



# Canyon Capital Advisors LLC

2000 Avenue of the Stars, 11<sup>th</sup> Floor, Los Angeles, California 90067

(310) 272 1000

[www.canyonpartners.com](http://www.canyonpartners.com)

Brochure: Part 2A

Updated: March 30, 2012

This brochure provides information about the qualifications and business practices of Canyon Capital Advisors LLC. If you have any questions about the contents of this brochure, please contact Doug Anderson at (310) 272 1360. 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 a certain level of skill or training.

**Additional information about Canyon Capital Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Material Changes

The most recent update to this brochure was made in March 2012. Canyon has updated the discussion of its Methods of Analysis, Investment Strategies and Risk of Loss. In addition, the brochure has been updated to more fully describe Canyon's policies and procedures regarding responding to client and/or investor requests, gifts and business entertainment, and political contributions. This update also includes an updated description of our allocation process.

<b>Table of Contents</b>	<b>Page</b>
Material Changes	2
Table of Contents	2
Advisory Business	3
Fees and Compensation	3
Performance Based Fees and Side-by-Side Management	4
Types of Clients	4
Methods of Analysis, Investment Strategies and Risk of Loss	4
Disciplinary Information	15
Other Financial Industry Activities and Affiliations	15
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	17
Brokerage Practices	19
Review of Accounts	22
Client Referrals and Other Compensation	22
Custody	23
Investment Discretion	23
Voting Client Securities	23
Financial Information	24

## **Advisory Business**

Canyon Capital Advisors LLC (“Canyon” or “Adviser”) is a multi-strategy, credit-focused, value-oriented asset management firm that invests across a variety of asset classes, including bank debt, high yield, distressed and special situation securities, securitized assets, equities (including preferreds and common stock), convertible arbitrage and risk arbitrage.

Canyon is owned by Canyon Partners, LLC, and has been registered with the SEC as an investment adviser, through its predecessor Canyon Capital Management, L.P., since 1994. Canyon provides discretionary advisory services to private investment vehicles (referred to hereinafter as a “Fund” or collectively as “Funds”) and managed accounts (together with Funds, collectively referred to as “Client(s)”). As of December 31, 2011, Canyon had twenty-six (26) Clients and regulatory assets under management of approximately \$14.5 billion, all of which is managed on a discretionary basis.

Advisory services are generally not tailored to the individual needs of Fund investors and Fund investors are generally not permitted to impose restrictions on investing in certain securities or types of securities. However, with respect to managed accounts, Clients may obtain tailored advisory services and impose restrictions on investing in certain securities or types of securities, all of which would be detailed through a written investment advisory agreement.

The principals of Canyon are Joshua S. Friedman, Mitchell R. Julis and K. Robert Turner (collectively, the “Canyon Principals”). Messrs. Joshua S. Friedman and Mitchell R. Julis lead Canyon and are responsible for the investment activities of Canyon’s Clients as well as Canyon’s research strategy and firm management. Mr. Turner directs Canyon Capital Realty Advisors LLC, an affiliate of Canyon that focuses on real estate investments; he is not generally involved in the management of Canyon Client assets.

## **Fees and Compensation**

Clients are typically charged an asset based fee and/or an incentive based fee (commonly referred to as a performance allocation or fee). The asset based fees are normally charged at an annual rate of between 1% and 2% of the value of the Client’s net assets under management and are generally payable monthly or quarterly in arrears depending on the investment advisory agreement. The fee will be based on the account value on the last business day of the preceding calendar month or quarter, as applicable. The first payment, if based on less than a full period, will be pro-rated to cover the period from the date the account is opened through the end of that calendar year, quarter or month, as applicable. The performance allocation or fee generally equals 20% per annum of the net profit in a Client’s account, typically subject to a loss carryforward adjustment, and is generally payable in arrears at the end of each calendar year but may be payable more frequently if provided for in the investment advisory agreement. Upon termination of the investment advisory services, any unpaid portion of fees will be determined and due on a pro rata basis. In certain circumstances the performance allocation or fee may be measured over a multi-year period and/or subject to hurdle.

Performance based allocations or fees are charged in accordance with the requirements of Rule 205-3 under the Investment Advisers Act of 1940, as well as limitations applicable in California, and Canyon will not accept clients who do not satisfy the eligibility criteria of applicable law. Because Canyon is compensated based in part on capital appreciation, there may be an incentive for Canyon to make investments that are riskier or more speculative than would be the case in the absence of such a compensation framework. In addition, Canyon will receive performance based compensation on unrealized appreciation as well as realized gains.

Prepayment of fees is generally not required. In certain circumstances, fees may be individually negotiated by Fund investors and/or managed accounts. Negotiated fees may be higher or lower than those discussed above. Similar services may be available from other investment advisers at a lower cost.

Clients and/or investors will also bear direct and indirect costs, fees and expenses incurred by or on behalf of such Clients including, among others, (i) all costs, fees and expenses of the Client directly related to the investigation, purchase, sale, preservation or retention of investments by the Client (including all fees and commissions of brokers and custodians, research expenses, quotation services, travel costs, all fees and expenses relating to the registration and qualification for sale of such investments and all transfer taxes); (ii) all federal, state and local taxes and filing fees payable by the Client; (iii) all fees and disbursements of the independent attorneys, accountants and consultants retained by the Client, or on behalf of the Client; (iv) all filing and recording fees; and (v) all interest expense of the Client. To the extent such expenses are incurred for the benefit of the multiple Clients, Canyon will make a good faith allocation of such expenses among its Clients.

In the event a Client invests in a transaction which includes break-up, standby, commitment, consent, waiver or similar fees, the Adviser may retain such fees and reduce the management fee or reimbursable expenses next payable by a like amount.

Canyon may use sub-advisers to manage a small portion of a Fund's assets. As a result, Fund investors' will pay their proportionate share of the sub-advisers' management and administrative fees.

Investors should refer to each Fund's Offering Memorandum and other relevant documents for additional/supplemental information regarding a Fund as well as the fees and expenses associated with such Fund.

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

As noted above, Canyon earns a performance allocation or fee. At this time, all Canyon Clients are charged a performance allocation or fee. However, because the actual performance allocation or fee charged to a specific Client may vary, there may be an incentive for Canyon to make investments that are riskier or more speculative than would be the case in the absence of such a compensation framework or to favor those Clients with higher performance allocations or fees over Clients with lower performance allocations or fees. Canyon seeks to mitigate this risk by, among other things, seeking to allocate investments in a fair and equitable manner over time among its Clients. For more information on Canyon's allocation procedure, please see Brokerage Practices – Allocation of Investment Opportunities. In addition, Canyon will receive performance based compensation on unrealized appreciation as well as realized gains.

## **Types of Clients**

Canyon generally provides investment advice to "accredited investors" and "qualified purchasers", as such terms are defined in the federal securities laws, either directly or through private investment vehicles. Clients and Fund investors include individuals, trusts, pension plans, corporations, and public and private entities.

Canyon will generally manage investment advisory accounts with a minimum size of \$50,000,000 and will further require that no withdrawal may be permitted if to do so reduces the account to less than \$25,000,000, unless the account is being terminated. However, Canyon may, in its discretion, based upon its total client relationship and other circumstances, accept smaller accounts from time to time. Fund investors must meet the investor qualifications associated with each Fund.

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

Canyon seeks opportunities on behalf of its Clients to realize value overlooked by others. Canyon has a "value-oriented" and "event-driven" investment approach and generally focuses on special situation investing. Canyon believes that the dynamic nature of the global capital markets and the continuous evolution of corporate and securitized balance sheets results in inefficiencies in financial asset prices (or gaps between market value and "intrinsic" value). Given the legal and financial background and

extensive investment experience of Canyon, as well as the significant strengths that Canyon possesses in the areas of corporate finance and special situations research, Canyon believes it is advantageously positioned to provide investors with an opportunity to capitalize on these perceived market inefficiencies in this area of investing.

Canyon looks across the corporate capital structure, investing opportunistically across senior secured leveraged loans, high yield bonds, convertibles, equities and credit derivatives. Additionally, Canyon looks beyond the traditional corporate markets to the structured finance space, where it invests in mortgage securities/derivatives, aircraft lease securitizations, CDOs/CLOs, distressed structured municipal bonds and other areas. Positions in other asset classes, such as foreign currencies and commodities, may be employed to a lesser extent as appropriate. Allocations across these asset classes will shift over time in response to evolving value propositions and risk/reward profiles.

Prior to implementation, investment ideas for Clients are discussed among Messrs. Friedman and Julis and Canyon's senior portfolio managers. Such discussions generally focus on, among other factors, the merits of the investment on a stand-alone basis, risks embedded in and those implied by the investment, how the investment fits in with the rest of the portfolio, hedging considerations, sizing goals and/or price targets. All investment ideas ultimately must be approved by Messrs. Friedman and Julis.

#### "Value-Oriented" and "Event-Driven" Investing

Canyon's strategy is to combine "value-oriented" and "event-driven" investing. Canyon believes in employing a "bottom up" approach and focuses on rigorous research of business, credit and legal issues in order to determine values, analyzes corporate events and special situations, identifies securities which can be purchased at a price it believes represents a discount to intrinsic value, and identifies catalysts which can unlock value.

"Value-oriented" investing is an investment strategy characterized by research directed at identifying gaps between the market valuations of financial instruments and the intrinsic values of the underlying assets or enterprises. These gaps are frequently created by business, financial or legal uncertainties that depress market valuations of financial instruments, or discrete events that affect the valuation of a company or pool of assets. In such situations, Canyon performs extensive research to develop an opinion about the true nature and extent of the risks presented by those uncertainties. If Canyon determines that a discount is sufficiently large and unwarranted, it may take a long position in such security. Conversely, when Canyon believes that the market value of a security is significantly above its intrinsic value because investors are underestimating the risks associated with the security or for other reasons, it may establish a short position in that security.

"Event-driven" investing complements Canyon's value approach by identifying near- and intermediate-term catalysts that may affect investors' perceptions of securities. By understanding the likelihood of value-creation catalysts, Canyon positions itself to better gauge the holding period and internal rates of return of its investments. Generally, Canyon attempts to purchase a security at a discount from its intrinsic value in event-driven situations where: (i) diminution of value is limited by either the security's ranking in the capital structure or the underlying hard asset or going concern value; (ii) there is potential for significant capital appreciation or ongoing current income; and (iii) there is an identifiable catalyst that can result in price appreciation.

#### Investment Process

Canyon's approach to "value-oriented" investing integrates the core analyses it generally performs for fixed income investments. The foundation for investing in a company's securities or structured finance vehicles is based on a discounted cash flow or an abnormal earnings valuation, with a particular emphasis on the timing of the cash flows and the risks associated with various components of that cash flow stream. Canyon's approaches to its two main areas of investment (corporate credit and structured finance) are described below.

**Corporate Investments.** For corporate investments, Canyon generally engages in a thorough analysis of the company's historical financial statements in order to understand the economics of its underlying operational, investment, and financial activities. Canyon typically performs in-depth industry competitive analyses so as to better understand and project the company's top line, margins, and capital efficiency. Canyon's analysis of prevailing market prices of a company's securities provides insights into the expectations that the market currently has for the company, and provides an indication of the likely cost of capital going forward. In addition, by comparing the resulting enterprise value to the replacement value, book value, and liquidation value of a company's assets, Canyon can gain a better appreciation for any abnormal returns that might be expected of the company.

The above analyses help provide an overall sense of the company's enterprise value and a general sense for the value of a company's securities. Additional credit analytics are required to meaningfully differentiate between the attractiveness of non-equity securities within a capital structure, as well as to provide a more complete appreciation of the possibilities for and consequences of changes to the corporate balance sheet. In addition, Canyon generally scrutinizes a company's fixed income and preferred securities, seeking to understand the associated maturity schedules and the specific contractual obligations and prohibitions that are tied to these instruments. This process allows Canyon to better understand a company's financial flexibility, its future optimum capital structure, and its cost and probability of accessing the capital markets. Together, this information enables Canyon to refine its discounted cash flow and abnormal earnings analyses and to more accurately assess whether a company's current capital structure is congruent with its needs. Frequently, this knowledge also will enable Canyon to identify situations in which a company's rebalancing of assets and liabilities may unlock hidden value for holders of its securities.

With this integrated analytic approach, Canyon applies a consistent risk/reward yardstick across all of a company's securities. This comprehensive survey positions Canyon to identify the securities that are cheapest from a risk/reward perspective and enables Canyon to create intra-capital hedges that exploit instances in which investors in various layers of a company's securities have placed different odds on selected corporate outcomes. By applying intra-capital hedges to its investment strategy, Canyon can at times more safely invest in certain corporate outcomes.

**Structured Finance Investments.** Canyon's approach to structured finance investing is similar to its approach to corporate investing in that a thorough analysis of available information generally is conducted so as to gain an understanding of likely future cash flows. This integrated analysis combines two more focused analyses—the first concerning the performance of the underlying collateral, and the second concerning the nature by which collateral cash flows are to be apportioned between the various securities of a structured finance vehicle.

Canyon's analysis of a structured vehicle's underlying collateral attributes provides insights into how collateral is likely to respond across a wide range of future scenarios. Canyon combines this asset level information (which usually includes detailed information about individual borrowers and the assets which support each individual loan) with analysis of past performance, compares it with performance of similar collateral in other securitizations, and thereby arrives at a base case trajectory for the structured vehicle's cash flows. Based upon the creditworthiness of underlying borrowers (as demonstrated by metrics such as loan-to-value, borrower FICO score, existence of additional debt, and loan type) and the volatility of the underlying assets (as influenced by characteristics such as asset type, geography, and loan-to-value), Canyon develops scenarios around this base case that reveal how the structured vehicle's cash flows could change if various macroeconomic events or policy changes come to pass.

The second part of the structured finance analysis also mirrors Canyon's approach to corporate analysis. Canyon typically examines the various securities within a structured finance vehicle with the goal of identifying the tranche with the optimal risk/reward. A thorough understanding of a security's rights—and, in particular, its priority on various waterfalls concerning the apportionment of principal repayments

and interest payments, and shortfalls and losses due to defaults and loan modifications—can usually reveal the sensitivity of a given security to changes in the timing and magnitude of a securitization’s overall cash flows. By combining these two analyses, Canyon seeks to identify those structured finance securities that exhibit abnormal return potential relative to risk.

#### **“Total Return” Approach**

Canyon takes a “total return” approach to investing, looking carefully at a timeline of potential events that are likely to drive values. While intrinsic “cheapness” is a vital attribute of Canyon’s prospective investments, it is often not in itself sufficient to warrant investment. This is especially true with equities and deeply distressed corporate or structured finance debt securities. Fixed income investors of performing debt securities may rely on contractual coupon payments and principal repayments at maturity, but equity investors realize value when the market recognizes formerly hidden value. As a consequence, equity-like securities with large intrinsic discounts and small probabilities for near-term value-creation catalysts are often less attractive than equity-like securities with very small discounts but with high probabilities for near-term catalysts. Canyon is mindful of this phenomenon and takes care to identify and understand potential value-recognition catalysts. These catalysts usually pertain to company specific matters and may involve re-financings, restructurings, mergers and acquisitions, asset purchases or divestitures, or legal rulings. In other instances, catalysts may be more macroeconomic and involve changes in investors’ perceptions towards certain asset classes due to legislative or regulatory actions, or fiscal or monetary policies. By employing an event-driven, total return approach that includes consideration of holding periods, Canyon believes that it can increase the yield on many of its investments, and discover attractive investments that other value investors may overlook.

#### **Certain Risk Consideration**

Below is a summary of certain risks. Clients and/or Fund investors should refer to each Fund’s Offering Memorandum and other relevant documents for additional/supplemental information regarding risk.

#### **General Risks**

##### **Possibility of Losses**

Account values will fluctuate based upon a multitude of factors, including the financial condition, results of operations and prospects of the issuers of the underlying securities acquired, governmental intervention, market conditions, and local, regional, national and global economic conditions. Therefore, Clients and Fund investors may lose all or a portion of their principal invested with Canyon if the trading strategies are not successful.

##### **Past Performance**

Past performance of Clients managed by Canyon is not necessarily indicative of future performance. The markets in which Canyon operates have been severely disrupted in recent years, so results observed in earlier periods may have little relevance to the results observable in the current environment.

##### **Portfolio Concentration**

Client accounts are not generally limited with respect to the amount of capital that may be committed to any one investment. Unless separately negotiated, no limit will be placed on the concentration of investments to be made in a single industry or geographic area.

##### **Volatility**

The prices of some of the instruments traded by Canyon have been subject to periods of excessive volatility in the past, and such periods may continue. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions.

While volatility can create profit opportunities, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted; causing what should otherwise be comparatively low risk positions to incur significant losses. On the other hand, the lack of volatility can also result in losses for certain positions that profit from price movements.

#### Possible Ineffectiveness of Risk Reduction Techniques

Canyon may employ various risk reduction strategies designed to minimize the risk of Clients' trading positions. A substantial risk remains, nonetheless, that such strategies will not always be possible to implement, and when possible will not always be effective in limiting losses. If Canyon analyzes market conditions incorrectly, or employs a risk reduction strategy that does not correlate well with Client investments, such risk reduction techniques could increase rather than mitigate losses. These risk reduction techniques may also increase volatility and/or result in a loss if the counterparty to the transaction does not perform as promised. Moreover, even though Canyon may employ "stop loss" orders on individual positions, there is no assurance that any such order will be executed at or near the desired "stop loss" level.

#### Leverage

Although Canyon has traditionally utilized limited leverage, it may in the future utilize more leverage as part of its investment strategy and process. Leveraging may arise by margin loans on a Client's securities, as well as through the use of hedging and put/call, long/short investment strategies. If the amount of leverage which a Client may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Client's portfolio will have a disproportionately large effect in relation to its capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains (in excess of borrowing costs) made with the additional monies borrowed will generally cause the net asset value of a Client account to rise more rapidly than would otherwise be the case. Conversely, any investment losses with respect to the additional monies borrowed (including the failure by the Client to cover their cost) will generally cause the net asset value of the Client's portfolio to decline faster than would otherwise be the case. To the extent that Client assets are deposited as margin and therefore not fully paid for, a bankruptcy of a prime broker may expose the Client to loss in that it may only be able to share as an unsecured creditor in that prime broker's assets.

#### Investments in Restricted Securities

Canyon may be prevented from buying or selling certain publicly traded securities if Canyon or its affiliates (see Other Financial Industry Activities and Affiliations section for information about affiliated entities) acquire material, non-public information with respect to such securities. In addition, with respect to a publicly traded security that a Client already holds, such security will be placed on a "restricted securities list" and will not be traded until the material, non-public information becomes public or is no longer material.

#### **Investment Risks**

##### Investments made by Canyon

Canyon may invest in a broad array of financial instruments. These may include the financial instruments of foreign entities, which may be both public and private. In addition to the risks associated with investments of this kind in general, such investments may also involve the risks associated with currency fluctuations and various political factors, as described below. Canyon may also invest in treasury securities and other cash equivalents when attractive opportunities for capital appreciation appear to be limited.

##### Investments in Undervalued Securities

The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in



undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Fund's investments may not adequately compensate for the business and financial risks assumed.

Canyon will make certain investments in securities which it believes to be undervalued. However, there are no assurances that the securities purchased will in fact be undervalued. In addition, Clients may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of a Client's capital would be committed to the securities purchased, thus possibly preventing the Client from investing in other opportunities. In addition, a Client may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

### Hedging Transactions

The ability of Canyon to hedge successfully will depend on the ability of Canyon to predict pertinent market movements, which cannot be assured. Canyon is not required to hedge and there can be no assurance that hedging transactions will be available or, even if undertaken, will be effective. In addition, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. Moreover, it should be noted that Clients will always be exposed to certain risks that cannot be hedged, such as counterparty credit risk. Furthermore, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

### Non-Investment Grade Investments

Canyon may purchase financial instruments of, or make direct loans to, companies that are not of investment grade. Canyon may purchase loans that are in default or are from issuers in financial distress and may also purchase trade or other claims against credit impaired companies, which generally represent money owed by the company to a supplier of goods and services. Loans or claims purchased by Canyon may not have any maturity and may be secured or unsecured. As with other types of debt instruments, loans and trade claims involve the risk of loss in case of default or insolvency of the borrower, particularly if the borrowing is unsecured. In addition, trade claims may be subject to other defenses such as warranty claims or failure to provide the product or services. Such loans are also less liquid than are the debt instruments of publicly traded companies.

### Bank Loans and Participations

Canyon may invest in bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws; (ii) so-called "lender liability" claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of a Client to directly enforce its rights with respect to participations. In analyzing bank loans or participations, Canyon compares the relative significance of the risks against the expected benefits. Successful claims by third parties arising from these and other risks, absent fraud, gross negligence, willful misconduct, violation of law or breach of a material term of the investment advisory agreement by Canyon or affiliates, will be borne by the Client.

Clients may experience delays in the settlement of certain loan and/or bank debt transactions, particularly in the case of investments that are or become distressed. Until such transactions are settled, the Client is subject to counterparty insolvency risk. Pursuant to certain insolvency laws, a counterparty may have the ability to reject, or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, the Client might lose any increase in value with respect to such loan that accrued while the transaction was unsettled.

Canyon may also invest in loan participations where it will be subject to certain additional risks as a result of having no direct contractual relationship with the borrower of the underlying loan. In such circumstances, Canyon generally would depend on the lender to enforce a Client's rights and obligations under the loan arrangements in the event of a default by the borrower on the underlying loan and will generally have no voting rights with respect to the issuer, as such rights are typically retained by the lender. Such investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. There can be no assurance that the lender will not default on its obligations under such arrangements, resulting in substantial losses to the Client.

#### Prepayment Risk

The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans and other debt underlying certain Client investments will be affected by a variety of factors including, but not limited to, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "premium" financial instruments (i.e., financial instruments whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" financial instruments (i.e., financial instruments whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since Client investments may include discount financial instruments when interest rates are high, and may include premium financial instruments when interest rates are low, such investments may be adversely affected by prepayments in any interest rate environment.

#### Corporate Debt Obligations and High-Yield Securities

Canyon may invest in corporate debt obligations and high-yield securities. The market value of debt securities generally tends to decline as interest rates increase and, conversely, increase as interest rates decline. Debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations, i.e., credit risk.

"High yield" bonds and securities, which are rated in the lower rating categories by the various credit rating agencies, are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be speculative. They are also generally considered to be subject to greater risk than securities with higher ratings because the yields and prices of such securities tend to fluctuate more than those for higher-rated instruments and the market for lower-rated securities is less liquid and less active.

#### Risk Arbitrage

Special risks are associated with the use of risk arbitrage, or "merger arbitrage," techniques. In addition to general risks of market behavior and currency fluctuations, merger arbitrage is subject to "deal risk" – the risk of non-consummation of the transaction. A number of factors may lead to deal collapse or delay, such as either party's inability to satisfy conditions to closing, failure to obtain shareholder approval, failure to meet regulatory or antitrust requirements, failure to obtain required financing, or other events that may change the target's or the acquirer's willingness to consummate the transaction.

#### Leverage of Portfolio Companies

Canyon investments may include securities of companies with leveraged capital structures, which could be subject to increased exposure to adverse economic factors such as an increase in interest rates, a downturn in the economy or further deterioration in the economic conditions of such company or its industry. Similarly, Canyon may invest in entities that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of a Client's investment in such an entity could be significantly reduced or even eliminated due to further credit deterioration.

### Non-Performing Nature of Loans

It is possible that certain of the loans purchased by Canyon may be non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

### Nature of Bankruptcy Proceedings

There are a number of significant risks when investing in companies involved, or which may have been involved, in bankruptcy proceedings, including the following: first, many events in a bankruptcy are the product of contested matters and adversary proceedings which are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be impacted adversely by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, certain claims, such as claims for taxes, wages and certain trade claims, may have priority by law over the claims of certain creditors. Fifth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors. Sixth, creditors can lose their ranking and priority in a variety of circumstances, including if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. Seventh, investors in the company may be subject to a court-imposed "cram down" in which they lose their seniority in the capital and security interest structure. Eighth, Canyon may seek representation on creditors' committees and as a member of a creditors' committee it may owe certain obligations generally to all creditors similarly situated that the committee represents and may be exposed to liability to such other creditors who disagree with Canyon's actions. There can be no assurance that Canyon would be successful in obtaining results most favorable to its Clients in such proceedings, although Clients may incur significant legal fees and other expenses in attempting to do so. Canyon may also be subject to various trading or confidentiality restrictions. In addition, Canyon may potentially hold conflicting positions in relation to investments in companies involved in bankruptcy proceedings among its Clients.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing, and the classification, seniority and treatment of claims.

### Short Sales

Canyon may make short sales in any type of securities for profit in anticipation of a change in the market price of a financial instrument or as a hedge against other positions held by a Client. Short sales that are not made "against the box" and are not part of a hedging transaction create opportunities to increase return but, at the same time, are speculative and involve special risk considerations. Since the seller in effect profits from a decline in the price of the securities sold short without the need to invest the full purchase price of the securities on the date of the short sale, returns tend to increase more when the securities sold short decrease in value, and to decrease more when the securities sold short increase in value, than would otherwise be the case if the seller had not engaged in such short sales. Short sales theoretically involve unlimited loss potential, as the market price of securities sold short may continuously increase, although Canyon may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, Canyon might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio

securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

As a result of the financial disruptions which began in the second half of 2008, it appears likely that there may be significant additional restrictions imposed on short-selling (at least of certain issuers' securities).

#### Contrarian Investing

Canyon has made or will make certain investments in the wake of a financial crisis which it believes to have depressed the price of many securities to the point that Canyon is of the opinion that such securities have lower downside risk than other investors may perceive (i.e., an investment will generally be made only if it is believed that the current market price is less than the intrinsic value of the security, based on assumptions as to asset values, total liabilities or claims, timing and the rate of return on the investment). Because of the substantial uncertainty concerning the outcome of transactions involving financially troubled companies undergoing fundamental changes, there is always the potential risk of a substantial loss.

#### Emerging Markets

Canyon may trade in emerging markets. These markets tend to be inefficient and illiquid as well as subject to political and other factors which do not typically affect more developed economies. Clients may sustain losses as a result of market inefficiencies or interference in emerging markets which would not take place in more developed markets.

#### Mortgage-Backed Securities

Investing in certain commercial and residential mortgage-backed securities involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), and certain additional risks and special considerations, including the risk of principal prepayment and defaults as well as the risk of investing in real estate. Mortgage-backed securities generally provide for the payment of interest and principal on the mortgage-backed securities on a frequent basis, and there also exists the possibility, particularly with respect to residential mortgage-backed securities, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. As a result of prepayments, Canyon may reinvest assets at an inopportune time, which may expose Clients to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security, and may have the effect of shortening or extending the effective average life beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. The rate of principal payments on mortgage loans is influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner mobility. Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the possibility of changes in the structure or effectiveness of the government sponsored enterprises, Fannie Mae and Freddie Mac, the ability of tenants/home owners to make payments, and the ability to attract and retain tenants. Increasing rates of delinquencies, foreclosures and other losses on mortgages could, in turn, adversely affect certain securities in which the Fund may invest.

#### Interest Rate Fluctuations

The prices of portfolio investments can be sensitive to interest rate fluctuations, and unexpected fluctuations in interest rates could cause the corresponding prices of a position to move in directions which were not initially anticipated. In addition, interest rate increases will generally increase the interest carrying costs to a Client of borrowed securities and leveraged investments.

### No Limitations on Strategies

There are generally no material limitations on the investment strategies which Canyon may use when investing assets on behalf of its Clients. Canyon will opportunistically implement whatever strategies or discretionary approaches it believes from time to time may be best suited to prevailing market conditions. For some of these strategies, no specific “risk factors” are provided. Nevertheless, such strategies should be considered to be speculative, volatile and, in general, no less risky than other strategies more fully described herein. Over time, the strategies implemented on behalf of a Client can be expected to expand, evolve and change, perhaps materially. Canyon will not generally be required to implement any particular strategies and may discontinue employing any particular strategy on behalf of a Client, whether or not such strategies are specifically described herein, and without notice to Clients or Fund investors. There can be no assurance that the various investment strategies which Canyon expects from time to time to develop and implement will be successful or that strategies that have been successful will continue to be profitable.

### Uncertain Exit Strategies

Canyon typically does not know the maximum or, often, even the expected duration of any particular investment at the time of initiation. Due to the illiquid nature of certain investments, Canyon is unable to predict with confidence what, if any, exit strategy for a given investment will ultimately be available for a Client. Exit strategies that appear to be viable at certain times during the life cycle of an investment may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

### Derivatives Risks

#### Derivatives

Canyon uses derivative financial instruments, which may include, without limitation, warrants, options, equity and/or interest rate swaps, credit default swaps, forward contracts, futures contracts and options thereon, and uses derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative, due to, e.g., nonconformance to anticipated or historical correlation patterns. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out positions in order either to realize gains or to limit losses.

Some of the derivatives that may be traded by Canyon will be “over-the-counter” contracts between a Client and third parties entered into privately, rather than on an established exchange. As a result, Clients will not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

### Convertible Securities, Rights and Warrants

Canyon may invest in hybrid securities that may be exchanged for, converted into or exercised to acquire a predetermined number of shares of an issuer’s common stock at the option of the holder during a specified time period (such as convertible preferred stocks, convertible debentures, stock purchase rights, and warrants). Convertible securities generally pay interest or dividends and provide for participation in the appreciation of the underlying common stock but at a lower level of risk because the yield is higher and the security is senior to common stock.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a

conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of a convertible security. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value.

Convertible securities may also include warrants, often publicly traded, that give a holder the right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price but that do not pay a fixed dividend. Their value depends primarily on the relationship of the exercise price to the current and anticipated price of the underlying securities.

### Futures Trading

Canyon may trade futures contracts, including stock index futures. Futures prices are highly volatile, with price movements being influenced by a multitude of factors such as changing supply and demand relationships, government trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events and speculative frenzy and the emotions of the marketplace. In addition, governments from time to time intervene in certain markets, particularly currency and interest-rate markets.

The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to the investor.

### Options Trading

When purchasing or selling an option, the risks associated with the transaction will vary depending on the type of option (i.e., put or call). When purchasing an option, it is necessary to calculate the extent to which the value of the underlying security must increase (in the case of a call) or decrease (in the case of a put) in order for a Client’s position to become profitable, taking into account the premium and all transaction costs. The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased option expires worthless, the Client will suffer a total loss of the amount invested in the option that will consist of the option premium plus transaction costs.

Selling (“writing” or “granting”) an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option, and, upon such exercise, the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest, depending on the terms of the option. If the option is on a future, upon exercise by the purchaser of the option, the seller will acquire a position in a future with associated liabilities for margin. If the option is “covered” by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. In the case of an option on a future, certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

### Forward Contracts

Canyon may trade forward contracts in the inter-bank currency market. Such forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. Neither the CFTC nor any banking authority currently regulates trading in forward contracts, although they may in the future become subject to regulation under the Reform Act, a development which may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to the Reform Act might limit such forward trading to less than that which Canyon would otherwise recommend, to the possible detriment of a Client.

**The foregoing discussion of certain risk factors does not purport to be a complete explanation of the risks involved with investing with Canyon. Clients and Fund investors should read all documents and agreements related to opening an account or investing in a Fund (including a Fund's Offering Memorandum and other relevant documents).**

## **Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's, prospective client's, Fund investor's or prospective Fund investor's evaluation of Canyon's advisory business or the integrity of Canyon's management.

## **Other Financial Industry Activities and Affiliations**

### Broker-Dealer and Registered Representatives

CP Investments LLC ("CP Investments") is a registered broker-dealer and member of FINRA and is an affiliate of Canyon. Canyon's principals are also principals and registered representatives of CP Investments. Certain Canyon employees are also registered representatives of CP Investments. CP Investments acts as placement agent for certain of the Funds. CP Investments is not compensated by a Fund for acting as placement agent (although it is being indemnified by such Fund to the same extent and subject to the same standards as Canyon). CP Investments will not act as a broker for or an agent of any Fund investor and its activities on behalf of a Fund should not be construed as a recommendation to purchase interests in any such Funds, as CP Investments makes no such recommendations. Canyon and/or Clients will not otherwise use the services of or pay sales commissions to CP Investments.

### Related Investment Advisers

Canyon Capital Realty Advisors LLC ("CCRA"), an affiliate of Canyon, is a registered investment adviser that is ultimately controlled and managed by the same principals that control and manage Canyon. CCRA focuses on investments related to real estate. While the clients of CCRA have different investment objectives than the clients of Canyon, a conflict of interest in rendering advice to Canyon's clients may arise because the benefits realized by the principals from managing CCRA's clients' accounts in certain circumstances may exceed the benefit from managing Canyon's clients' accounts and, therefore, may provide an incentive to favor such other accounts. The principals of CCRA and Canyon will not enter into transactions in which they knowingly and deliberately favor themselves or another client over the clients of Canyon; however, the principals have considerable discretion to trade for other accounts, and intend to do so to a significant extent.

In addition, the principals of Canyon may, from time to time, cause securities purchased on behalf of Canyon's clients and CCRA's clients to be held in the name of a nominee affiliate in trust on behalf of Canyon's clients and CCRA's clients. Such nominee holdings will be undertaken when the size of the investment, the nature of the co-investment or other considerations relating to the transaction militate in favor of holding the securities in the name of one person rather than subdividing the securities among

Canyon's and the other related purchasers. In addition, Canyon's clients and clients of CCRA may share, on a fair and equitable basis, in the legal fees and other expenses that CCRA and Canyon incur in investigating and negotiating potential transactions for their clients, whether or not such transactions are consummated.

ICE Canyon LLC ("ICE"), an affiliate of Canyon, is a registered investment adviser that is 50% owned by Canyon. The remaining 50% is owned by Range Capital LP. ICE generally focuses on emerging market debt. While the clients of ICE have different investment objectives than the clients of Canyon, a conflict of interest in rendering advice to Canyon's clients may arise because the benefits realized by the principals from managing ICE's clients' accounts in certain circumstances may exceed the benefit from managing Canyon's clients' accounts and, therefore, may provide an incentive to favor such other accounts. The principals of ICE and Canyon will not enter into transactions in which they knowingly and deliberately favor themselves or another client over the clients of Canyon; however, the principals have considerable discretion to trade for other accounts, and intend to do so to a significant extent.

Canyon Capital Advisors (Europe) Ltd. ("CCA EU") is a wholly owned subsidiary of Canyon. CCA EU is registered with the Financial Services Authority. CCA EU provides research related services to Canyon.

#### Other Entities Sponsored by Canyon and its Affiliates

Canyon and its affiliates (including CCRA and ICE) currently sponsor a number of private investment vehicles, partnerships, and companies and act as the investment adviser to managed accounts, and trade on behalf of themselves and their affiliates, which may create certain conflicts of interest among Canyon and its Clients. Canyon may also have a conflict of interest in rendering advice to multiple Clients because the benefit from managing one Client account may exceed the benefit of managing another Client account(s) and, therefore, may provide an incentive to favor such other account(s). Moreover, if Canyon makes investment decisions for multiple accounts at or about the same time it makes decisions for other Client accounts, Clients may be competing for the same or similar positions. Canyon also must take into account the varying investment objectives and limitations, tax considerations, available cash, investment horizons and other factors which may affect its Clients. There can be no assurance that a single Client will receive as large an allocation in respect of limited investment opportunities as it might otherwise have absent these considerations. Please see Brokerage Practices – Allocation of Investment Opportunities which discusses Canyon's allocation policy.

Canyon is not obligated by contract to buy, sell or recommend for one Client any security or other investment that may be bought, sold or recommended for other Clients or for Canyon's own or related persons' account, but Canyon will endeavor to fairly allocate the investment opportunity or dispose of the investment in the event of an actual conflict.

Canyon will not enter into transactions in which it knowingly and deliberately favors itself or a single Client over another Client; however, the Adviser is given considerable discretion to trade for other accounts, and intends to do so to a significant extent

In order to take advantage of diversification and new investment strategies and concepts, Canyon, from time to time, may place a portion of a Fund's investable assets in accounts managed by or co-managed with other investment advisors, in which case such Fund may be subject to additional fees payable to such other investment advisor as well as its proportionate share of costs and expenses. Canyon also may place a portion of a Fund's investable assets in other Canyon Funds, in which case such Fund shall not be subject to any additional management or incentive fees but will bear its proportionate share of costs and expenses. The amounts which may be invested into other managed accounts or in Canyon affiliated investment funds are not expected to be significant.

To the extent permitted by the applicable governing documents for the Funds, Canyon may, in their sole and absolute discretion, agree to waive or modify the application of any provision of the offering terms of



any Fund with respect to any investor, by side letter or otherwise, without obtaining the consent of any other investor. Such side letters may provide for the following modified terms: (i) various notification requirements (e.g., upon substantial redemptions by other investors, legal or regulatory actions, or the receipt of any soft dollar commissions outside of the safe harbor provided in Section 28(e) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”)); (ii) limitations on a Fund’s ability to distribute securities in kind upon a redemption request; (iii) the provision of audited financial statements within certain periods of time; (iv) special redemption rights for key men changes and net asset value reductions; (v) the provision of information relating to a Fund’s portfolio holdings (subject to non-disclosure agreements and other confidentiality considerations); (vi) reduced fees or fee rebates; (vii) minor investment restrictions that do not materially affect a Fund; (viii) the provision of periodic pricing information; (ix) the waiver or modification of redemption restrictions (such as redemption fees, lock-up provisions or affiliated transfers), required redemption terms or notice requirements; or (x) provisions necessary to accommodate a particular investor’s legal, tax, sovereign or regulatory status, accounting considerations, contractual obligations, or internal guidelines or policies.

In certain cases, Canyon may disclose portfolio holdings of a Fund to entities that evaluate portfolio risk for investors. Canyon will provide this information to such entities as it chooses and may refuse to provide this information to any such entity at any time. Every effort is made to bind the recipients of this information to maintain the confidential nature of this information, including entering into non-disclosure agreements prior to providing this information to them. However, there can be no assurance that these entities will fulfill their confidentiality obligations to Canyon. In addition, investors, in the course of conducting due diligence, may request information pertaining to their investments in a Fund (either verbally or in writing), including information that is not generally made available to all investors of such Fund. Canyon may respond to such requests without providing relevant information to all other investors. Canyon generally is available to receive reasonable information requests from investors concerning their investments in a Fund. However, Canyon reserves the right to determine what information is appropriate to provide in response to inquiries from investors in a Fund.

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

Canyon has adopted a Code of Ethics (“Code”) that sets forth standards of conduct expected of employees and addresses potential conflicts that can arise from personal trading by employees. Canyon has designated every employee, with certain very limited exceptions, as an access person for purposes of its Personal Trading Policy. As such, all employees of Canyon are covered by the Personal Trading Policy. Under the Personal Trading Policy, employees must periodically report their personal securities transactions and holdings to the Chief Compliance Officer (“CCO”) and Canyon must review these reports. To this end, employees must arrange for Canyon to receive the employee’s investment account statements, which contain information regarding securities transactions in the accounts of the employee. In addition, employees must obtain written or electronic approval before making certain types of investments.

Canyon’s Personal Trading Policy is governed by two overriding principles. First, client trades are always processed first. Second, Canyon and its employees must manage both real conflicts and the appearance of conflicts. If an employee doubts the propriety of any personal trade, such doubt is resolved in favor of not trading. The Code also contains policies involving the safeguarding of proprietary and non-public information by Canyon personnel along with restrictions on the use of material, non-public information and the use of non-public information regarding a client.

Any issues that arise under the Personal Trading Policy must be reported to Canyon’s CCO and senior management immediately, but not less frequently than quarterly. Clients can obtain a copy of our Code

of Ethics, which includes the Personal Trading Policy, free of charge, from our CCO upon request (Doug Anderson (310) 272 1360).

#### Interest in Client Investments

Canyon, its principals, employees and affiliates may trade securities for their own accounts. The records of such trading will not be made available to Clients. It is possible that principals, officers or employees of the Adviser may buy or sell securities or other instruments that the Adviser has recommended to Clients and may engage in transactions for their own accounts in a manner that is inconsistent with the Adviser's recommendations to a Client. Personal securities transactions by employees may raise potential conflicts of interest when such persons trade in a security that is owned by, or considered for purchase or sale for, a Client. As described above, the Adviser has adopted policies and procedures designed to detect and prevent such conflicts of interest and, when they do arise, to ensure that it effects transactions for clients in a manner that is consistent with its fiduciary duty to its clients and in accordance with applicable law. In compliance with the Adviser's Code of Ethics, transactions in certain securities described therein are required to be pre-cleared to allow for a review for any potential conflict of interest or insider trading. Employees of the Adviser are required to report personal securities transactions either electronically or via a monthly (or as generated, e.g. quarterly) duplicate statement sent directly from the corresponding brokerage firm.

#### The Investment Adviser as Principal

The Adviser does not act as principal, either buying securities for itself or its affiliates from a Client or selling securities it or its affiliates own to a Client. However, in the event that the Adviser decides to engage in any such principal transaction in the future, it will comply with the requirements of Section 206(3) of the Advisers Act and Section 25235(c) of the California Corporate Code by: (i) disclosing to the Client in writing the material terms of the transaction; and (ii) obtaining the written consent of the Client for such transaction. The Adviser will include in such disclosure: (1) its capacity as principal; (2) the cost to the Adviser of the security, in the case of a sale to a Client, or the price of the security in a resale, in the case of a purchase from a Client; and (3) the best price at which the transaction could be effected by or for the client elsewhere if such price is more advantageous to the Client than the purchase or sale with the Adviser. Canyon does not anticipate engaging in such transactions when the Adviser may make a trading profit.

#### Gifts and Business Entertainment

In the normal course of business, Canyon and its officers and employees may provide gifts or business entertainment to certain individuals and/or entities such as clients, investors, vendors, consultants, and service providers. Any such gift or business entertainment is not premised upon any specific client referral or any expectation of any other type of benefit to Canyon. Canyon has adopted formal policies and procedures requiring preapproval and recordkeeping of certain gifts and business entertainment.

#### Political Contributions

Canyon and its principals and employees may also make political contributions to persons who may serve or seek to serve in elected capacities with certain public entities. Any such political contributions are permitted only to the extent such contributions are in accordance with Canyon's policies and procedures regarding political contributions and do not violate the SEC's rule prohibiting pay-to-play activities adopted under Rule 206(4)-5.

#### Co-investment with Affiliates

It is contemplated that Clients may "co-invest" with the Adviser and/or principals of the Adviser in respect of certain investment opportunities, and certain of a Client's arbitrage and hedging activities may be conducted through an investment in a Fund. Any such co-investments will be on the same terms as made available to Clients, and no additional fees will be incurred by virtue of such investments. On

occasion, a Fund may acquire debt or equity interests in projects financed by other entities managed by affiliates of the Adviser. In addition, a Fund may loan to or invest in entities in which other clients of the Adviser are investors or lenders, either in similar investment positions or in different positions in the capital structure with different risk and return parameters. A Client may enter into transactions originated by, or issuers otherwise affiliated with, service providers to a Fund and their affiliates. In such event, disputes may arise between the two entities regarding the terms of the investments and the enforcement of the entities' respective rights therein. Furthermore, the Adviser is not precluded from causing a Fund to invest in the securities issued by companies represented in the investment portfolios of other Funds managed by the Adviser or its principals, affiliates or advisory clients. Any such purchases (or sales) will not be on a "principal-to-principal" basis and will only be offered where the Adviser is satisfied that the Fund's interests are not unfairly prejudiced.

## **Brokerage Practices**

### Execution Quality

In placing purchase and sale orders of securities for Clients, Canyon's policy is to seek the best execution of orders at the most favorable price in light of the overall quality of brokerage and research services provided. In selecting brokers to effect portfolio transactions, the determination of what is expected to result in best execution at the most favorable price involves a number of largely judgmental factors, including the broker's efficiency in executing and clearing transactions, block trading capability, and the broker's financial strength and experience in the industry. Primary market makers are used for transactions in the over the counter market except in those instances where Canyon believes more favorable execution or price is obtainable elsewhere.

Each Client is responsible for the payment of standard custodian fees for the custody of its assets. Custodian fees are paid at market rates and are not material to the Fund. Each Client incurs standard transaction costs associated with acquiring and selling securities and the brokerage commissions are negotiated at arm's length on behalf each Fund. Canyon will not receive any rebates in respect of brokerage commissions or custody fees.

In allocating brokerage business for its clients, Canyon also takes into consideration research, analytical, statistical and other information and services provided by the broker. While Canyon believes these services have value, they are considered supplemental to its own efforts in the performance of its duties to its advisory clients.

### Trading and Soft Dollar Arrangements

Canyon does not intend to use soft dollars to pay for third-party research or other third-party products. Furthermore, Canyon will not enter into any third-party soft dollar arrangements without the express approval of its Chief Compliance Officer. Canyon's Clients do pay bundled commission rates and Canyon receives proprietary research from many of its executing brokers and prime brokers. As a result, Canyon may pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transactions, in recognition of the value of the brokerage and research services provided by the broker and used by a Client. In such circumstances, Canyon endeavors to do so in accordance with the criteria of Section 28(e) of the Exchange Act ("Section 28(e)"). Canyon may also occasionally direct transactions effected on a principal basis to brokers in recognition of the research services provided by that broker. Canyon believes that in certain circumstances it may be important to its investment decision-making processes to have access to independent research. Some research services furnished by brokers and dealers with whom Canyon effects securities transactions may be used in servicing all of its Clients and not all such services may be used in connection with all Clients who paid commissions to the brokers providing such services.

Generally, research services provided by brokers may include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts and personal meetings with security analysts. In addition, such research services may be provided in the form of access to various computer-generated data, and meetings arranged with corporate and industry spokespersons, economists, academicians, and government representatives.

Subject to best execution, Canyon may effect transactions with certain brokers primarily in consideration for providing research services. Canyon may allocate brokerage to such firms; provided, that the value of any research and brokerage services is reasonable in relationship to the amount of commission paid. While Canyon tracks internally the amount of commissions paid to various brokers, in no case will Canyon make binding or informal commitments as to the level of brokerage commissions it will allocate to a broker.

If Canyon itself enters into a formal soft dollar arrangement to receive a mixed use product (a product that provides both Section 28(e) eligible research/brokerage functions as well as other functions), it will make a good faith allocation between the research/brokerage functions and non-research/brokerage functions, and will pay for any non-research/brokerage functions with cash. In making good faith allocations between such functions, a conflict of interest may exist by reason of Canyon's allocation of the costs of such benefits and functions between those that primarily benefit Canyon and those that primarily benefit its clients.

#### Trade Error Policy

The Adviser attempts to minimize trade errors by taking the utmost care in making and implementing investment decisions on behalf of client accounts. The Adviser has controls and procedures in place designed to detect and correct in a timely manner any trade errors that may occur. Trade errors are documented and reported to the Adviser's supervisory personnel, and trade errors are reviewed to assess whether an error was a result of a weakness in internal procedures and controls. If it is determined that a weakness in internal controls caused or contributed to the error, mitigating controls are established to rectify the identified control weakness.

Unless the Adviser has specifically addressed trade errors in the investment advisory agreement with a client, it is the Adviser's policy generally not to reimburse clients for any errors or mistakes with respect to the Adviser's placing or executing trades for the client, as such errors are considered by the Adviser to be a cost of doing business. However, pursuant to the pertinent investment management agreement's exculpation of liability and indemnification provisions, the Adviser will be obligated to reimburse the client for any trade error resulting from the Adviser's gross negligence or willful misconduct. The Adviser, subject to its fiduciary obligations, will determine whether or not any trade error is required to be reimbursed in accordance with this policy. Any positive trade errors will be for the benefit of the client and not retained by Adviser.

#### Prime Brokers

Canyon's Clients may have prime brokerage arrangements with one or all of the following: Credit Suisse, Deutsche Bank, JP Morgan, and Bank of America Merrill Lynch. These arrangements provide for the clearing and settlement of trades executed at brokers other than the prime brokers noted above. Canyon's Clients may also execute trades through brokerage divisions of its prime brokers subject to best execution. The prime brokers may, at no additional cost, also provide additional services to Canyon from time to time, including consulting services relating to technology requirements, infrastructure implementation, facilities management, property acquisition (purchase or lease), and refurbishment or

build-out advice. While this may create a potential conflict of interest, Canyon does not believe that these additional services are material and the receipt of such services were not a consideration when selecting prime brokers.

#### Allocation of Investment Opportunity

Canyon attempts to act in a fair and reasonable manner in allocating investment and trading opportunities among Canyon's Clients. Canyon's allocation procedures seek to allocate investment opportunities among the accounts over time in the fairest possible way, considering both the best interests and specific restrictions of the accounts. Canyon intends to ensure that each investment is appropriate for each account in light of the characteristics of the specific security and the overall portfolio composition of such account. Although the allocation of investment opportunities among Clients may create potential conflicts of interest because of the interests of Canyon or because Canyon may receive different fees or compensation from its Clients, the allocation decisions will not be based on such interests, fees or compensation.

Within the overall parameters, consideration is given to account investment objectives, strategies and guidelines, account constraints and restrictions, account size, diversification, cash availability (including anticipated contributions and redemptions), tax issues, exposure to asset classes, ramp-up or ramp-down status, investment time horizon and other factors, including, where appropriate, the value of having round lots in the portfolio. Canyon will not be obligated to allocate an investment opportunity across all of its Clients and may at times sell a position of an investment for one or more of its Clients, while it continues to hold the same investment for other Clients. For example, if any Client is prohibited from purchasing a particular security due to any legal or other regulatory reason, such Client will not be allocated any portion of such security irrespective of the pre-existing formula described herein. Similarly, certain Canyon Clients may not fully participate in equity IPOs. Allocations of equity IPOs will generally be made among eligible Clients on a pro rata basis.

From time to time, Canyon may recommend securities to one or more accounts and it or its affiliates may purchase securities for their own accounts as well. Conflicts of interest may arise among the accounts, or among Canyon and the accounts, or as a result of some other securities investment activity or business in which one or more accounts may be engaged. In addition, Canyon is not obligated by contract to buy, sell or recommend for an account any security or other investment that may be bought, sold or recommended for any other accounts.

On occasions where a number of accounts and affiliates are attempting to purchase the same securities, Canyon may aggregate orders to purchase or sell securities with those of its other accounts in order to facilitate execution and minimize transaction costs. Canyon receives no additional compensation or remuneration for such aggregation. The manner of aggregation is consistent with Canyon's duty to seek best execution for its accounts and with the terms of its investment advisory agreements. Each account participates in aggregated orders at the average share price for each completed transaction in a security with a given broker on a given business day, with transaction costs borne by each account participating in the transaction. If all such orders cannot be fully executed under prevailing market conditions, Canyon allocates on an equitable basis among all of its accounts the purchases or sales which can be made after taking into account the size of the order placed for the various accounts and such other factors as it deems appropriate. In some cases, this procedure may adversely affect the price paid or received by Canyon's accounts or the size of the position obtained by such accounts. In addition, due to certain minimum investment thresholds, certain smaller accounts may not participate in all transactions. This may, over time, result in such accounts holding fewer overall positions than larger accounts.

In addition, Canyon may, from time to time, cause the record title to securities purchased on behalf of the accounts to be held in the name of a nominee affiliate in trust on behalf of the accounts. Such nominee holdings will be undertaken when the size of the investment, the nature of the co-investment or other considerations relating to the transaction militate in favor of holding the securities in the name of

one person rather than subdividing the securities among the accounts. Any such nominee holdings will be held by a qualified custodian, for the sole benefit of the accounts, each of whom will retain full beneficial ownership.

Canyon and its affiliates may also cause the accounts to share on a fair and equitable basis in the legal fees and other expenses it incurs in investigating and negotiating potential transactions for the accounts, whether or not such transactions are consummated. In loan transactions sourced by Canyon and its affiliates, Canyon may serve as agent at no additional cost to the accounts.

#### Cross Trades between Investment Advisory Clients

From time to time, one Fund may sell or buy a security to or from another Fund. Such transactions would not be deemed principal transactions because the Adviser (including its controlling persons) owns less than 25% of the interests of each Fund. Nevertheless, the Adviser recognizes the conflict of interest such transactions may create. To mitigate such conflicts of interest, the Adviser will obtain an independent review of the fairness of the transaction to both Funds if the investment is private or an independent price (i.e., a pricing service or broker quote) if the investment is public.

Similarly, from time to time, one Fund may sell or buy a security to or from a Client. The Adviser also recognizes the conflict of interest such transactions may create. To mitigate such conflicts of interest, the Adviser will provide the managed account Client with the name of each security to be crossed for review and confirm approval by such managed account Client before executing the trade. Public securities will typically be “crossed” at the mid-point between the bid and the ask. Private securities will be valued by the Adviser, based on its valuation procedures, and such valuation will be reviewed and approved by the managed account Client.

## **Review of Accounts**

Client accounts are reviewed and monitored on routine basis by Senior Management. Reviews may be triggered by, among other factors, changing market conditions, news concerning specific holdings, or at the request of a Client.

Separately managed accounts receive transaction confirmations and monthly statements from brokers, as well as a monthly report listing the holdings, the market value, cost and other information concerning the account.

Fund investors receive monthly account statements listing the value of their investment. Fund investors also receive an annual K-1, if applicable, and a copy of the annual audit for each fund in which they are invested.

Taxable accounts receive an annual tax summary.

Certain private funds advised by Canyon have retained the services of a third party administrator to act as administrator, share registrar, and transfer agent. The Administrator is generally responsible for producing and distributing monthly account statements and other information as specified above to investors. Also, due to legal/regulatory constraints that must be followed by some of our Clients/underlying Fund investors and/or the specific needs and requests by certain Clients/Fund investors, Canyon may, at its discretion, agree to provide certain Clients/Fund investors more frequent reports and/or certain other reports than those described above. Certain information is only provided after the Client/Fund investor has signed a confidentiality agreement.

## **Client Referrals and Other Compensation**

From time to time, Canyon may enter into arrangements with third parties whereby such third parties receive fees for referring clients or investors to Canyon. Canyon undertakes this arrangement only if the client/investor is aware of the fee arrangement and the arrangement is in compliance with applicable

rules and regulations. Canyon will furnish each such client/investor with a current copy of the Adviser's written disclosure statement and the solicitor's written disclosure document and Canyon will receive from any such client/investor a written receipt of such documents, to the extent required by applicable law.

In addition, Canyon's executing and prime brokers may, from time to time, refer to Canyon potential clients/investors or arrange for meetings with potential clients/investors who are also often clients of the broker. While this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. While the meetings may be arranged by the brokers, there is no guarantee that the clients/investors will invest with Canyon. Other than the standard commission rates paid by Canyon's Clients, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for the meetings or the subsequent investments, if any. Canyon does not select or recommend broker-dealers based upon client referrals from a broker-dealer or third party. Clients do not direct brokerage.

## **Custody**

Canyon has custody of certain Client funds and/or securities. Investors and Clients should carefully review any statements or reports provided by the fund Administrator as well as the Fund's audited financial statements. The Funds are audited annually and Fund investors receive a copy of the annual audit within 120 days' of a Fund's year-end. With respect to such funds and/or securities held by managed account Clients, such Clients will have access to account statements prepared by a qualified custodian. Such account statements will be available on-line and will be updated at least quarterly. Managed account Clients will also receive accounts statements from Canyon, and Clients should compare the account statements received from the qualified custodian with those received from Canyon.

## **Investment Discretion**

Canyon provides (accepts) advisory services on a fully discretionary basis. Clients (but generally not investors) are permitted to place limits on this discretion or with respect to certain investments and/or investment types. Prior to accepting this authority, Canyon will enter into an advisory agreement with the client.

Neither Canyon nor any of its affiliates, principals or employees is required to devote full time to managing any single Client. They may conduct other businesses and provide investment advisory services to other clients, including, without limitation, other affiliated investment funds and managed accounts (such as corporate or governmental benefit plans, institutional investors and high net worth individuals), some of whom may have objectives similar to those of other Clients. They may give advice and make recommendations to such other Clients, which may be the same, similar to or different from those rendered to another Client. The compensation arrangements with other clients may create incentives for Canyon or its principals or employees to favor such other clients. However, Canyon will not knowingly or deliberately favor any Client over another Client as result of different compensation arrangements. Decisions affecting one Client may be made independently from such other Clients.

### Class Actions

Unless otherwise specifically prohibited in the investment advisory contract, Canyon may, at its sole discretion, file proofs of claims in relation to class actions. Canyon will generally participate and file the necessary claim forms through the use of an unaffiliated third-party service provider. The service provider receives a contingency fee and is not compensated unless a recovery is obtained. Canyon will periodically review this process to determine if the cost associated with such filings exceeds the benefits.

## **Voting Client Securities**

Generally, Canyon has authority to vote its Client's proxies (unless a Client retains authority pursuant to

its advisory agreement with Canyon). Canyon has adopted formal written Proxy Voting Policies and Procedures. Clients and investors may obtain a copy of Canyon's proxy voting policies and procedures and information on how the Client's securities have been voted upon the Client's request, free of charge.

Most of the securities held for Canyon's Clients constitute a small percentage of the ownership of the issuer of such securities, therefore Canyon does not expect such issuers to be impacted by its Clients' proxy votes related to such securities. Accordingly, Canyon has determined that its Clients' interests will not be impacted by such proxy votes and that the benefits to its Clients related to any such vote would be small and the costs associated with investigating how best to vote such proxies would exceed such benefits. Consequently, Canyon will not vote or evaluate proxies relating to a security if its Client is a beneficial owner of no more than one percent (1%) of the outstanding securities of such issuer. If, however, Canyon believes that the subject matter of a proxy for any such security may nonetheless be material to a Client's account and that the vote may impact the outcome of such vote, Canyon will vote the proxy in a manner that is in the best interest of its Client. Notwithstanding anything to the contrary in the forgoing, Canyon will vote a proxy as dictated by any Client's written instructions. Additionally, certain of its Clients have securities lending agreements with their prime broker/custodian and for purposes of determining whether Clients are a beneficial owner of more than 1% of the outstanding securities of an issuer, Canyon will not include securities that are on loan as Canyon does not have the ability to vote such proxies.

Canyon will evaluate proxies relating to a security if the Client is the beneficial owner of more than one percent (1%) of the outstanding securities of such issuer and has the right to vote securities (which it may not possess if the securities are loaned out). Canyon will vote these proxies in a manner that is in the best interest of the Client. Canyon shall consider only those factors that relate to the Client's investment or dictated by the Client's written instructions, including how the result of the requested vote will economically impact and effect the value of the Client's investment (keeping in mind that, after conducting an appropriate cost-benefit analysis, avoiding further expense and investigation and not voting at all on a presented proposal may be in the best interest of the Client). In voting on each and every issue, Canyon will vote in a prudent and timely fashion and only after a careful evaluation of the issue(s) presented on the ballot.

In exercising its voting discretion, Canyon and its employees will avoid any direct or indirect conflict of interest raised by such voting decision. Canyon will provide adequate disclosure to its Clients if any substantive aspect or foreseeable result of the subject matter to be voted upon raises an actual or potential conflict of interest to Canyon or any of its affiliates. After informing a Client of any potential conflict of interest, Canyon will either request such Client's consent to Canyon's vote recommendation or request that such Client vote the proxy directly or through another designee. If the Client is unreachable or the Client has not affirmatively responded before the response deadline for the matter being voted upon, Canyon may: (a) engage a non-Interested Party to independently review its vote recommendation if the vote recommendation would fall in favor of its interest (or the interest of its affiliate), to confirm that the vote recommendation is in the Client's best interest under the circumstances; (b) cast its vote as recommended if the vote recommendation would fall against its or its affiliate's interest and such vote recommendation is in the Client's best interest under the circumstances; or (c) abstain from voting if it determines that such action is in its Client's best interest under the circumstances.

## **Financial Information**

Canyon does not require or solicit pre-payment of advisory fees. There are no financial conditions that are reasonably likely to impair Canyon's ability to meet its contractual commitments to clients.