



ARES MANAGEMENT LLC

Form ADV Part 2A Firm Brochure

Updated: March 30, 2012

This brochure provides information about the qualifications and business practices of Ares Management LLC (“Ares Management” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at 310.201.4100 or adell@aresmgmt.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Ares Management is also available on the SEC’s website at: www.adviserinfo.sec.gov

REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT ARES MANAGEMENT OR ANY PRINCIPALS OR EMPLOYEES OF ARES MANAGEMENT POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.

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Item 2. Material Changes

This brochure includes material changes to “*Item 10. Other Financial Industry Activities and Affiliations*” from the previous brochure dated March 30, 2011, reflecting the formation of Ares Capital Management II, LLC (“ACM II”) and its registration as an investment adviser; formation of Ares Commercial Real Estate Management LLC (“ACREM”) and its registration as an investment adviser; the acquisition of certain assets of Wrightwood Capital LLC (“Wrightwood”) and Indicus Advisors LLP (“Indicus Advisors”).

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Item 4. Advisory Business

Ares Management is a Delaware limited liability company that was initially established in 1997 and became an independent company in 2001. The indirect principal owner of Ares Management is Antony P. Ressler who, together with seven other members of Ares Management's senior management team through their direct ownership interests in Ares Partners Management Company LLC ("APMC"), the indirect controlling parent of Ares Management, holds indirectly a majority ownership in Ares Management. Intermediate holding companies include Ares Holdings Inc., Ares Holdings LLC and Ares Management Holdings LLC.

Ares Management provides the services described below to its advisory clients, which include various pooled investment vehicles and private investment funds (collectively, the "Funds") as well as certain separate investment accounts for single investors. For some separate accounts, Ares Management forms special purpose entities to serve as investment vehicles for investors. Ares Management, or an affiliated entity controlled by Ares Management, serves as general partner, managing member, investment adviser, sub-adviser or manager of each of its clients, including separate or managed accounts. References to Ares Management in this brochure include, as the context requires, affiliates through which Ares Management provides investment advisory services or that act in any capacity referenced in the previous sentence.

Ares Management's investment advisory business is principally focused on the private equity and leveraged finance markets with investment activities managed by dedicated teams in its Private Equity, Capital Markets and Private Debt Groups. Ares Management tailors its advisory services to the specific investment objectives and restrictions of each Fund or other client. Ares Management's private equity Funds and other similar client accounts generally seek capital appreciation through majority or shared-control equity and equity-related investments, principally in under-capitalized middle market companies. Ares Management's leveraged finance activities are conducted through its Capital Markets and Private Debt platforms. Ares Management's capital markets Funds and other similar client accounts, which generally have either a current income or total return objective, invest primarily in tradable securities, including broadly syndicated senior secured and unsecured loans, mezzanine loans, special situation investments and structured credit and fixed income investments and, to a lesser extent, equities (including post-reorganization equities and loans including debtor-in-possession loans) and derivatives. Ares Management's private debt Funds and other similar client accounts, which generally seek current income and, to a lesser extent, long-term capital gains, originate and invest primarily in first and second lien senior loans and mezzanine debt of middle market companies, each of which may include an equity component, and, to a lesser extent, equity securities of such companies, with the majority of such investments originated and structured by the Private Debt Group.

Many clients and Funds have investment restrictions that are particular to such client or Fund. Investment restrictions may include prohibitions on investing in certain types of assets (e.g., equity securities), restrictions on issuer domiciles, restrictions on price or rating of investments and limitations on the percentage a particular type of security can comprise of a client's or Fund's investment portfolio.

Clients and investors and prospective clients and investors in each Fund should refer to the confidential private placement memorandum, limited partnership agreement, investment

management agreement and other governing documents for each such client or Fund (the “Governing Documents”) for complete information on the investment objectives and investment restrictions with respect to such client or Fund. Prior performance, while illustrative of Ares Management’s investment philosophy and experience, is not indicative of future performance and there is no assurance that any client’s investment objectives will be achieved.

In accordance with common industry practice, Ares Management or a Fund general partner, managing member, investment adviser, sub-adviser or manager, as applicable, may enter into “side letters” or similar agreements with certain investors pursuant to which Ares Management or the general partner, managing member, investment adviser, sub-adviser or manager, as applicable, grants the particular investor specific rights, benefits, or privileges that are not made available to other investors generally.

Ares Management does not participate in any wrap fee programs.

Ares Management manages all assets on a discretionary basis in accordance with the terms and conditions of each Fund or client’s Governing Documents. As of December 31, 2011, the amount of assets Ares Management managed on a discretionary basis was approximately \$46,299,280,000 (“AUM”). AUM is calculated by aggregating for all Funds and other client accounts (a) invested capital or, in the case of Funds for which Ares Management is paid management fees based on net asset value, gross asset value plus (b) unfunded commitments including amounts available under debt facilities and assets under management by Ares Management’s wholly owned subsidiaries, ACREM, Ares Management Limited (“AML”), Indicus Advisors and Ares Capital Management, LLC (“ACM”), which includes capital committed for investments by certain financial services portfolio companies of Ares Capital Corporation, a client of ACM. For more detailed information on the related parties described herein, please refer to “the “*Relationship with Related Person*” section in “*Item 10. Other Financial Industry Activities and Affiliations.*” Ares Management does not manage any client assets on a non-discretionary basis.

Item 5. Fees and Compensation

Compensation and Fee Schedules

All investors and clients should review the Governing Documents of a Fund or client account for complete information on fees and compensation payable with respect thereto. All clients of Ares Management are “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Investment Company Act”).

In certain circumstances, the advisory fees payable to Ares Management by individual clients or investors in a Fund may be negotiable. Clients and investors and prospective investors in each Fund should refer to the applicable Governing Documents for complete information on the advisory fees charged by Ares Management.

From time to time, a Fund or other client account managed by Ares Management may purchase an interest in another Fund managed by Ares Management, provided that the sale or purchase is consistent with Ares Management’s fiduciary obligations to each such Fund or client account and otherwise consistent with the investment mandate of each such Fund or client account.

While Ares Management endeavors at all times to act in the best interests of the Funds and other clients, investors should be aware that Ares Management's receipt of compensation from each of the Funds and client accounts and the contribution of additional capital by a Fund or client account to another Fund may create potential conflicts of interest with respect to such transactions.

Deduction of Fees; Timing of Payments; Termination

For many of the Funds and other client accounts, Ares Management is authorized under the Fund's or client's Governing Documents to charge and deduct advisory fees directly from the assets of the Fund or applicable client, at the times and in the amounts set forth in the Governing Documents. For separate account clients, Ares Management's ability to deduct advisory fees may be negotiable.

Base advisory fees for many of Ares Management's clients, including many of the Funds, are payable in arrears, generally on a quarterly or semi-annual basis. Since such advisory fees are payable in arrears, they are not paid until after services have been rendered. With respect to certain other clients and Funds, the base advisory fees are payable quarterly in advance. Please refer to the Governing Documents of a Fund or client account for complete information on the timing of advisory fee payments.

Clients have the right to terminate the advisory or investment management agreements in accordance with the terms of such agreements. Ares Management's general policy is to repay advisory fees paid in advance in excess of the pro rata portion earned (based on the number of days during the period) through the termination date. Any such refund would be implemented through a wire transfer of funds to the affected investors upon termination of the investment program.

Other Fees and Expenses

In addition to the fees payable to Ares Management, the Funds and other clients may incur certain charges imposed by third parties, including (but not limited to) any sales or other taxes, fees or government charges that may be assessed against the Fund or client; commissions, brokerage fees and similar charges incurred in connection with the purchase or sale of securities (including any merger fees payable to third parties and whether or not any such purchase or sale is consummated); costs and expenses incurred in investigating, developing, negotiating, structuring, settling, monitoring and holding portfolio investments (whether or not consummated), including travel, legal, tax and accounting expenses therewith; market data costs; research-related expenses, including, without limitation, news and quotation equipment, software and services; the costs and expenses (including travel-related expenses) of holding meetings or conferences with a Fund's investors (or other clients); costs of any investigation, administrative proceeding or regulatory matter, litigation and threatened litigation involving a client or a Fund; indemnification obligations and expenses; expenses attributable to normal and extraordinary investment banking, commercial banking, accounting, auditing, appraisal, tax advisory, tax preparation, legal, external consulting, custodial and registration services provided to a Fund or a client; premiums for liability insurance; the costs of dissolving a Fund or client's investment vehicle and liquidating its assets; and the costs and expenses for tax and audit services to a Fund or client. Please refer to the Governing Documents for complete information on the expenses payable by the Funds.

See discussion below in “*Item 12. Brokerage Practices*” for a description of the factors Ares Management considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

Timing of Payments

Please refer to the subsection entitled “*Deduction of Fees; Timing of Payments; Termination*” above.

Transaction-Based Compensation

In connection with investments made by certain Funds or other clients, Ares Management or its affiliates or supervised persons may receive commitment, structuring, monitoring or other transaction fees from portfolio investments in which one or more of the Funds or clients may invest or propose to invest. These types of arrangements present potential conflicts of interest and provide Ares Management’s supervised persons with an incentive to recommend investments based on compensation received rather than the best interests of a Fund or client. To mitigate potential conflicts, such benefits received by Ares Management in connection with its services related to portfolio companies or transactions are generally offset against advisory fees payable by the related Fund or client. Please refer to the Governing Documents for complete information on the additional compensation received by Ares Management or its affiliates or supervised persons in connection with investments and any offsets against advisory fees.

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

Performance-Based Fees

For some of the Funds and other clients, Ares Management may be entitled to an incentive fee as part of its compensation for management services, including in certain situations allocations calculated and charged based on a share of cumulative profits of such Funds. See discussion above in “*Item 5. Compensation and Fee Schedules.*”

Performance-based fee and allocation arrangements received by Ares Management or its related persons may create incentives for Ares Management to recommend investments that may be riskier or more speculative than those that would be recommended under different fee arrangements. Please refer to the Governing Documents of each Fund or other client for more complete information on the “performance-based fee” arrangements of each client.

Side-by-Side Management

Ares Management may provide concurrent advisory services to clients that are not charged a performance-based fee or allocation by Ares Management or its related persons and clients that are charged a performance-based fee or allocation. The potential for Ares Management and its related persons to receive greater fees or allocations from performance-based accounts creates potential conflicts of interest with respect to the allocation of investment opportunities, as Ares Management may have incentives to direct the best investment ideas to, or to allocate investments in favor of, Funds or investment accounts that pay performance fees or special allocations of profits. To mitigate potential conflicts of interest, allocations of investment opportunities among clients are determined by Ares Management in accordance with its investment allocation policy and consistent with its fiduciary duties and corresponding

investment mandates. It is Ares Management's policy that all investment opportunities will, to the extent practicable, be allocated among its clients on a basis that over a period of time is fair and equitable to each client relative to other clients, taking into account relevant facts and circumstances, including, but not limited to: (i) differences with respect to available capital, size of client, and remaining life of a client; (ii) differences in investment objectives or current investment strategies, such as objectives or strategies: (a) regarding current and total return requirements, (b) emphasizing or limiting exposure to the security or type of security in question, (c) regarding diversification, including industry or company exposure, currency and jurisdiction, or (d) regarding rating agency ratings; (iii) differences in risk profile at the time an opportunity becomes available; (iv) the potential transaction and other costs of allocating an opportunity among various clients; (v) potential conflicts of interest, including whether a client has an existing investment in the security in question or the issuer of such security; (vi) the nature of the security or the transaction including minimum investment amounts and the source of the opportunity; (vii) current and anticipated market and general economic conditions; and (viii) existing positions in an issuer/security; and (ix) prior positions in an issuer/security. Clients and investors in the Funds should be aware that they may not be given the opportunity to participate in investments made on behalf of other clients

Allocations within a particular group of Funds or accounts are generally determined by the portfolio managers or senior partners within that group, subject to restrictions in the applicable Governing Documents or regulatory restrictions. Allocations of investment opportunities are reviewed periodically by Ares Management to assess the effectiveness of the procedures. Ares Management and its principals may co-invest with certain of the Funds or other clients, as described in the Funds' or client's Governing Documents. Please see "*Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*" for a discussion of how Ares Management addresses these matters.

Item 7. Types of Clients

Types of Clients

Ares Management's separate investment account clients and investors in the Funds are comprised primarily of government and private pension funds, sovereign wealth funds, endowments, foundations, family offices, banks, insurance companies, private corporations and a limited number of high net worth individuals. Ares Management or its related persons may establish certain Funds ("Feeder Funds") to address particular tax or regulatory requirements. Each Feeder Fund, if formed, would be a limited partner of or investor in a Fund and interests in such Feeder Fund would be held by the investors who elect to participate in the Fund through such Feeder Fund. Prospective investors should refer to the Governing Documents of the applicable Fund for complete details on any Feeder Fund established with respect to such Fund.

Minimum Investment Requirements

The minimum investment in each of the Funds is stated in its Governing Documents and ranges from \$100,000 to \$25 million. Ares Management generally may waive this minimum in its discretion. With respect to separate investment accounts, Ares Management generally requires a minimum investment of \$100 million.

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

Methods of Analysis and Investment Strategies

Ares Management's investment philosophy and portfolio construction generally involve deliberate company-specific research and analysis and an assessment of the overall macroeconomic environment and financial markets.

The specific methods of analysis and investment strategy utilized by Ares Management for Funds and other clients managed by its Capital Markets Group, Private Equity Group and Private Debt Group are described below.

Capital Markets Group

Ares Management's Capital Markets Group ("CMG") manages primarily tradable securities, including broadly syndicated senior secured and unsecured loans, mezzanine loans, structured credit, special situation investments and fixed income investments and to a lesser extent, equities (including post-reorganization equities and loans including debtor-in-possession loans), derivative instruments (including credit default swaps, interest swaps, currency instruments and other derivative instruments) and other securities and instruments including cash in a variety of Funds. Its primary focus is on below-investment grade debt instruments.

CMG's objective is to construct portfolios that balance the benefits of diversification, credit quality, defensive industry allocations, current income, principal appreciation, efficient and flexible portfolio financing and participation in the securities of companies with which, in many cases, Ares Management has had prior experience.

CMG's fixed income investment process emphasizes due diligence on companies, with a focus on principal protection, investment income, relative value and adherence to portfolio guidelines. The strategy employed by CMG generally emphasizes the importance of the following:

- Credit intensive analysis and ongoing monitoring;
- Control of investment risk; protection of principal; risk/return;
- Long-term value creation;
- Market focused relative value analysis;
- Use of Ares Management's extensive network of contacts;
- Broad access to deal flow combined with flexibility in investing in all parts of the capital structure;
- Active portfolio monitoring;
- Investment memoranda and periodic updates; and
- Investment committee presentations and discussion.

Additionally, in analyzing a prospective investment, CMG's research analysts seek information from a wide variety of sources, which may include company management, fixed income and equity analysts, rating agencies, competitors, and other industry sources, including third-party industry experts.

Private Equity Group

Ares Management's Private Equity Group ("PEG") primarily focuses on majority and shared control investments in growth, rescue and de-leveraging situations.

The investment philosophy and portfolio construction of PEG involve:

- an assessment of the overall macroeconomic environment and financial markets;
- company-specific research and analysis; and
- with respect to each individual company, an emphasis on unlocking value by providing flexible capital and focusing management on growth initiatives rather than on capital funding issues.

The foundation of this investment philosophy and portfolio construction is detailed modeling and sensitivity analyses, a disciplined approach to financial leverage and a diversification strategy. PEG follows a rigorous process based on:

- a comprehensive analysis of the quality of the business and the viability of its growth prospects;
- an evaluation of management;
- an analysis of business strategy and industry trends; and
- an in-depth examination of capital structure, financial results, projections and growth prospects.

PEG seeks to identify middle-market companies with strong franchises and attractive growth opportunities that are distressed, over-leveraged or capital constrained. The process through which PEG makes an investment decision involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for the transaction determines that an investment opportunity should be pursued, PEG will engage in an intensive due diligence process, including legal, accounting, financial and industry diligence.

Private Debt Group

Ares Management's Private Debt Group ("PDG") primarily invests in first and second lien senior loans and mezzanine debt of middle market companies, each of which may include an equity component, and, to a lesser extent, in equity securities of such companies.

The investment philosophy and portfolio construction of PDG involve:

- an assessment of the overall macroeconomic environment and financial markets;
- company-specific research and analysis; and
- with respect to each individual company, an emphasis on capital preservation, low volatility and minimization of downside risk.

The foundation of this investment philosophy and portfolio construction is intensive credit investment analysis, a strict investment discipline based on both market technicals and fundamental value-oriented research and a diversification strategy. PDG follows a rigorous investment process based on:

- a comprehensive analysis of issuer creditworthiness, including a quantitative and qualitative assessment of the issuer's business;
- an evaluation of management;
- an analysis of business strategy and industry trends; and
- an in-depth examination of capital structure, financial results and projections.

PDG seeks to identify those issuers exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on relative value of the security across the industry as well as for the specific issuer. The process through which PDG makes an investment decision involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for the transaction determines that an investment opportunity should be pursued, PDG will engage in an intensive due diligence process.

Material Risks

The task of identifying investment opportunities and managing such investments can be difficult. There can be no assurance that any Fund or other client will be able to make and realize any particular investment or generate returns. Investing involves a risk of loss that clients and investors in the Funds should be prepared to bear. Clients and investors in the Funds should carefully consider, among other factors, the following material risks involved with Ares Management's investment strategies. *Not all possible risks are described below.* Investors in the Funds or other clients are requested to refer to the Governing Documents of the applicable Fund or client for more complete information on investment strategies employed and the corresponding risks associated with such investment strategies.

Firmwide Risk Factors

Dependence on Key Personnel. The success of a Fund will be highly dependent on the expertise and performance of its senior investment professionals. There can be no assurance that

these senior investment professionals will continue to be associated with the Firm or any of its affiliates throughout the life of a Fund, as they are under no contractual obligation to remain with the Firm or any of their affiliates for all or any portion of the term of a Fund. The loss of the services of one or more of these individuals could have a material adverse effect on the performance of a Fund.

No Assurance of Investment Return. Ares Management cannot provide assurance that it will be able to choose, make or realize investments for a Fund or a client account in any particular company or portfolio of companies. There can be no assurance that a Fund or client account will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. The marketability and value of any such investment will depend upon many factors beyond the control of a Fund. The expenses of a Fund may exceed its income. An investor in a Fund could lose the entire amount of its contributed capital, and therefore an investor should only invest in a Fund if the investor can withstand a total loss of its investment.

Uncertainty of Financial Projections. Ares Management will evaluate its investment on the basis of financial projections for such portfolio company. Projections are inherently subject to uncertainty and factors beyond the control of Ares Management, the particular Fund and the portfolio company. The inaccuracy of certain assumptions and general economic conditions, which are unpredictable, can have a material adverse impact on the reliability of such projections. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from such projections.

Market and Credit Risks of Debt Securities. Portfolio companies with debt securities are subject to credit and interest rate risks. “Credit risk” refers to the likelihood that an issuer will default in the payment of principal or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument. Securities that are rated by rating agencies are often reviewed and may be subject to downgrade, which generally results in a decline in the market value of such security. “Interest rate risk” refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed-rate debt instrument and falling interest rates will have a positive effect on price. Adjustable-rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Bankruptcy of Portfolio Companies. There are a number of significant risks inherent in the bankruptcy process, including, for example, the deleterious effects of litigation between the creditors and debtor, the duration of the bankruptcy proceeding and the tangible and other intangible costs to the debtor issuer, including the potential adverse effects on personnel and business relationships and operations. There can be no assurance that these factors can be successfully overcome. First, many events in a bankruptcy are the product of contested matters

and adversary proceedings and are beyond the control of the creditors. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of a Fund. Second, the effect of a bankruptcy filing on a portfolio company may adversely and permanently affect such portfolio company. The portfolio company may lose its market position and key employees and otherwise become incapable of restructuring itself as a viable entity. If for this, or any other reason, the bankruptcy proceeding is converted to a liquidation, the liquidation value of the portfolio company may not be equal to 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 the investment can be adversely affected 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, 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. For example, if a proceeding involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to administrative costs. Fifth, bankruptcy law permits the classification together of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that a Fund's influence with respect to the class of securities it owns can be lost by increases in the number and amount of claims in that class or by different classification and treatment. Sixth, in the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Seventh, especially in the case of investments made prior to the commencement of bankruptcy proceedings, creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. This factor may be material if a Fund acquired a control position with respect to its portfolio companies. Eighth, certain claims that have priority by law (for example, claims for taxes) may be quite significant.

Capital Markets Group Risk Factors

Investment and Trading Risks. The CMG Funds invest in bonds, loans and other fixed income securities and instruments, including, without limitation, structured credit, second-lien loans, mezzanine debt, unsecured debt and "higher yielding" (and, therefore, generally higher risk) debt securities and instruments. Such securities and instruments will be primarily below "investment grade" or nonrated and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the obligor's inability to meet timely interest and principal payments. The market prices of such investments are also subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility relative to the historical averages in non-investment grade markets, and the spread between the bid and offered prices of such investments may be greater than those prevailing in other more liquid markets. CMG Funds may utilize such investment and hedging techniques as short sales, leverage and the use of synthetic instruments (such as credit default swaps, interest rate swaps, other swaps, options on securities, forward contracts and other derivative instruments) which practices can, in certain circumstances, create or magnify adverse impact to the client involved.

Macroeconomic Factors. The performance of the client's investments could be adversely affected by macroeconomic factors, including general economic conditions affecting capital markets and participants therein (such as the obligations on or issuers of the client's

investments). Such macroeconomic factors include (i) the economic downturns and uncertainties affecting economies and capital markets worldwide, (ii) continuing military conflicts, incidents of terrorism and domestic unrest occurring outside the United States and other consequences thereof and similar events, (iii) concerns about financial performance, accounting and other issues relating to various companies and (iv) recent and proposed changes to laws and regulations affecting the financial industry, including those related to banking, credit default swaps and other derivatives, mortgage lending, accounting and reporting standards and other exogenous factors in general.

Prepayment Risks. The frequency at which prepayments (including voluntary prepayments and accelerations due to defaults) occur on bonds and loans will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. The upside potential of an investment prepayable at par may be limited, and unexpected prepayments may result in losses.

Use of Swaps. A CMG Fund may enter into various swap agreements, such as (but not limited to) credit default swaps, cross currency swaps, total return swaps, interest rate swaps and other derivative instruments. Swap agreements are individually negotiated and can be structured to create or hedge exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the client's exposure to, non-U.S. currency values, corporate credit risks, counterparty risk or other factors.

Hedging Transactions. Ares Management may at times attempt to hedge portfolio positions of a client; however, we may determine not to do so. Hedging may limit gains, while not hedging and imperfect hedging may result in losses or may fail to fully mitigate losses intended to be hedged. A CMG Fund's or other client's hedging investment strategies may not achieve the desired results due to implementation lag, other timing factors, portfolio management decision-making, economic or market conditions or other unanticipated factors.

Synthetic and Other Derivative Assets. Ares Management may invest in synthetic assets such as credit linked notes and engage in credit default swaps and Loan CDS transactions, in lieu of investing in bonds or loans in "cash" form. Such transactions do not perfectly replicate direct ownership of the referenced or underlying assets, and present additional risks, such as exposure to the creditworthiness of the counterparty and relatively lower liquidity.

All of the reference obligations in respect of such synthetic or derivative assets will generally consist of the types of assets in which the relevant CMG Fund would otherwise be permitted to invest. These obligations are subject to a number of risks, including prepayment risk, credit risk, liquidity risk, structural risk, legal risk, counterparty risk and interest rate risk, which may be different from those of other types of debt obligations. The performance of a reference obligation may be affected by a variety of factors, including the amount and timing of payments and recoveries on the underlying assets.

Portfolio Risk Factors. The risks of debt instruments include (among others): (a) limited liquidity and secondary market support, (b) the possibility that earnings of the relevant obligor may be insufficient to meet its debt service, (c) the declining creditworthiness and potential for (or actual) insolvency of the relevant obligor of such debt during periods of economic downturn, (d) that the relevant obligor may be a small or mid-size company serving only local or regional

interests, (e) decline in the yield or quality of the opportunities for reinvestment or proceeds received from repayments of portfolio positions and (f) if subordinated, subordination to the prior claims of other debt or senior lenders. Debt instruments are generally subject to market value volatility or rating agency downgrades that may not be apparent from historical volatility studies and that could be significant or unpredictable. A continued economic downturn could severely disrupt the market for debt instruments and adversely affect the value of outstanding debt and the ability of the borrowers thereof to repay principal and interest. Moreover, the default history for debt instruments is limited, actual defaults may be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.

In certain circumstances, the collateral securing debt instruments, if any, might not be sufficient to satisfy the relevant obligor's obligations in the event of nonpayment of scheduled interest or principal, and may be difficult to liquidate on a timely basis. Additionally, a decline in the value of the collateral could cause the debt to become substantially unsecured, and circumstances could arise (such as in the bankruptcy of a borrower) which could cause the security interest in the debt instrument's collateral to be invalidated. Also, collateral may be subject to restrictions on transfer intended to satisfy securities regulations, which may limit the number of potential purchasers if the issuer intends to liquidate such collateral.

A portfolio may also include unsecured debt instruments. Unsecured debt instruments are subject to the same investment risks generally applicable to debt instruments described above but are subject to additional risk that the assets and cash flow of the relevant obligor may be insufficient to repay the scheduled payments to the lender after giving effect to any secured obligations of the relevant obligor. Unsecured debt instruments will be subject to certain additional risks to the extent that such debt may not be protected and such debt is not secured by collateral or protected by, financial covenants or limitations upon additional indebtedness. Unsecured debt instruments may also be expected to be more illiquid and may be more volatile than senior secured debt instruments for this reason.

Investment in Reorganizations and Restructurings. The CMG Funds may make investments in companies that are experiencing or are expected to experience severe financial difficulties, including rescue financings in companies undergoing reorganization or restructurings. These severe financial difficulties may never be overcome and may cause such companies to become subject to bankruptcy proceedings. In such situations, a CMG Fund's investment may be subject to the risk that a bankruptcy filing may adversely and permanently impact the value of a company and that high administrative costs may impair the value of the company. In addition, such investments could subject a CMG Fund to certain additional potential liabilities that may exceed the value of a CMG Fund's original investment therein. Furthermore, investments in distressed companies and restructurings may be adversely affected by statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the court's discretionary power to disallow, subordinate or disenfranchise particular claims.

Having a "blocking position" in a security that is subject to a plan of reorganization or restructuring entails significant risks if a CMG Fund's evaluation of the anticipated outcome of the investment situation should prove incorrect. In addition, an investment in a company involved in a reorganization proceeding or restructuring entails significant risks and may be adversely impacted if a CMG Fund's evaluation of the anticipated outcome of the investment situation should prove inaccurate.

Some of the investments a CMG Fund will make may require active monitoring or representation on official and unofficial creditors' committees for a company involved in a reorganization proceeding or restructuring. Accordingly, a CMG Fund may seek representation on such committees from time to time if the manager or general partner of such CMG Fund, in its discretion, determines that such representation is necessary or advisable to protect or further a CMG Fund's interests. Serving on an official or unofficial committee increases the possibility that a CMG Fund will be deemed an "insider" or a "fiduciary" of the company it has so assisted and may restrict a CMG Fund's trading of its investments in such company and exposes the person serving on the committee to litigation risks. Should such assistance be provided before a company enters bankruptcy proceedings, the Bankruptcy Court, under certain conditions such as a finding of fraud or inequitable conduct, may invoke a doctrine of "equitable subordination" with respect to any claim or equity interest held by a CMG Fund in such company and subordinate any such claim or equity interest in whole or in part to other claims or equity interests in such company. Claims of equitable subordination may also arise outside of the context of a CMG Fund's committee activities. In addition, if representation of a creditors' committee of a company causes a CMG Fund to be deemed an affiliate of the company, the securities of such company held by a CMG Fund may become restricted securities, which are not freely tradable. As a CMG Fund will indemnify any person serving on a committee on its behalf for claims arising from the breaches of those obligations, indemnification payments could adversely affect the return on a CMG Fund's investment in a portfolio company.

Distressed Securities. A CMG Fund may invest in securities, private claims and obligations of domestic and foreign entities which are experiencing significant financial or business difficulties. A CMG Fund may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than a CMG Fund's investment. Such investments may also be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and bankruptcy court's discretionary power to disallow subordinate or disenfranchise particular clauses. The market prices of such instruments are also subject to abrupt and erratic market movements and significant average price volatility, and the spread between the bid and offered prices of such instruments may be greater than normally expected due to a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, all of which may significantly affect the results of a CMG Fund's activities. Investments in distressed securities, particularly in connection with reorganizations, often involve litigation generally related to issues involving control and preference among classes, claimants and other related matters. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses that by their nature involve business, financial, market or legal risks.

Illiquidity of Debt Instruments. Debt instruments and interests in debt instruments have significant liquidity risks and market value risks since they are not generally traded in organized exchanges but are traded on an over the counter basis by banks and other institutional investors engaged in loan syndications. In such cases, the primary resale opportunities for such debt instruments are privately negotiated transactions with a limited number of purchasers. This may restrict the ability of a CMG Fund to dispose of investments in a timely fashion or at a favorable price. The inability to dispose of a debt instrument position could result in losses to a CMG Fund, including the loss of its entire investment. The debt of highly-leveraged companies or companies in default also may be less liquid than other debt. If a CMG Fund voluntarily or

involuntarily sold its interest in those types of debt securities, it may not receive the full value that was expected.

Highly Leveraged Borrowers. The issuers of debt in which a CMG Fund may invest are likely to be highly leveraged. A borrower's leverage may adversely impact a CMG Fund in a number of ways, such as creating a greater possibility of default or bankruptcy of the borrower. It is also possible that the pledging of collateral (if any) to secure debt could be found to constitute a fraudulent conveyance or preferential transfer which would be nullified or subordinated to the rights of other creditors of the borrower under applicable law. In addition, CMG Funds may also utilize leverage against the portfolio which will increase the exposure of such CMG Funds to adverse economic factors such as rising interest rates, portfolio defaults and downturns in the economy or deterioration in the condition of any given portfolio company or its industry. In the event that a CMG Fund is unable to meet principal and interest payments on its third-party indebtedness, the value of an investor's interest in such CMG Fund could be significantly reduced or even eliminated.

Special Situations. A CMG Fund may invest in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to a CMG Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, a CMG Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which a CMG Fund may invest, there is a potential risk of loss by a CMG Fund of its entire investment in such companies. In connection with such transactions (or otherwise), a CMG Fund may purchase securities on a when-issued basis, which means that delivery and payment take place sometime after the date of the commitment to purchase and is often conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, reorganization or debt restructuring. The purchase price or interest rate receivable with respect to a when-issued security are fixed when a CMG Fund enters into the commitment, thus such securities are subject to changes in their market value prior to delivery.

Recent Developments in Credit Markets. Global credit and equity markets have recently experienced, and may continue to experience, significant market events, including decreased liquidity, declining market values, tightening of credit, deleveraging and large scale liquidations of investment portfolios, that have generated significant volatility as compared to historical averages in the below investment grade credit market and illiquidity in worldwide capital markets. As these issues continue to develop, they may affect other markets and types of assets in negative and unforeseen ways. The duration and ultimate effect of such market conditions cannot be predicted. Such conditions could adversely affect the market value of a CMG Fund investments, may prevent a CMG Fund from successfully executing its investment strategy, may cause a CMG Fund to dispose of investments at a loss, may create additional volatility in the value of the assets held by the CMG Fund, or negatively impact the performance of the investments held by the CMG Fund in any of the markets directly or indirectly affected. There can be no assurance that there will not be further deteriorations in the credit markets or that any

improvements in the broader markets will have a positive impact on or otherwise mitigate further dislocation in the credit markets.

Foreign Investments. Investing in non-U.S. companies involves certain considerations not usually associated with investing in U.S. companies, including political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict a CMG Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail in foreign countries may not be equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the United States. Regulation of the securities markets in foreign countries may also have a potential adverse effect on investments.

With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of a CMG Fund, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. In addition, the bankruptcy laws of different countries may differ from those of the U.S., and such differences may expose a CMG Fund to additional risk of loss upon the bankruptcy of an issuer located outside of the United States.

Market Volatility Risks. Significant and unexpected levels of illiquidity and price volatility for various types of fixed income instruments have occurred since the second half of 2007. A variety of unanticipated political and economic disruptions and changes have adversely affected the capital markets, causing market dislocations. These ongoing events could disrupt the value of a CMG Fund's portfolio. Many of the investments which a CMG Fund will purchase, hold and sell may be complex, and their market values are highly sensitive to changes in interest rates, prepayments or credit spreads. Returns on an investor's interests in a CMG Fund may be affected by relatively small changes in interest rates, prepayments or credit spreads. Fast-changing, volatile markets may limit or even preclude timely action by a CMG Fund in conducting trades.

Private Equity Group Risk Factors

Nature of a Fund's Investments, Business and Market Risk. A substantial portion of a PEG Fund's investments will be in equity or equity-related investments that by their nature involve business, financial, market or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that may result in substantial losses. There can be no assurance that Ares Management will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect

the results of a PEG Fund's activities, including the risk of war and the effects of terrorist attacks.

Companies in which a PEG Fund invests may be sensitive to general downward swings in the overall US and global economy. A "double-dip" recession, depression or adverse development in the securities and financial markets might have an adverse impact on some or all of a PEG Fund's investments. A sustained period of low valuations in the public equity markets could result in substantially lower liquidation values and substantially longer periods before liquidity is achieved in comparison with historical values, which would reduce the returns that could be achieved.

In addition, a PEG Fund's strategy for a portfolio company may involve an acquisition program, restructuring or operational improvements, all of which entail a high degree of uncertainty. As a result, a PEG Fund's performance over a particular period may not be indicative of the results that may be expected in future periods. Furthermore, these factors are outside the Firm's and a PEG Fund's control, and could adversely affect the liquidity and value of a PEG Fund's investments, and may reduce the ability of a PEG Fund to make attractive new investments.

In particular, economic and financial market conditions began to significantly deteriorate in 2008 as compared to prior periods. In the ensuing time period, global financial markets experienced considerable declines in the valuations of equity and debt securities, an acute contraction in the availability of credit, and the failure of a number of leading financial institutions. As a result, certain government bodies and central banks worldwide, including the US Treasury Department and the US Federal Reserve, have undertaken unprecedented intervention programs, the effects of which remain uncertain. The US economy has experienced and continues to experience significant declines in employment, household wealth, and lending relative to prior periods. These events have led to a significantly diminished availability of credit and an increase in the cost of financing for businesses, which has materially hindered the initiation of new, large-sized, leveraged transactions and, together with declines in valuations of equity and debt securities, has adversely affected the private equity sector. Although financial markets have shown some recent signs of improvement, to the extent economic conditions experienced over the last two and a half years continue, they may adversely impact the investments of a PEG Fund.

Non-Controlling Investments. Although PEG Funds intend to make primarily control-oriented investments, a PEG Fund may make minority equity investments in portfolio companies over which it may have limited influence. Such a portfolio company may have economic or business interests or goals that are inconsistent with those of a PEG Fund, and a PEG Fund may not be in a position to limit or otherwise protect the value of its investment in the company, although as a condition of making such investments, it is expected that appropriate shareholder rights generally will be sought to protect a PEG Fund's investments. A PEG Fund's control over the investment policies of these companies may also be limited.

Competition For Suitable Investments. The process of identifying, structuring, implementing and realizing on attractive investments is highly competitive. Over the past several years, an ever-increasing number of private equity funds have been formed and many such existing funds have grown substantially in size, while hedge funds have increasingly sought private equity investments and strategic investors have become more acquisitive, resulting in an unprecedented amount of capital available for private equity investment. PEG Funds will compete for investment opportunities with many other investors, some of which will have greater resources

than the PEG Fund. Participation in auction transactions will also increase the pressure on the PEG Fund with respect to the pricing of transactions. Furthermore, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. There can be no assurance that a PEG Fund will be successful in its efforts to identify and complete attractive investment opportunities, and it is possible that a PEG Fund's capital commitments will not be fully utilized if sufficient attractive investments are not identified and consummated by a PEG Fund during the commitment period.

Limited Number of Investments. PEG may intend for a PEG Fund to participate in a limited number of investments and, as a consequence, the aggregate return of such PEG Fund may be adversely affected by the unfavorable performance of even a single investment. Although PEG intends to diversify each PEG Fund's portfolio to the extent reasonably possible within the confines of such PEG Fund's investment strategy, the inability of PEG to achieve this objective could adversely affect the performance of a PEG Fund. Furthermore, to the extent that the capital raised is less than the targeted amount, a PEG Fund may make fewer investments and thus be less diversified.

Middle-Market Companies. A component of a PEG Fund's investment strategy is to invest in middle-market companies. While investments in middle-market companies may present greater opportunities for growth, such investments may also entail larger risks than are customarily associated with investments in large companies. Middle-Market companies may have more limited product lines, markets and financial resources, and may be dependent on a smaller management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. Middle-Market companies may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render such companies more vulnerable to competitors' actions and market conditions. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required. Middle-Market companies generally have less predictable operating results and may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence. Further, there is ordinarily a more limited marketplace for the sale of interests in smaller, private companies, which may make realizations of gains more difficult, by requiring sales to other private investors. In addition, the relative illiquidity of private equity investments generally, and the somewhat greater illiquidity of private investment in small and medium-sized companies, could make it difficult for a PEG Fund to react quickly to negative economic or political developments.

Leverage. Portfolio companies in which a PEG Fund invests typically have leveraged capital structures, although, Ares Management believes, the PEG Funds generally seek investments in somewhat less leveraged capital structures than other more aggressive investing groups. Use of leverage may increase the exposure to adverse economic factors such as significantly rising interest rates, downturns in the economy or deterioration in the condition of any given portfolio company or its industry. In the event a portfolio company is unable to meet principal and interest payments on its third-party indebtedness, the value of a PEG Fund's investment in such entity could be significantly reduced or even eliminated.

In addition, a PEG Fund's ability to achieve attractive rates of return will depend in part on its ability to access sufficient sources of indebtedness for its portfolio companies at attractive rates and terms. Reduced availability, an increase in interest rates or other tightening of terms

associated with indebtedness available to a PEG Fund's portfolio companies may make it more expensive to finance such PEG Fund's portfolio investments and could make it more difficult for a PEG Fund to compete for suitable investment opportunities.

Reliance on Portfolio Company Management. The day-to-day operations of each portfolio company in which a PEG Fund invests will be the responsibility of such portfolio company's management team. Although PEG and each PEG Fund's general partner will monitor the performance of a PEG Fund's portfolio companies and will screen for and, if necessary, recruit capable management, there can be no assurance that such management will be able to operate any such portfolio company in accordance with such PEG Fund's expectations.

Provision of Managerial Assistance, Control and Board Participation. A PEG Fund typically will designate directors (and non-executive chairmen) to serve on the boards of directors of the PEG Fund's portfolio companies. A board member designated by a PEG Fund will have fiduciary duties to persons other than the PEG Fund. The designation of directors and other measures contemplated could expose the assets of the a PEG Fund to claims by a portfolio company, its security holders and its creditors for breaches of fiduciary duties, securities claims and other director-related claims. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability for which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to occur, a PEG Fund could suffer losses in its investments. While Ares Management intends to manage a PEG Fund in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

Investment in Distressed Securities. A PEG Fund is authorized to invest in the securities and obligations of distressed and bankrupt portfolio companies, including debt obligations that are in covenant or payment default, as well as other distressed situations and securities. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer of those obligations might not make any interest or other payments. In addition, these securities may not be protected by financial covenants or limitations upon additional indebtedness and may have limited liquidity. Distressed and debt securities are also subject to other creditor risks, including (i) the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws as described below, (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, in certain circumstances, (iv) challenges to claims based on face value of securities purchased at distressed levels against par.

Investments in Public Companies. PEG Funds may invest in public companies or take private portfolio companies public. Investments in public companies may subject a PEG Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of a PEG Fund to dispose of securities at certain times (including due to the possession by a PEG Fund of material non-public information), increased likelihood of shareholder litigation against such companies' board members, which may include Ares personnel, regulatory action by the

US Securities and Exchange Commission and increased costs associated with each of the aforementioned risks.

Illiquidity of Investments. An investment in a PEG Fund requires a long-term commitment with no certainty of return. It is unlikely there will be near-term cash flow available to investors. Many of a PEG Fund's investments may be illiquid. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by the PEG Fund. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions.

There can be no assurance that a PEG Fund will be able to realize such investments at attractive prices or otherwise be able to effect a successful realization or exit strategy.

Additionally, a PEG Fund may acquire securities that cannot be sold except pursuant to a registration statement filed under the US Securities Act of 1933, as amended (the "Securities Act") or in accordance with Rule 144 promulgated under the Securities Act and may need to be sold during a portfolio company's trading window if a representative of the PEG Fund holds a board seat. There can be no assurance that private purchasers can be found for a PEG's Fund's investments.

Private Debt Group Risk Factors

Highly Competitive Market. The PDG Funds operate in a highly competitive market for investment opportunities. A number of entities compete with the PDG Funds to make the types of investments that the PDG Funds make in middle-market companies. The PDG Funds compete with business development companies, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, high yield investors, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Some of the PDG Funds' competitors may be substantially larger and have considerably greater financial, technical and marketing resources than the PDG Funds. Some competitors may have a lower cost of funds and access to funding sources that are not available to the PDG Funds. In addition, some of the PDG Funds' competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than the PDG Funds.

Changes in Interest Rates. The PDG Funds are exposed to risks associated with changes in interest rates. General interest rate fluctuations may have a substantial negative impact on the PDG Funds' investments and investment opportunities and, accordingly, may have a material adverse effect on the PDG Funds' investment objectives and rates of return on invested capital.

Illiquidity. The lack of liquidity in the PDG Funds' investments may adversely affect the PDG Funds' business. As PDG Funds generally make investments in private companies, substantially all of these investments are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of these investments may make it difficult for the PDG Funds to sell such investments if the need arises. In addition, if a PDG Fund is required to liquidate all or a portion of such PDG Fund's portfolio quickly, such PDG Fund could realize significantly less than the value at which such PDG Fund has recorded its investments. In addition, a PDG Fund may face other restrictions on such PDG Fund's ability to liquidate an investment in a portfolio company to the extent that such PDG Fund or an affiliated

manager of Ares Management has material non-public information regarding such portfolio company.

Economic recessions or downturns. Economic recessions or downturns could impair the portfolio companies of the PDG Funds and harm performance. Many of these portfolio companies may be susceptible to economic slowdowns or recessions (including the economic downturn that began in 2007 and slowdowns or recessions less severe) and may be unable to repay loans during these periods. Therefore, during these periods a PDG Fund's non-performing assets may increase and the value of such PDG Fund's portfolio may decrease if such PDG Fund is required to write down the values of its investments. Adverse economic conditions may also decrease the value of collateral securing some of a PDG Fund's loans and the value of any equity investments. Economic slowdowns or recessions could lead to financial losses in a portfolio and a decrease in revenues, net income and assets.

Investments in privately held middle-market companies. The PDG Funds primarily invest in privately held U.S. middle-market companies. Investments in privately held middle-market companies involve a number of significant risks, including the following:

- these companies may have limited financial resources and may be unable to meet their obligations, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of a PDG Fund realizing any guarantees such PDG Fund may have obtained in connection with such PDG Fund investment;
- they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- they typically depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on a PDG Fund's portfolio company and, in turn, on such PDG Fund;
- they generally have less predictable operating results and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and
- they may have difficulty accessing the capital markets to meet future capital needs.

Debt Investments. A PDG Fund's debt investments may be risky and such PDG Fund could lose all or part of its investment. The debt investments of the PDG are typically not initially rated by any rating agency, but the PDG Funds believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Service, lower than "BBB-" by Fitch Ratings or lower than "BBB-" by Standard & Poor's Rating Service). Indebtedness of below investment grade quality is regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Therefore, the PDG Funds' investments may result in an above average amount of risk and volatility or loss of principal. The PDG Funds also invest in assets other than first and second lien and mezzanine debt investments, including high-yield securities, U.S. government securities, credit derivatives

and other structured securities and certain direct equity investments. These investments entail additional risks that could adversely affect a PDG Fund's investment returns.

Investments in Equity Securities. Investments in equity securities, many of which are illiquid with no readily available market, involve a substantial degree of risk. The PDG Funds may purchase common and other equity securities. Although common stock has historically generated higher average total returns than fixed income securities over the long term, common stock also has experienced significantly more volatility in those returns and in recent years has significantly underperformed relative to fixed income securities. The equity securities a PDG Fund acquires may fail to appreciate and may decline in value or become worthless and such PDG Fund's ability to recover its investment will depend on such PDG Fund's portfolio company's success. Investments in equity securities involve a number of significant risks, including:

- any equity investment a PDG Fund makes in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness (including trade creditors) or senior securities in the event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process;
- to the extent that the portfolio company requires additional capital and is unable to obtain it, a PDG Fund may not recover such PDG Fund's investment; and
- in some cases, equity securities in which a PDG Fund invests will not pay current dividends, and such PDG Fund's ability to realize a return on its investment, as well as to recover its investment, will be dependent on the success of the portfolio company. Even if the portfolio company is successful, such PDG Fund's ability to realize the value of its investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or such PDG Fund can otherwise sell its investment. In addition, the equity securities such PDG Fund receives or invests in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

There are special risks associated with investing in preferred securities, including:

- preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If a PDG Fund owns a preferred security that is deferring its distributions, such PDG Fund may be required to report income for tax purposes before such PDG Fund receive such distributions;
- preferred securities are subordinated to debt in terms of priority to income and liquidation payments, and therefore will be subject to greater credit risk than debt;
- preferred securities may be substantially less liquid than many other securities, such as common stock or U.S. government securities; and
- generally, preferred security holders have no voting rights with respect to the issuing company, subject to limited exceptions.

Lender Liability Claims. There may be circumstances where a PDG Fund's debt investments could be subordinated to claims of other creditors or the PDG Funds could be subject to lender liability claims. If one of a PDG Fund's portfolio companies were to go bankrupt, even though such PDG Fund may have structured its interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize such PDG Fund's debt holding as an equity investment and subordinate all or a portion of such PDG Fund's claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. For example, a PDG Fund could become subject to a lender's liability claim, if, among other things, such PDG Fund actually renders significant managerial assistance.

Minority Interests. When a PDG Fund is a debt or minority equity investor in a portfolio company, such PDG Fund may not be in a position to exert influence on the entity, and stockholders and management of the company may make decisions that could decrease the value of such PDG Fund's portfolio holdings.

Leverage. Some of the PDG Funds' portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to a PDG Fund as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

Item 9. Disciplinary Information

Neither Ares Management nor any of its management persons has been the subject of any material legal or disciplinary proceedings that are material to a client's evaluation of our business or the integrity of our management.

Item 10. Other Financial Industry Activities and Affiliations

Registered Broker-Dealers

Neither Ares Management nor any of its management persons is registered as a broker-dealer or a registered representative of a broker-dealer or is affiliated with any broker-dealer, bank or other financial services firm.

Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors

Neither Ares Management nor any of its management persons is registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

Relationships with Related Persons

Ares Management is the parent company of Ares Capital Management LLC ("ACM"), which is an SEC-registered investment adviser and the investment manager of Ares Capital Corporation

(“ARCC”), a closed-end, non-diversified specialty finance company that is regulated as a business development company under the Investment Company Act. ARCC directly or indirectly also owns 100% of the equity and voting interests of its portfolio company, Ivy Hill Asset Management, L.P. (“Ivy Hill”), an SEC-registered investment adviser. Ares Management is also the parent company of (i) Ares Capital Management II, LLC (“ACM II”), an SEC-registered investment adviser; (ii) Ares Management Limited (“AML”), an entity formed in the United Kingdom and authorized by the UK Financial Services Authority; and (iii) Ares Commercial Real Estate Management LLC (“ACREM”), an SEC-registered investment adviser that was formed in July 2011 and commenced operations in August 2011. ACREM and Ares Management entered into an asset purchase agreement with Wrightwood Capital LLC (“Wrightwood”), pursuant to which ACREM acquired certain assets and rights of Wrightwood used in the conduct of Wrightwood’s investment management business. In connection with the foregoing acquisition, ACREM undertook to serve as an investment manager to three pooled investment vehicles previously sponsored and managed by Wrightwood and to manage certain balance sheet assets and liabilities of Wrightwood and its subsidiaries and affiliated entities, including certain assets and liabilities held by or directly related to a CDO whose interests are offered to third-party investors through a Wrightwood affiliate. ACREM also provides advisory services to Ares Commercial Real Estate Corporation (“ACRE”), a specialty finance company that has filed a registration statement on Form S-11 under the Securities Act of 1933 relating to an initial public offering of shares of its common stock and intends to elect to be classified as a real estate investment trust. In addition, Ares Management completed the acquisition of Indicus Advisors LLP (“Indicus Advisors”), an investment manager based in London and New York, in November 2011. Indicus Advisors was formed in the United Kingdom and authorized by the UK Financial Services Authority.

Ares Management and certain of its related persons are investment advisers to all of Ares Management’s clients, including the Funds, and are the general partners and, in many cases, limited partners of the Funds and other investment vehicles that are limited partnerships. Certain Ares Management personnel may spend substantially all of their business time on one or more of the Funds as required pursuant to the terms of each Fund’s Governing Documents. In addition, employees of Ares Management and its affiliates may serve as advisors, directors, members of credit committees or, less frequently, officers for portfolio companies in which the Funds or other clients invest, or provide other services to portfolio companies. To mitigate potential conflicts, benefits received by Ares Management in connection with such services are generally offset against advisory fees payable by the related Fund or client. As a result of such roles and in connection with investment activities, employees may also from time to time be given access to confidential information relating to companies in which the Funds or other clients invest. As a result, certain Funds and other clients may, under certain circumstances, be prohibited for periods of time from engaging in transactions with respect to the debt or securities of such a portfolio company, which prohibition may have an adverse effect on such clients.

Many of the investment opportunities that Ares Management evaluates for potential investment by its clients may be eligible investments for more than one such client. It is Ares Management’s policy that all investment opportunities will, to the extent practicable, be allocated among its clients on a basis that over a period of time is fair and equitable to each client relative to other clients, taking into account all relevant facts and circumstances. See discussion under “*Item 6. Performance-Based Fees and Side-by-Side Management*” above for more detail on Ares Management’s allocation policy.

Principals, officers and employees of Ares Management (“Covered Persons”), members of their families and related persons of Ares Management may participate directly or indirectly as investors in Ares Management’s Funds, as described in a Fund’s Governing Documents, which investments may be in privately negotiated transactions at varying prices. Ares Management may recommend to clients the purchase or sale of securities in which it, or a Covered Person or related person thereof, has a financial interest. In addition, Ares Management permits its Covered Persons to engage in personal securities transactions, subject to compliance with the Firm’s Code of Ethics.

For a general discussion of how we address resulting conflicts of interest, see discussion under “*Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*” below.

Selection or Recommendation of Other Advisers

Ares Management does not recommend or select other third-party investment advisers for its clients. Except for its wholly owned subsidiaries ACM, AML, ACREM and ACM II and its related party, Ivy Hill, each of which is an SEC-registered investment adviser, Ares Management does not have other business relationships with other advisers that create a material conflict of interest.

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

Statement of Business Ethics and Code of Ethics

Ares Management has adopted a Statement of Business Ethics and Code of Ethics (together, the “Code”) pursuant to Rule 204A-1 under the Advisers Act that which sets forth standards of business and fiduciary conduct that the Firm requires of Covered Persons. The Code is reasonably designed to minimize actual or potential conflicts of interest between Covered Persons and the interest of the Firm, its Funds or clients and prevent violation of federal securities laws. The Code includes, among other things, a) policies and procedures regarding personal securities transactions; b) disclosure and reporting obligations of outside business activities, personal securities transactions and holdings; and c) obligations for Covered Persons to report any violations of the Code to the Chief Compliance Officer (“CCO”). Any client or prospective client or investor or prospective investor in a Fund may obtain a copy of the Code upon request.

Participation or Interest in Client Transactions; Personal Trading

The Code provides that no Covered Person may, in breach of any fiduciary duty he or she owes to the Funds or other client accounts advised or managed by Ares Management, engage directly or indirectly in any business in a manner detrimental to the Funds or other clients or use confidential information gained by reason of his or her employment by or affiliation with Ares Management in a manner detrimental to the Funds or other clients. Further, as general partners, limited partners or investors in certain of the Funds, Ares Management and its related persons have indirect beneficial interests in the securities owned by such Funds and will share in any profits and losses generated by such Funds’ investments. The Code requires that before, or at the time that, a Covered Person recommends or authorizes the purchase or sale of a covered security

by a Fund or a client, he or she must disclose to the CCO: a) any beneficial ownership in such covered security that he or she has or proposes to acquire; b) any interest he or she has or proposes to acquire in any third party account in which such covered security is held; c) any beneficial interest in any other security that may benefit from such proposed purchase, sale or other action; and d) any interest in or relationship with the issuer of such covered security that he or she has or proposes to acquire.

The Code covers personal trading policies and procedures of all Covered Persons and their “covered family members” (as defined in the Code). Under the Code, Covered Persons and their covered family members are permitted to trade in securities for their own accounts so long as they follow the Code, which contains preclearance procedures, reporting requirements and other provisions that restrict trading by Covered Persons. Generally, for all “covered securities” transactions in a Covered Persons or a covered family member account, Covered Persons are required to obtain preclearance approval from the Compliance Department. Covered securities purchased by a Covered Person or a covered family member are generally subject to a minimum holding period. The Code also requires that all covered securities holdings and transaction information in covered securities accounts be disclosed to the Compliance Department. Any transactions in securities or investments that are held by one or more Funds or other clients are generally subject to a blackout period of two business days after any client or Fund has traded in any security of that issuer. The Code’s personal trading procedures are administered by the Firm’s Compliance Department.

Other Potential Conflicts

From time to time, subject to the applicable Governing Documents, a Fund or a client account may engage in cross trades with one or more other Funds or client accounts, typically for purposes of rebalancing the portfolios of the Fund and such other Funds or client accounts, in order to further the Fund and such other Funds’ or clients accounts’ respective investment programs, or for other reasons consistent with the investment and operating guidelines of the Fund or such other Funds and client accounts. Neither Ares Management nor its affiliates will receive commission or similar fees in connection with such cross trade. Generally, the value of any positions that are cross-traded in this manner will be determined in a manner that is consistent with applicable policies.

In addition, Ares Management and its related persons may, directly or through one or more entities, sell securities in which they have a direct or indirect ownership interest to certain Funds or other clients in connection with certain “warehousing” transactions, provided that the sale is consistent with Ares Management’s fiduciary obligations to such Funds or other clients. Such transactions will be fully disclosed in writing, and the written consent of the appropriate Fund (which, in certain circumstances, may be provided by a Fund’s Advisory Board or Investment Committee) or client, as applicable, will be obtained prior to the consummation of any such transactions in accordance with Section 206(3) of the Advisers Act and all other applicable state and federal securities laws.

Ares Management and its principals may co-invest with certain of the Funds or other clients, as described in the applicable Governing Documents. Any such co-investments or related transactions may raise potential conflicts of interest, particularly if a Fund or a client invests in different classes or types of securities of the same portfolio company. In that regard, actions may be taken by such other Fund that are adverse to a Fund or a client. In addition, it is possible that

in a bankruptcy proceeding, a Fund or a client's interest may be subordinated or otherwise adversely affected by virtue of such other Funds' involvement and actions relating to an investment. From time to time, Ares Management may make investments on its own behalf and on behalf of its affiliates in securities it recommends to a Fund or other client accounts.

Item 12. Brokerage Practices

Subject to the investment objectives, policies and restrictions of each Fund and other client as set forth in its Governing Documents, Ares Management has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each client or Fund, including the selection of, and commissions paid to, brokers.

In selecting broker-dealers to effect transactions, Ares Management seeks to obtain best execution by considering various factors including, but not limited to, price (including the applicable brokerage commission or dealer spread), size of order, timeliness and certainty of execution, liquidity of the securities traded, expertise as it relates to specific securities, counterparty risk and business reputation. While Ares Management generally seeks reasonably competitive trade execution costs, Funds and other client accounts will not necessarily pay the lowest spread or commission available.

From time to time, Ares Management may receive client or investor referrals from broker-dealers, which may provide an incentive for Ares Management to select or recommend certain broker-dealers for execution services. Please refer to the subsection entitled "*Third Party Compensation for Referrals*" in Item 14 below for complete information.

Research and Other Soft Dollar Benefits

Section 28(e) of the Securities Exchange Act of 1934 (the "Exchange Act") provides a safe harbor that permits advisers, when selecting brokers to execute transactions for client accounts, to take into account certain research products and services provided to the adviser by brokers. Ares Management does not engage in soft dollar arrangements.

Trade Aggregation

Under Ares Management's policy respecting aggregation of orders, orders for the same investment, including acquisition and disposition transactions, entered on behalf of more than one client may be aggregated (i.e., blocked or bunched), subject to the aggregation being in the best interests of all participating clients. The trade order must indicate the amount or percentage of the trade intended to be allocated to each participating client. If the final allocation differs from the initially indicated allocation or is not allocated on a pro rata basis for partially filled orders, except in the case of de minimus changes in the allocations, a written rationale must be provided in the allocation statement. Please refer to "*Item 6. Side-by-Side Management*" for further information regarding Ares Management's allocation policy.

Item 13. Review of Accounts

Review of Client Accounts

Ares Management monitors all portfolio investments on behalf of each Fund and other client on an ongoing basis. Investments are reviewed in the context of each client's (i) adherence to the investment objectives and guidelines as set forth in its Governing Documents and (ii) investment performance. Subsequent to an investment, each position is monitored on an ongoing basis by at least one investment professional. The monitoring may include ongoing dialogue with company management, fixed income and equity analysts, rating agencies, competitors, or other industry sources. In addition, a client's positions as well as a client's overall performance and adherence to its investment mandates and restrictions are monitored on an ongoing basis by senior investment professionals, including portfolio managers in the Capital Markets Group and senior partners in the Private Equity and Private Debt Groups, as applicable.

Reports to Clients

Ares Management provides reports to investors in the Funds and to other clients as required by the applicable Governing Documents. Investors in Funds and clients should refer to the applicable Governing Documents for further information on the reports provided to a particular Fund's investors or to the client.

The Governing Documents of certain Funds and other clients sometimes require quarterly and annual financial statements to be distributed to a Fund's investors or to the client and Ares Management also typically provides written investor letters with respect to a Fund or other client and its performance. Ares Management distributes K-1 filings to investors, where applicable, and provides certain other reports and analyses to investors and potential investors upon request.

With respect to certain Funds that are collateralized loan obligations or similarly structured finance vehicles, the independent Trustees of the Funds generally prepare monthly compliance reports. Additionally, Ares Management may prepare periodic investor letters, portfolio profile summaries and pro forma results to supplement and further clarify any trustee reports. Also, in connection with equity distributions for these Funds, Ares Management typically sends a letter to the investors in these Funds summarizing the current status of the particular Fund and all distributions made to date.

Finally, Ares Management may hold annual investor meetings and calls and other interim calls as appropriate for certain of the Funds or other clients.

Item 14. Client Referrals and Other Compensation

Economic Benefits Received from Third Parties

In connection with investments made by certain of the Funds or other clients, Ares Management or its related persons may receive commitment, structuring, monitoring or other transaction fees from portfolio investments in which one or more of the Funds or other clients may invest or propose to invest. The potential for Ares Management and its related persons to receive such economic benefits may create conflicts of interest as Ares Management and its related persons may have economic incentives to invest in portfolio investments that provide such benefits. To mitigate potential conflicts, such benefits received by Ares Management in connection with its

services related to portfolio companies or transactions are generally offset against advisory fees payable by the related Fund or client.

Third Party Compensation for Referrals

Any of the Funds may impose sales charges to compensate unaffiliated broker-dealers who assist in obtaining subscriptions. The sales charge may be payable by investors, one or more of the Funds, the general partner of a Fund, Ares Management or a combination thereof. In addition, Ares Management may compensate third parties who refer prospective investors to any of its Funds or new clients to Ares Management.

Certain of the solicitors or placement agents utilized to market Ares Management's Funds, as well as individuals employed by such solicitors or placement agents, may invest in the Funds and may not pay, or pay reduced, advisory fees with respect to their investment(s) in the Funds. In addition, Ares Management may transact client orders through broker/dealers that also act as solicitors or placement agents for its Funds.

Ares Management endeavors at all times to put the interests of its clients, including the Funds, first as part of Ares Management's fiduciary duty. Nevertheless, the receipt of compensation by placement agents and the potential receipt of brokerage commissions by broker-dealers create potential conflicts of interest and may affect the judgment of placement agents and broker-dealers when making referrals to Ares Management and the Funds. Moreover, potential conflicts of interest may arise between the interests of clients in obtaining best price and execution and Ares Management's interest in receiving future referrals to the Funds from certain broker-dealers. Ares Management addresses these potential conflicts of interest by seeking to obtain best execution by considering factors set forth in "*Item 12. Brokerage Practices*" above.

Item 15. Custody

It is Ares Management's general policy not to have physical custody of any client assets. However, Ares Management may be deemed to have custody of the assets of certain Funds and other clients because of the authority it or a related party has over such clients or their assets. It is Ares Management's policy generally to cause each Fund with assets over which Ares Management is deemed to have "custody" to be audited annually and to distribute audited financial statements, prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), to investors no later than 120 days after the end of each fiscal year. In addition, upon the final liquidation of any such Fund, Ares Management will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all investors promptly after completion of the audit.

In the alternative, where Ares Management is deemed to have custody of a client account solely due to its ability to withdraw client funds to pay its advisory fees, Ares Management may comply with the custody rules under the Advisers Act by having a reasonable belief that a qualified custodian will send quarterly account statements to each investor or client. Ares Management urges all clients and investors to compare the reports they receive from Ares Management to the statements they receive from their custodians. Any issues or discrepancies should be communicated to Ares Management promptly.

Item 16. Investment Discretion

Ares Management has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Fund and client accounts, including the selection of, and commissions paid to, broker-dealers. This discretionary authority is subject to the investment objectives, policies and restrictions of each Fund/client as set forth in the Governing Documents of each such Fund or client account. In order to assume such discretionary authority, each investor or client must complete the appropriate Fund subscription documents or an investment advisory agreement prior to the establishment of an advisory relationship granting such authority.

Item 17. Voting Client Securities

Ares Management's advisory business primarily focuses on fixed income securities and bank debt; however, Funds and other clients may also acquire voting securities. In instances where a client owns equity securities in which it has the right to vote via shareholder proxy (each a "Voting Security"), Ares Management generally retains proxy voting authority with respect to these Voting Securities. Ares Management has adopted and implemented written Proxy Voting Policies and Procedures ("Proxy Voting Procedures") that are designed to reasonably ensure that Ares Management votes proxies in the best interests of its advisory clients for whom Ares Management has voting authority.

The Proxy Voting Procedures describe the positions Ares Management generally takes in voting proxies on particular issues and require Ares Management to keep records with respect to the votes cast.

The Proxy Voting Procedures also provide that, in the event a particular proxy vote would involve a conflict between the interests of Ares Management and its affiliates, and those of one or more clients of Ares Management, Ares Management, if it so elects, may:

- vote in accordance with the recommendations of a disinterested third party;
- refer the voting decision to the client; or
- abstain from voting.

Clients may obtain a copy of Ares Management's Proxy Voting Procedures or information about how Ares Management voted client proxies by contacting Ares Management's Legal Department at (310) 201-4100.

Item 18. Financial Information

Not Applicable.