Brokerage for Client Referrals***

Please refer to Item 14 below regarding our brokerage practices with respect to capital introduction events sponsored by broker-dealers.

### ***Directed Brokerage***

We permit separately managed account Clients to select their own counterparties and direct us to execute transactions through a specified broker-dealer or broker-dealers. However, when acting pursuant to these instructions we may be unable to achieve most favorable execution, which can result in additional costs and expenses for the Client. For example, Clients may pay higher brokerage commissions and may receive a less favorable price when buying or selling if they

cannot participate in an aggregated trade along with other Client orders executed through broker-dealers that we selected. We do not currently have any directed brokerage arrangements.

## ***Trade Aggregation***

When buying and selling securities for Clients, we generally aggregate multiple transactions into one order so that as many eligible Clients may participate equally over time on a fair and equitable basis, in terms of best available cost, efficiency and terms under the circumstances. We also may aggregate orders for Clients together with orders for the various pooled investment vehicles and managed accounts advised by our affiliates.

Although certain Clients may be excluded from a given aggregated order, no Client is favored over any other on an overall, long-term basis. Each Client that participates in an aggregated order participates at the average price, except as noted below. Typically, transaction costs are shared pro rata based on each Client's participation in the transaction. In certain transactions, prices may differ as a result of differences in fees, taxes and transaction charges that are assessed on each participating Client and vary depending upon a number of factors including, but not limited to, the domicile of the Client, the size of participating Client accounts or amounts allocated. We do not earn any additional compensation as a result of aggregating orders and allocating them consistently with our procedures.

In assembling an aggregated order in specific securities (including privately offered investments and securities and other assets for which the investment opportunity is limited) we consider the appropriateness of the investment for each Client based on their risk tolerances and objectives, as well as other factors such as:

- Whether a Client has a sector or geographic regional focus
- Individual Client relationships and counterparties
- Degree of leverage employed
- Timing of capital contributions and withdrawals
- Tolerance for volatility/risk
- Domicile of the Client
- Client-specific limitations or requirements
- Availability of credit facilities (and their terms)
- Tax matters
- Available capital
- Liquidity needs of the Client
- Investment or ramp-up phase of one or more Client(s)
- Other relevant factors

## ***Allocation of Aggregated Orders and Other Investment Opportunities***

We consider a number of factors when allocating aggregated orders and other investment opportunities to individual Client accounts. For example, when a Client is in its investment or ramp-up phase or it has received a capital infusion or withdrawal request (including Funds with substantial investments by our partners, principals, employees and other affiliates), preference may be given to that Client so that it reaches its desired position quickly. Clients may also employ different securities or different amounts of the same securities as a hedge depending

upon availability of securities, timing of investments, risk tolerances and other factors we consider relevant. Due to the weight we give to these factors and other factors we deem relevant, such as the determination of the relative ratio (as described below), Client portfolios may hold differing proportional amounts of investments. We strive to provide all Clients with meaningful investment allocations over time, although each and every Client will not receive an allocation of each and every profitable investment.

Allocation Ratios. Generally when determining allocations of aggregated orders, we establish a ratio among participating accounts based on the various investment strategies employed and the factors listed above. In this regard, we may, for example, allocate a greater proportionate allocation (within reasonable risk tolerance levels) of certain types of investments to Clients with principal investment strategies that focus on specific strategies and/or geographic regions than Clients with more diverse investment programs. As noted in Item 11 above, our allocation policies may sometimes cause us to make greater proportional allocations to certain Client accounts, even if the interests of our partners, principals, and employees constitute a majority or substantial portion of such Client's assets. Allocations to all Clients are generally different than what would be the case if allocations were done on a mechanical, pro rata basis based on net assets.

When allocating investment opportunities (including limited investment opportunities), we believe that fairness requires us to consider the specific investment programs we employ for our Clients. Specifically, certain Clients invest on a global, multi-strategy basis while others focus on specific strategies or geographic regions. For this reason, when an investment opportunity arises, we generally apply a pre-determined ratio by taking the then-available capital allocated to a particular region or strategy in participating Client accounts with a global or limited strategy investment focus and the then-available capital in the Client accounts and aggregate (and subsequently allocate) the order on the basis of that ratio.

We review the ratio on a monthly basis, taking into account capital changes and changes in the risk profile within each Client account and relative sizes of Client accounts, recognizing that the regional or strategy allocations of our global, regional or strategy-based Client accounts change over time. We initially base the ratio on estimated Client account changes at the beginning of a particular month and then adjust the ratio once Client account capital changes are finalized the same month. We also adjust the ratio to the extent that Client accounts participate in a given opportunity and to account for risk limitations considered appropriate for each Client at the time of the allocation. Accordingly, the pre-determined ratios may be adjusted one or more times during a given month depending on the circumstances related to a given Client or specific investment opportunity. We may permit one or more strategic investors (which may include third parties and/or Fund investors) to co-invest in certain investment opportunities (including limited investment opportunities), thereby diluting the amount available for us to allocate to our Clients. Our decision to permit co-investments by third parties may be based on a business relationship between us and the third party (including investment by the third party in one or more investment vehicles managed by us or our affiliates).

Risk Assessment. When we make an investment decision, we assess the amount of risk the Clients should bear. Our risk assessment is an inherently subjective determination—we do not follow a pre-established formula to determine or modify Client risk. Furthermore, risk



assessments will vary depending on the nature of an investment and the strategy deployed. Because allocation of investment opportunities is based on these risk assessments, a portion of our allocation decision is itself subjective as a result.

Pre-Settlement Order Adjustments. From time to time, circumstances arise before settlement of a transaction that result in us adjusting the original order to make securities settle into a different account than was called for under the original order. This is generally done to avoid a violation of Client investment restrictions or guidelines, to avoid a negative tax consequence for a Client, or for a variety of other reasons. The effect of this is to allocate more or less to one or more Clients than what would have otherwise been the case in accordance with the original allocation. Please see our complete Order Aggregation and Allocation Procedures on the investor website.

Over-Allocations to Funds With Substantial Proprietary Investments. As described above, our allocation procedures factor in the need to bring new Clients (including new Funds) to a fully invested position as quickly as possible. This objective may raise a conflict of interest between us and our Clients to the extent that we and our partners, principals, and employees have contributed the majority of a new Fund's capital. Our proprietary interest in new Funds may remain substantial for an extended period of time, depending on the degree of investments by third party investors. The same issue applies to investments by our partners, principals, and employees also in other, more seasoned Funds, which also may be substantially comprised of proprietary investments.

New Issues. We will only allocate appreciation and depreciation from "new issues," as defined under Rules 5130 and 5131 of the Financial Industry Regulatory Authority, as amended, supplemented and interpreted from time to time (the "FINRA Rules"), and other restricted investments, to investors in a Fund and to separately managed accounts in which beneficial owners are eligible to participate therein. Under the FINRA Rules, certain persons (including, without limitation, persons associated with a broker-dealer, portfolio managers, executive officers, and directors of public companies and certain family members of such persons) may be "restricted" with respect to their participation in new issues. As a matter of fairness to Fund investors who do not participate in the Fund's investments in new issues and other restricted investments, we may debit a use-of-funds charge to the capital accounts of those investors who do participate in new issues and credit that amount to the capital accounts of all investors. We are not required to debit, and in the past have not debited, any such use-of-funds charge as described above.

Dilution of Investment Opportunities. We have entered into, and will enter into, business relationships with entities that provide us with investment ideas and opportunities that are appropriate for one or more of our Clients. To the extent our business expands in this and related ways, the investment opportunities given to any specific Client will likely be diluted over time and more Clients and joint ventures (including joint ventures from which we derive an economic benefit) will compete for a limited pool of opportunities. As a result of this dilution, investment opportunities that are appropriate for a Client may not be allocated (or allocated in lesser amounts) to such Client and may instead be allocated to other Clients and joint ventures (including joint ventures from which we derive an economic benefit). Clients should understand the extent of our business, and that they should only contribute capital to a Fund or establish a

separately managed account with the knowledge that the advisory services we provide are not exclusive.

We will provide additional detail about our order aggregation and allocation policy to current Clients and Fund investors upon request, and the policy is available on the investor website at <http://ir.ozcap.com>, which is available to investors in certain of the Funds. Although the above discussion provides a summary of our policy, we may revise or amend our policy at any time, without notice to Clients or Fund investors. We encourage Clients and Fund investors to review the full text of our policy at our New York, London and Hong Kong offices.

### ***Other Brokerage Practices, Issues, and Conflicts***

Separate Trading Desks and Strategies. We have separate trading desks which are managed by different traders and portfolio managers. Our portfolio managers and traders also employ separate strategies pursuant to which they may invest and trade in the same or similar securities. These trading activities may result in our trading desks placing simultaneous competing orders or opposite orders for the same securities which could cause the price of these securities to increase or decrease. These competing trades may therefore cause a Client to pay a higher purchase price or receive a lower sale price than it otherwise would have paid or received, as the case may be, if competing orders had not been placed.

Step Out Transactions. We sometimes engage in “step-out” brokerage transactions. In a typical step-out trade, we direct the executing broker to allocate all or a certain number of shares of an executed trade to another broker-dealer (the “stepped-out broker”) for clearance and settlement. The executing broker receives a commission on the number of shares of an order that it executes, clears and settles while the stepped-out broker negotiates and receives the commission for the number of shares it clears and settles. The executing broker may not know what commission is paid to the stepped-out broker or what services (other than clearance and settlement) the stepped-out broker provides to us. In a step-out trade, Clients will generally not be paying the lowest commission possible.

OTC Transactions. When OTC transactions are placed, Och-Ziff generally employs primary market-makers, except when it is believed that better executions can be obtained from other market participants. From time to time, OTC trades may be executed on an agency basis rather than on a principal basis. In these situations, the broker we select may acquire or dispose of a security through a market-maker. The transaction may thus be subject to both a commission (from the agency broker) and a mark-up or mark-down (from the market maker) and, therefore, the net price may be greater than what might otherwise be available. We believe that the use of a broker in such instances is consistent with our duty of obtaining best execution for Clients, in light of the factors we consider. For example, the use of a broker can provide anonymity in connection with a transaction, and a broker may, in certain cases, have greater expertise or greater capability in connection with both accessing the market and executing a transaction.

Cross Trades. We may effect “cross” transactions between Client accounts, if permitted by applicable law. In a “cross” transaction, one Client account will purchase securities held by another Client account. We will only effect these transactions:

- (i) when we deem the transaction to be in the best interests of both Client accounts; and
- (ii) at a price and under circumstances that we have determined by reference to independent market indicators, or other factors which we believe to constitute “best execution” for both accounts.

We do not receive any compensation in connection with cross transactions. “Inadvertent” cross transactions may also occur when trades cross in the market. For example, when we periodically rebalance Client accounts, certain accounts may sell securities into the market at the same time that other accounts are purchasing the same securities in the market, resulting in an inadvertent or “deemed” market cross. In these cases, an independent broker-dealer establishes the price for the transaction. In these situations, we do not instruct the broker to directly move positions between Clients’ accounts.

Trade Errors. We have established policies and procedures regarding the handling of trading errors in Client accounts. Pursuant to these policies and procedures, errors are corrected as soon as practicable after discovery. In this regard, OZM attempts to place Clients in the position that was intended at the time a decision to trade was made. Where trading errors result in gains for the Client account, the account is credited with such gains. On the other hand, if a trading error result in a loss, we make Clients whole by reversing out the trade at our own expense in the form of a reimbursement paid by the Registrant. To the extent that a Fund is regulated under a different regulatory regime, we will follow that regime’s different policies and procedures regarding error correction.

Transactions with Fund Investors and Clients. We and our affiliates sometimes enter into transactions with certain Fund investors or other Clients. The terms of these transactions are negotiated on an arm’s-length basis. However, we and our affiliates are subject to a conflict of interest when determining such terms because we may ultimately benefit from retaining the investor or Client account.

Allocation of Our Time and Resources. Generally, we are not subject to specific obligations or requirements concerning the allocation of our time, efforts, resources, or investment opportunities to any particular Client. Our personnel devote time to the affairs of our Clients as they, in their discretion, determine to be necessary for the conduct of our business.

Material Non-Public Information. As part of our investment advisory activities, we and our affiliates sometimes come into possession of material non-public or price sensitive information regarding other issuers, including both public and private companies. We are generally prohibited from using this information for the benefit of any Client. As an example, we may obtain material non-public or price sensitive information if we are contemplating a transaction and, as part of that process, we are required to sign a non-disclosure agreement. If any Client has an existing holding that is impacted by wall crossing and/or the non-disclosure agreement, the Clients will not be able to sell or dispose of that position during the effectiveness of the

agreement or terms of the restriction and as a result, the Client may experience a loss in value, which may include a total loss, of the position during this confidentiality period. Furthermore, we will be unable to enter into new positions (or increase existing positions) in relevant securities during the confidentiality period. Our activities for a Client's account may be affected by these restrictions even where we obtained the material non-public information with the intention of trading for a different Client's account.

Investment by and in Broker-Dealers. We permit affiliates of broker-dealers that are selected to effect portfolio transactions for Clients, including the Funds, to invest in the Funds. We may also establish separately managed accounts for affiliates of broker-dealers. These relationships may create a conflict of interest because there is a risk that we may select a broker-dealer to perform commission-earning services for the Clients as a result of the broker-dealer's (or its affiliate's) Client accounts and investments in the Funds. As described above, our selection of broker-dealers is based on a variety of factors and we do *not* consider the investment of assets with us in selecting brokers for Client execution purposes. Nonetheless, a conflict of interest exists.

In addition, we may invest Client accounts in common stock of broker-dealers (or their affiliates) through which Client brokerage is executed. We make these investments in the exercise of our investment discretion, when we believe the investment is beneficial to our Clients. We do not have any pre-arrangement or understanding with any broker-dealer that an investment in the broker-dealer's (or its affiliate's) publicly-traded stock is in recompense for business or other services such broker-dealer provides to us and our Clients.

Complex Institutional Relationships. Throughout Item 12, and elsewhere in the brochure, we disclose conflicts of interest arising out of our and our affiliates' relationships with prime brokers and other counterparties and service providers. For example, some counterparties have established platforms to allow some of their own clients and customers to invest in our Funds through feeder funds. These conflicts may be exacerbated to the extent that we and our affiliates have multiple relationships, involving a variety of transactional work with the same or related entities. Our relationships with counterparties and other service providers are dynamic and evolve over time. Because of the number and nature of these relationships, conflicts of interest that arise in connection with any one transaction or relationship can be compounded when many different transactions and relationships develop at the same time.

## **Item 13 – Review of Accounts**

Generally Client accounts and portfolios are reviewed daily, with the exception of real estate accounts and portfolios which are reviewed on a quarterly basis. This review is carried out by our analysts and portfolio managers. We also review daily the transactions entered into for Clients to ensure that correct entries have been made for all Client records.

When requested, we provide our separately managed account Clients with reporting of their accounts. We typically provide Fund investors with monthly transparency reports and statements indicating the current market value of their interests, and also make available weekly estimates of the same information. We also provide monthly and quarterly letters and performance data for the week, month, quarter and the year to date in respect of most of our

Funds. For our real estate Funds we provide investors with annual audited financial statements for their relevant Fund and quarterly investment reports on each portfolio investment in such Fund.

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

We may execute Client transactions with prime brokers that sponsor events, meetings or other communications between potential investors and us or our affiliates. These capital introduction services are provided incidental to other brokerage services. We and our affiliates are not compelled to engage broker-dealers that sponsor these capital introduction programs in order to be included at these events. However, these capital introduction events are typically sponsored by prime brokers that provide necessary services to the Funds and they may create the appearance of using the execution services of these broker-dealers in order to be invited to their capital introduction programs.

We do not pay to participate in these programs and do not cause Clients to execute transactions or pay higher commissions or other transaction costs in connection with these programs or services (although Clients will not necessarily pay the lowest possible commission when executing transactions through these broker-dealers—please see Item 12 above for additional information). However, we do pay to attend certain conferences, seminars and other events that are attended by prospective investors, but are not specifically designed as capital introduction events. Furthermore, broker-dealers or their affiliates may introduce us to prospective investors and will continue to have business relationships with, and execute brokerage transactions on behalf of, our Clients.

In addition, certain counterparties, including affiliates of broker-dealers, have established platforms to allow their clients and customers to invest in our Funds through feeder funds. These platforms are described in greater detail in Item 6 above. We pay a portion of the management fee to platform sponsors out of the fees we receive from Funds with respect to the assets invested through each respective platform.

## **Item 15 – Custody**

All separately managed account Clients should receive, at least quarterly, account statements from the broker-dealer, bank, or other custodian that maintains the Client's assets. Separately managed account Clients should compare this statement to the statements received from qualified custodians.

We generally provide Fund investors with the Fund's annual audited financial statements prepared by an independent public accounting firm, Ernst & Young LLP.

## **Item 16 – Investment Discretion**

We generally receive and exercise discretionary authority to manage investments on behalf of Clients. As noted in Item 4 above, separately managed account Clients may impose limitations on this discretion with respect to (1) the specific types of investments or asset classes that we will or will not purchase for their account; (2) the nature of the issuers of investments that we

will or will not purchase for their account; (3) the risk profile of instruments we will or will not purchase for their account; or (4) the risk profile of the account as a whole. Clients may also direct us to use a particular broker-dealer or broker-dealers. Separately managed accounts will be opened solely in our discretion and will generally be subject to minimum investment amounts.

We typically assume this authority through a power of attorney or contract provision granted or entered into by a Client, or through the constituent documents of a Fund.

## **Item 17 – Voting Client Securities**

We have adopted proxy voting policies and procedures (the “Proxy Policies”). Under our Proxy Policies, our general policy is to vote proxy proposals, amendments, consents or resolutions relating to Client securities, including interests in private investment funds, if any (collectively, “proxies”), in a manner that serves the best interests of Client accounts. In determining how to vote proxies, we consider the following factors: (1) the impact on the value of the securities; (2) the costs and benefits associated with the proposal; (3) the effect on liquidity; (4) the customary industry and business practices; and (5) any other factors we deem relevant.

We may decide to vote consistent with management recommendations or the recommendation of a proxy voting service if we do not otherwise have a view with respect to a particular proxy. Under certain circumstances, we may abstain from voting specific proxies if we believe that doing so is in the best interests of our Clients. Furthermore, under our Proxy Policies, we may not vote proxies issued by companies if our Clients no longer have any economic exposure to the issuer of the proxy or if we believe that the subject matter of the proxy has no material impact on Clients. If we (or one of our partners or principals) has a conflict with respect to a proxy, the Proxy Policies require that we refer the vote to our internal Conflicts Committee (described in Item 11, above) for review and resolution.

We do not permit Clients to direct how we will vote on specific proxies. You may request a copy of our Proxy Policies and the proxy voting record relating to your account by contacting us at the email address or telephone number listed on the first page of this document.

## **Item 18 – Financial Information**

Form ADV Part 2 requires investment advisers such as Och-Ziff to disclose any financial condition reasonably likely to impair our ability to meet contractual commitments to clients. We have no information to report that is applicable to this item.