

Peritus Asset Management, LLC

Part 2A of Form ADV

The Brochure

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Updated: March 2012

This brochure provides information about the qualifications and business practices of Peritus Asset Management, LLC (“Peritus”). If you have any questions about the contents of this brochure, please contact us at 805-882-1100, ext. 612. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Material Changes

Peritus' most recent update to Part 2 of Form ADV was made in March 2011. Peritus' business activities have not changed materially since the time of that update. However, the challenges that hit the investment advisory industry in 2008/09, especially as it pertains to structured credit vehicles, did not begin to recover until the fourth quarter of 2011. Due to the unique structure and mandates of these structure credit vehicles that Peritus manages, the refinancing boom of corporate America has put a strain on the assets under management of Peritus.

Certain provisions provide what is called a "quite-period" for reinvestment of assets in these vehicles, so when companies refinance debt, while providing an immediate benefit to both the corporation in the form of lower interest rates, and the bond holders in the form of a premium payment, the assets inside of the vehicle become immediately payable to the structures note holders causing an accelerated distribution of assets, thereby reducing the assets under management of Peritus.

Recovery of the structured credit vehicle market in the form of CDOs, CLOs, and CBLOs did not begin until the 4th quarter of 2011. Peritus is in the final stages of bringing to market another high yield and leveraged loan CBLO with Guggenheim Securities, LLC. In addition, Peritus launched the first and only actively managed high yield ETF in December of 2010. Asset growth is steady for the ETF and the anticipated addition of the new CBLO will go a long way in adding back AUM and therefore fees to the Peritus balance sheet.

In an effort to finance operations, Peritus has secured third party investors in our business via debt/loans with simple interest. Peritus is in the final stages of consummating a non-voting class, convertible preferred equity exchange with a holding company in Canada that will provide interim financing of operations until the new CBLO is closed and fees are being collected on a going forward basis. Both, Ron Heller, CEO of Peritus, and Tim Gramatovich, CIO of Peritus, will be members of the board for the holding company. This relationship will also open up new opportunities for Peritus and provide opportunities for investors in additional CBLOs as well as a diversified source of revenue streams to the company.

Table of Contents

Material Changes	2
Table of Contents.....	2
Advisory Business	3
Fees and Compensation	3
Performance Based Fees and Side-by-Side Management	4
Types of Clients.....	4
Methods of Analysis, Investment Strategies and Risk of Loss.....	4
Disciplinary Information.....	7
Other Financial Industry Activities and Affiliations	8
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	8
Brokerage Practices	8
Review of Accounts.....	11
Client Referrals and Other Compensation	12

Custody	12
Investment Discretion	12
Voting Client Securities.....	12
Financial Information	13
Person 1's Biographical Information.....	16
Person 2's Biographical Information.....	18
Person 3's Biographical Information.....	20
Person 4's Biographical Information.....	21

Advisory Business

Peritus Asset Management is an employee owned, SEC registered, investment advisor headquartered in Santa Barbara, California. Founders Tim Gramatovich and Ron Heller began their partnership in 1995. Peritus takes a value based, active credit investment approach and provides services to the institutional and retail markets.

Peritus capitalizes on opportunities in the corporate bond and loan market, with a focus on the non-investment grade asset class. We generally target securities that offer what we view as a high current yield and have the potential to generate capital appreciation. These bonds and loans are principally sourced from the public, secondary market.

We believe that our value based approach is distinctive and that we add value for our clients via our extensive credit work, internally generated research, and active trading. Peritus manages traditional separate accounts, pooled assets, and structured product portfolios, e.g. Peritus is the manager of the first actively managed High Yield ETF, HYLD, allowing investors to participate in our asset class in a way that meets their needs. We have an experienced portfolio management team, with our core members having on average over sixteen years each of experience in managing high yield corporate bonds. Peritus manages roughly \$150MM.

Fees and Compensation

Peritus has the following fee structure based on the current product/service offerings of separately managed accounts, CDO's and our ETF:

- ETF – HYLD - \$0.75 (This is Peritus' portion of the overall management fee)
- CDO's - \$0.75
- Separate accounts – Negotiable depending on size and return profiles - \$0.75 - \$1.50

Our actively managed ETF, HYLD, has a fee structure of 135 basis points. That fee will go down slightly as AUM increases in the fund.

For separately managed accounts, Peritus generally charges fees quarterly in advance based on the account value at the beginning of the prior quarter. In some cases, institutional clients request that Peritus charges fees in arrears based on the account value at the end of the prior quarter. Most clients authorize Peritus to deduct fees automatically from their brokerage accounts, but clients may request that Peritus send quarterly invoices to be paid by check.

If a client terminates the investment management agreement with Peritus in the middle of a billing period, Peritus will invoice the client for an amount that is pro-rated based on the number of days that the account was managed or will credit back to the client the pro-rated amount depending on the billing arrangement.

In addition to Peritus' investment management fees, clients typically do not bear trading costs but do bear custodial fees. Any trading costs tend to be limited to equity trades as all bonds traded are not subject to any broker fees. To the extent that clients' accounts are invested in structured credit vehicles, like CDO's or ETFs, these funds pay a separate layer of management, trading, and administrative expenses. In addition, CDO's are subject to incentive fees that are outlined in the vehicles prospectus.

Performance Based Fees and Side-by-Side Management

Peritus has utilized performance fees in prior investment vehicles and our CDOs do have performance based fees that are payable at the end of the term of the vehicle assuming returns are greater than the stated hurdle rates noted in each vehicles prospectus. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, Peritus feels any apparent conflicts of interest are not an issue; rather, the varied pricing structures are a means of meeting the various needs of each investor group.

Types of Clients

The style for each type of investment product is the same, High Yield and leveraged loans. Our separate accounts now are more institutional business oriented as we have moved the vast majority of our high net worth clients to our ETF. Peritus' minimum account size is generally \$1,000,000, but this amount is negotiable. Clearly with the advent of our ETF, an investor is now capable of investing in our portfolio at the per share price of the ETF on any given day which has generally been in the high \$40 to low \$50 range.

Methods of Analysis, Investment Strategies and Risk of Loss

Peritus takes a value based, active credit approach to investing in the corporate credit market, primarily focusing on high yield bonds and leverage loans, which earn what we view as a high current yield. We largely forego new issue participation, favoring instead the secondary market where we believe there is less competition and more opportunities for capital gains. We de-emphasize relative value in favor of long term absolute returns. We view our job as managing risk, not managing money. While our goal is to generate attractive returns via tangible yield and potential capital appreciation, we believe our performance stems as much from what we don't buy as it does from what we do buy.

In essence, avoiding credit problems is the key for us. As part of this, we view credit as AAA or D. If we expect the company to be able to pay its bills over the life of the bond, to us it is an AAA credit. If we don't, it goes into the D bucket and we avoid the name. Many investors have restrictions based on ratings and issue size that limits their investment opportunities. However, we believe the ratings process to be massively flawed and we do not restrict our portfolios by

ratings. Our view is that the rating agencies are reactive, backward looking, and too focused on the size and longevity of a company. Instead, we exploit the fact that most fixed income investors continue to use ratings as one of their primary investment tools. Through the years we believe that our focus on the fundamentals of a business instead of the ratings has been incredibly helpful in allowing us to add value for our clients. Furthermore, investment vehicles tracking the indexes don't have the ability to select only the credits that fit that "AAA" profile, which we feel puts active managers like Peritus at an advantage.

In terms of what we do buy, we focus on the credits we feel offer the best risk/return profile, paying particular attention to the companies that have a product or service that is essential or recurring, hard asset values that provide some support for the company's value, a manageable capital structure, and/or a stable revenue stream or an adjustable cost structure should revenues fall. Additionally, excess liquidity and the ability for the company to generate free cash flow are other important areas of focus for us. After all bills are paid (including working capital and capital expenditures), we need the business to have money left over, which provides a margin of safety for us as debt investors. We generate our own investment ideas and do all of our own research internally.

Several over-arching themes dominate the investment philosophy at our firm. Unlike many of our competitors, Peritus does not hold any preconceived notions or restrictions on what industries, ratings or even subordination we will buy. We let Mr. Market determine where value exists for us at any given moment. All industries, ratings and subordinations will be considered when we manage our portfolios. Additionally, while many consultants and investors like to pigeon-hole managers, Peritus is eclectic in its approach and process. We are not top down or macro in our approach nor are we purely bottom-up fundamental investors. We have found putting blinders on inhibits our performance, so feel the best approach to investing is melding the best of both. Furthermore, we let the value we see in the market dictate the portfolio's diversification, rather than accepting less desirable securities just for the sake of diversification.

We believe that to be successful in the credit markets, we must look at debt as senior equity. We do not stop at the traditional credit analysis, but look at a complete appraisal of the business' intrinsic value. In essence, successful investing marries the process of financial analysis, determining valuation, and understanding market psychology.

At Peritus, we generate our own investment ideas, themes, and strategies and undertake our own credit work instead of relying on the Wall Street sell side propaganda. We believe that investing requires not only skill, but hard work and not cutting corners on the credit analysis process.

We begin with finding the securities to include in our portfolios. There is really no magic to the process except that our analysts and portfolio managers are voracious readers and are always on the hunt for opportunities. Here are just a few of the methods we use:

- **Axe Sheets/Yield Screens:** Every day investors like Peritus have access to a variety of dealers' inventory of bonds, which are listed on what's known as an "axe sheet." As we scan through these and other yield screens put out by the investment

banks and trading firms, often we find securities in the mix that we believe might be attractive.

- **Insider Equity Purchases:** Company insider buying of stock is something we have used effectively for years. Since equity is below us in the capital structure, this indicates a nice margin of safety for us as potential bond buyers.
- **Industry Themes:** Most value investors, including Peritus, are contrarians at heart. We believe in the philosophy of buying something when it is out of favor (i.e. straw hats in the winter). We are always on the lookout for industries or individual credits that are out of favor for what we believe to be wrong or temporary reasons.

Once we have a prospective credit, we begin the detailed and grinding process of credit analysis. What we have learned through our years in this business is that determining the true financial health of businesses is much more difficult than most people can grasp. We begin by looking at the three major financial statements produced by companies: the income statement, the balance sheet and the statement of cash flows. We conduct our credit and valuation analysis in reverse order to most conventional methods held by investors.

Financial Analysis

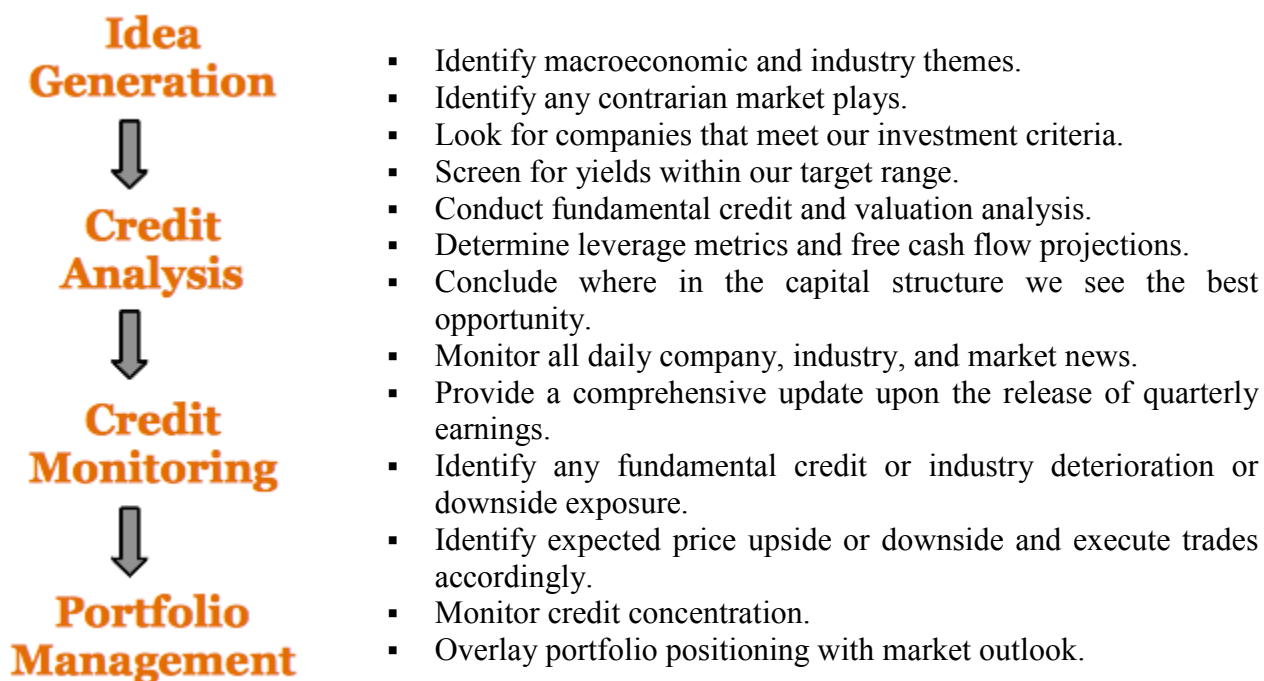


Traditionally, much time and attention is spent on the income statement yet we find it least valuable. The income statement can be and often is easily manipulated and not reflective of the true financial condition. A simple example will explain how. Company XYZ sells \$100 million of widgets to the government. Their income statement shows a very nice profit of \$25 million before taxes. Only one problem, the government doesn't pay for their purchase. So while the income statement shows a lovely profit, the cash flow statement shows a massive cash suck and the balance sheet shows a huge account receivable line item. Our concept of "true free cash flow" incorporates both working capital and capital expenditures, which don't show up on the income statement. This is why we "reverse engineer" the financial statement analysis. Simply put, if a business isn't generating literal cash its financial health is questionable, so you better start by looking at the cash flow.

Through our fundamental and valuation analysis, we not only determine whether an investment should be made in a certain company, but also where in the capital structure (secured, senior, or subordinate) we believe the risk/return is most attractive. Additionally, our traders are engaged in each step of the security selection process, working intimately with analysts to effectively combine our expertise in market technicals with credit fundamentals. Because high yield is not an "exchange traded" asset class, the ability to find, negotiate, and acquire bonds is a critical component to execution. Once a credit is approved and purchase, we don't stop there but continue to monitor the individual names and portfolio as a whole on a daily basis, quickly identifying any fundamental credit deterioration or downside exposure and overlaying our portfolio positioning with our market outlook.

Our end goal at Peritus is to hold a diversified basket of securities that generates what we view as a significant tangible yield to the investor and allows for some capital appreciation. What we don't want is to be "di-worsified" by holding one of everything, which is not truly an active credit approach. Selectivity and discretion are key. Our preference and history is to hold approximately 40-70 securities in our portfolios, which we believe accomplishes our goals.

To pictorially summarize our process: (please see the next page)



The risk to investing in corporate fixed income is the loss of capital. Unlike the equity markets, if a company defaults on their loan obligation, the debt investor has a recovery mechanism as the covenants tied to the investment allow them to have ownership claims to the assets of the company in some form or fashion. The average recovery is about 40%, and if you factor in the fact that Peritus buys many of their securities at a discount, and if you are a holder long enough to collect a few years of coupon payments, then your loss would be significantly reduced. Peritus' default rate has been less than 2% in its existence so the risk of losing capital should be minimal. This asset class is subject to money flows in and out of Mutual Funds and this could create significant volatility in the portfolio. The ETF, HYLD, that Peritus manages does not have this money flow issue as the AP's/market makers either issue or redeem shares, thus eliminating the money flow issue that forces managers to either have to immediately buy or sell securities based on those flows.

Disciplinary Information

Peritus and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Other Financial Industry Activities and Affiliations

Peritus and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

Peritus has adopted a written code of ethics that is applicable to all employees. Among other things, the code requires Peritus and its employees to act in the clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. Peritus' restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household. A copy of Peritus' code of ethics is available upon request.

Peritus' employees are generally permitted to trade alongside client accounts as long as they receive the average price that is applicable to clients and pay their share of any transaction costs. However, no employees are allowed to participate in partially filled orders until all clients' orders have been filled. The CEO and Chief Compliance Officer monitor employee trading, relative to client trading, to ensure that employees do not engage in improper transactions.

Peritus maintains a watch list of securities that are being considered for client accounts, as well as securities already held in client accounts. Any proposed employee transaction involving securities on the watch list requires preclearance from the Chief Executive Officer and the Chief Compliance Officer. The CEO and CCO do not grant preclearance where it would appear that an employee's trading could disadvantage Peritus' clients.

Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming more suitable for clients, but the CEO and CCO might not allow the security to be purchased for client accounts in order to avoid even the appearance of employees trading ahead of clients. In Peritus' experience, it is rare for an employee's personal trading to limit clients' investment opportunities, but such a situation may arise from time to time.

Brokerage Practices

Peritus generally recommends that clients arrange for their assets to be held with Charles Schwab Advisor Services, Inc. ("Schwab"). Peritus has managed client assets held at Schwab for less than one year. Peritus chose Schwab because they offer good services at competitive prices, especially as it pertains to dividend reinvestment fees for our clients holding our ETF product. Peritus does recommend that a client can choose their own custodian, and in fact some clients utilize other custodians.

Soft Dollar Benefits

Peritus currently does NOT generally receive any soft dollar benefits. However, as a part of our agreement with Schwab, Peritus clients are in fact receiving a cost savings benefit. Peritus does not maintain custody of our client's assets, although we may be deemed to have custody of our

client's assets because we have been or may be given authority to withdraw assets from our client's accounts in order to pay management fees as outlined in our Client Management Agreements. Peritus is not affiliated with Schwab.

For our client's accounts that Schwab maintains, Schwab generally does not charge separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into Schwab accounts. Schwab's rates and fees applicable to our client accounts were negotiated based on our commitment to maintain \$10M of our client's assets statement equity in accounts at Schwab. The commitment benefits our clients because the overall rates and fees you may pay are lower than they would be if we had not made the commitment. In addition to rates and fees, Schwab may charge a flat dollar amount as the prime broker or trade away fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited /settled into our client's Schwab account.

Schwab Advisor Services (formerly called Schwab Institutions) is Schwab's business serving independent investment advisory firms like Peritus. They provide Peritus and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab may also make available various support services. Some of those services help us manage or administer our client's accounts while others may help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (Peritus does not have to request them) and at no charge to Peritus as long as Peritus keeps a total of at least \$10M of our client's assets in accounts at Schwab. If Peritus has less than \$10M in client assets at Schwab, it may charge Peritus quarterly service fees of \$1,200.00.

In addition, Peritus will abide by the following relative to any future soft dollar arrangements. In addition to execution quality, Peritus may consider the value of various research services or products, beyond execution, that a broker-dealer provides to Peritus or its clients. Selecting a broker-dealer in recognition of such other services or products is known as paying for those services or products with "soft dollars." The services furnished by a broker may benefit the Investment Manager in rendering investment services to all of its clients and may lead to a conflict of interest. Services furnished by a broker may be used for any or all of the clients of Peritus, and may be used in connection with accounts other than those which pay commissions to the broker providing the services.

For these purposes, "research" means advice, analysis and reports used to provide lawful and appropriate assistance to Peritus in making investment decisions for its clients. The types of research Peritus may acquire include reports on or other information about particular companies or industries; economic data such as unemployment reports, inflation rates or gross domestic product figures; recommendations as to specific securities; financial publications relating to the subject matter of Section 28(e) (*i.e.*, the value, availability or advisability of investing in securities, and issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts); portfolio evaluation services and financial database software and services. The types of brokerage services Peritus may use include execution clearing and settlement services, exchange of messages among brokers, custodians and institutions; and

communication services related to the execution, clearing and settlement of securities transactions and other incidental services.

Peritus will make decisions involving “soft dollars” in a manner that satisfies the requirements of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. That is, Peritus will generally determine, considering all appropriate factors (including those described here), that commissions paid are reasonable in relation to the value of all the brokerage and research products and services provided by the broker-dealer. In making that determination, Peritus may consider not only the particular transaction, and not only the value of brokerage and research services and products to a particular client, but also the value of those services in Peritus’ performance of its overall responsibilities to all of its clients. In some cases, the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research services or products might charge. Additionally, in some cases, a client's transaction may be executed by a broker in recognition of services or products that are not used in managing that client's account. Broker-dealers are not excluded from a client's business simply because they have not provided research services or products.

Where a particular service or product that a broker or dealer is willing to provide for soft dollars has not only a “research” application, but it is also useful to Peritus for non-“research” purposes, Peritus may allocate the cost of the product or service between its “research” and non-“research” uses and pay only the “research” portion with soft dollars. Peritus’ interest in making such an allocation may differ from clients' interests in that Peritus has an incentive to designate as great a portion of the cost as “research” as possible in order to permit payment with soft dollars.

The Selection of Trading Counterparties

Peritus can typically trade accounts held at Schwab and Northern Trust using other broker/dealers. Unlike equities, the availability and pricing of bonds varies more widely, so prior to placing a bond trade, Peritus solicits bids from several dealers and then executes the trade with the dealer that offers sufficient liquidity and the most favorable pricing.

In some instances, because of a prior relationship between a client and one or more brokers, or for other reasons, a client may instruct Peritus to execute some or all securities transactions for its account with or through one or more brokers designated by the client. In such cases, the client is responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by such brokers and the client is satisfied with such terms and conditions. Peritus will assume no responsibility for obtaining the best prices or any particular commission rates for transactions with or through any such broker for such client's account. The client must recognize that it may not obtain rates as low as it might otherwise obtain if Peritus had discretion to select broker/dealers other than those chosen by the client. Any client providing instructions to Peritus regarding direction of brokerage transactions must notify Peritus in writing if the client desires Peritus to cease executing transactions with or through any such broker/dealer.

Best Execution Reviews

Peritus will generally seek “best execution” in light of the circumstances involved in transactions. In selecting a broker for any transactions, Peritus may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security. Peritus will not obligate itself to obtain the lowest commission or best net price for an account on any particular transaction.

On at least an annual basis Peritus’ Chief Compliance Officer and other senior executives may evaluate the pricing and services offered by the various custodians and other trading counterparties with those offered by other reputable firms. Peritus has sought to make a good-faith determination that various custodians/broker dealers and other chosen trading counterparties provide clients with good services at competitive prices. However, clients should be aware that this determination could have been influenced by Peritus’ receipt of products and services from various custodians/broker dealers. Historically Peritus has concluded that custodians/broker dealers it chooses are as good as, or better than, the other firms that have been considered.

Aggregated Trades

Peritus will perform investment management services for various clients. There will be occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by Peritus, some of which accounts may have similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they will be effected only when Peritus believes that to do so will be in the best interest of the affected accounts. When such concurrent authorizations occur, the objective will be to allocate the executions in a manner that is deemed equitable to the accounts involved.

Client Referrals

Peritus may also employ consultants to whom it will pay a flat consulting fee and/or solicitors to whom it will pay cash or a portion of the advisory fees paid by clients referred to it by those

solicitors. In such cases, this practice will be disclosed in writing to the client and Peritus will comply with the other applicable requirements under Rule 206(4)-3, under the Investment Advisers Act of 1940, as amended. In particular, Adviser will ensure that associated persons provide clients with a current copy of Peritus' written disclosure statement and the solicitor's written disclosure document.

Review of Accounts

Accounts under Peritus' management are monitored on an ongoing basis by the Chief Executive Officer and the Chief Compliance Officer. The CEO and COO may review each account in detail on at least an annual basis, as well as in connection with each client meeting. Reviews of client accounts will also be triggered if a client changes his or her investment objectives, or if the market, political, or economic environment changes materially.

Clients receive account statements directly from their chosen custodian on at least a quarterly basis. Peritus may supplement these custodial statements with reports provided during client meetings or as requested.

Client Referrals and Other Compensation

Peritus pays a portion of its advisory fees to a third party solicitor in connection with one of their institutional accounts as a result of the solicitor's referral of that client to Peritus.

Peritus does not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients.

Custody

All clients' accounts are held in custody by unaffiliated broker/dealers or banks, but Peritus can access many clients' accounts through its ability to debit advisory fees. For this reason alone, Peritus is considered to have custody of client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by Peritus.

Investment Discretion

Peritus has investment discretion over all clients' accounts. Clients grant Peritus trading discretion through the execution of a limited power of attorney included in Peritus' advisory contract.

Clients can place reasonable restrictions on Peritus' investment discretion.

Voting Client Securities

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act, Peritus has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Peritus receives will be treated in accordance with these policies and procedures.

Peritus has not identified any material conflicts of interest in connection with past proxy votes. Such a conflict could arise if, for example, a client was a senior executive with a publicly traded company and other clients held securities issued by that company. Absent specific client instructions, if Peritus identifies a material conflict of interest it will follow the voting recommendation of the independent corporate governance consulting firm that it has retained.

A copy of Peritus' proxy voting policies and procedures, as well as specific information about how Peritus has voted in the past, is available upon written request. Upon written request, clients can also take responsibility for voting their own proxies, or can give Peritus instructions about how to vote their respective shares.

Generally, and except to the extent that a client otherwise instructs the Peritus in writing, Peritus will vote (by proxy or otherwise) in all matters for which a shareholder votes is solicited by, or with respect to, issuers of securities beneficially held in the clients' accounts. The proxies, which typically take the form of Consent Solicitations, will be voted in such a manner as Peritus deems appropriate and in accordance with written policies and procedures established by Peritus. These policies require Peritus to vote proxies in a prudent and diligent manner intended to enhance the economic value of the client's account. However, the Policies permit Peritus to abstain from voting proxies in the event that the client's economic interest in the matter being voted upon is limited relative to the client's overall portfolio or the impact of the client's vote will not have an effect on its outcome or on the client's overall portfolio or the impact of the client's vote will not have an effect on its outcome or on the client's economic interests.

Certain of Peritus' proxy voting guidelines are summarized below:

- Peritus votes for: uncontested director nominees recommended by management; the election of auditors recommended by management, unless a dispute exists over policies; limiting directors' liability; and eliminating preemptive rights.
- Peritus votes against proposals to: entrench the board or adopt anti-takeover measures; proposals to provide cumulative voting rights; and social issues.

Although many proxy proposals can be voted in accordance with Peritus' proxy voting guidelines, some proposals will require special consideration, and Peritus will make a decision on a case-by-case basis in these situations, including proposals to: eliminate director mandatory retirement policies; rotate annual meeting locations and dates; grant options and stock to management and directors; and indemnify directors and/or officers.

Where a proxy proposal raises a material conflict between Peritus' interests and the interests of a client, Peritus will seek to resolve the conflict.

Financial Information

Peritus has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts. However, the challenges that hit the investment advisory industry in 2008/09, especially as it pertains to structured credit vehicles, did not begin to recover until the fourth quarter of 2011. Due to the unique structure and mandates of these

structure credit vehicles that Peritus manages, the refinancing boom of corporate America has put a strain on the assets under management of Peritus.

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Updated: March 2012

This brochure supplement provides information about Ron Heller, CEO, Tim Gramatovich, CIO, and Heather Rupp, Director of Research, and Dave Desmond, COO, CCO. It supplements Peritus' accompanying Form ADV brochure. Please contact Peritus' Chief Compliance Officer, David Desmond, at 805-882-1100, ext. 612 if you have any questions about the Form ADV brochure or this supplement, or if you would like to request additional or updated copies of either document.

Additional information about Messrs. Heller, Gramatovich, Desmond and Ms. Rupp is available on the SEC's website at www.adviserinfo.sec.gov.

Mr. Ronald J. Heller, CEO - Biographical Information

Educational Background and Business Experience

Mr. Heller is the Chief Executive Officer, Senior Portfolio Manager of Peritus Asset Management, LLC. Mr. Heller co-founded Peritus Asset Management, Inc.¹ in 1995. As Senior Portfolio Manager, he is responsible for the portfolio management and trading activities for Peritus, ensuring that the firm's strategy is properly implemented and that the clients receive the best execution on all trades. Over the past 16 years, Mr. Heller has developed long standing relationships across Wall Street for new issue and secondary trading in both the Investment Grade and High Yield assets classes. As high yield bonds are not an "exchange-traded" asset class, the ability to find, negotiate and acquire bonds is a critical component of portfolio performance. Additionally, Mr. Heller has been responsible for the maintenance of all custody and investment dealer relationships and is a member of the investment committee.

Beginning in 1993, Mr. Heller spent two years at Smith Barney as a financial consultant. Prior to Mr. Heller's investment career, he had a seven year career in professional football with the San Francisco 49ers, winning Super Bowl XXIII, then later with the Atlanta Falcons and Seattle Seahawks, retiring in 1993.

Mr. Heller was born in 1963. Mr. Heller attended Oregon State University where he played football while majoring in Kinesiology and secondary education. He received his California State Coaching Certification through UCSB and also attended the University of San Francisco in his off-season with the San Francisco 49ers, taking business accounting and tax law courses.

¹ Peritus Asset Management, Inc. was founded in 1995 and continued in operation through April 2002. The assets were then acquired and the name was changed to Core Wealth Management, LLC. The investment team remained at Core Wealth Management, until leaving to form Peritus I Asset Management, LLC in May 2004. The investment team and process remained the same through the various entities.

Disciplinary Information

Mr. Heller has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Heller or of Peritus.

Other Business Activities

Mr. Heller serves on the Board of Directors for American Medical File, Inc. (AMF). AMF is a private entity company owned largely by investors who are clients of Peritus. Mr. Heller receives no monetary compensation for serving on the board; however, he does receive equity in the name of Peritus. It is anticipated that Mr. Heller will become a member of the board of directors for Peritus Investment Partners, Ltd. ("PIP") in Calgary, AB. This firm is a holding company that will own 100% of Peritus Asset Management, LLC non-voting shares of convertible preferred equity in exchange for a yet to be determined number of shares in PIP. Mr. Heller is not engaged in any other investment related business, and does not receive compensation in connection with any other business activity outside other than what has been identified above.

Additional Compensation

Mr. Heller does not receive economic benefits from any person or entity other than Peritus in connection with the provision of investment advice to clients.

Supervision

As Peritus' co-founder and Chief Executive Officer, Mr. Heller maintains ultimate responsibility for the company's operations. Mr. Heller discusses investment decisions principally with the other Investment Committee members, Mr. Gramatovich and Ms. Rupp. Mr. Gramatovich has the ultimate responsibility on this committee. Operational decisions are discussed with Peritus' Chief Operating Officer, and Chief Compliance Officer, David Desmond. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure supplement.

Mr. Timothy J. Gramatovich, CFA, CIO - Biographical Information

Educational Background and Business Experience

Mr. Gramatovich is the Chief Investment Officer of Peritus Asset Management, LLC. Mr. Gramatovich co-founded Peritus Asset Management, Inc.¹ in 1995. As the Chief Investment Officer, Mr. Gramatovich leads the investment committee and is responsible for developing investment strategies, themes, and products. Additionally, he generates investment ideas, analyzes prospective investments, and monitors existing holdings.

Mr. Gramatovich has over 26 years of experience in the investment industry, dating back to the early days of the high yield market. Before founding Peritus, Mr. Gramatovich was a Portfolio Manager with Smith Barney's Asset Management Division in Los Angeles, where he managed high yield portfolios for high net worth individuals and institutions. Prior to joining Smith Barney, he was a Senior Vice President with Aegis Asset Management Inc. in Los Angeles, again, managing high yield portfolios for both high net worth individuals and institutions. He began his career with Drexel Burnham Lambert in 1984, working in both New York and Los Angeles, assisting in the development and marketing of high yield corporate cash management products.

Mr. Gramatovich was born in 1963. Mr. Gramatovich is a Chartered Financial Analyst ("CFA") charterholder and a member of the CFA Institute. He is a graduate of the New York Institute of Finance.

¹ Peritus Asset Management, Inc. was founded in 1995 and continued in operation through April 2002. The assets were then acquired and the name was changed to Core Wealth Management, LLC. The investment team remained at Core Wealth Management, until leaving to form Peritus I Asset Management, LLC in May 2004. The investment team and process remained the same through the various entities.

Disciplinary Information

Mr. Gramatovich has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Gramatovich or of Peritus.

Other Business Activities

Mr. Gramatovich is not yet engaged in any other investment related business. It is anticipated that Mr. Gramatovich will become a member of the board of directors for Peritus Investment Partners, Ltd. ("PIP") in Calgary, AB. This firm is a holding company that will own 100% of Peritus Asset Management, LLC non-voting shares of convertible preferred equity in exchange for a yet to be determined number of shares in PIP. Mr. Gramatovich does receive compensation in connection with another business activity outside of Peritus and has been the acting CEO of Worldplay, Inc. in Calgary, AB for the past nine months.

Additional Compensation

Mr. Gramatovich does receive compensation in connection with another business activity outside of Peritus.

Supervision

Mr. Gramatovich's investment recommendations are supervised by Peritus' CEO, Mr. Ron Heller, as well as Peritus' Director of Research, Heather Rupp. Mr. Gramatovich has the ultimate responsibility on this committee. Mr. Gramatovich's activities are also overseen by the Chief Operating Officer and Chief Compliance Officer, David Desmond. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure supplement.

Ms. Heather Rupp, CFA, Dir. of Research - Biographical Information

Educational Background and Business Experience

As the Director of Research, Ms. Rupp is responsible for the oversight of Peritus Asset Management's research department and processes. Her duties include generating investment ideas, conducting fundamental credit analysis of prospective investments, and actively monitoring existing holdings. She also oversees the maintenance of the performance composite and various aspects of reporting. Ms. Rupp is a member of the investment committee.

Ms. Rupp started with Peritus Asset Management, Inc.¹ in 1999 as a research analyst and in 2001 became Director of Research. She has spent her entire professional career with the founding partners of Peritus.

Ms. Rupp was born in 1978. Ms. Rupp graduated from Westmont College, Summa Cum Laude, where she majored in Economics and Business and had the opportunity to study international trade and finance in Europe. She is currently teaching the Investment and Portfolio Management course at Westmont College. She is a Chartered Financial Analyst charterholder and a member of the CFA Institute.

¹ Peritus Asset Management, Inc. was founded in 1995 and continued in operation through April 2002. The assets were then acquired and the name was changed to Core Wealth Management, LLC. The investment team remained at Core Wealth Management, until leaving to form Peritus I Asset Management, LLC in May 2004. The investment team and process remained the same through the various entities.

Disciplinary Information

Ms. Rupp has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Ms. Rupp or of Peritus.

Other Business Activities

Ms. Rupp is not engaged in any other investment related business, and does not receive compensation in connection with any business activity outside of Peritus.

Additional Compensation

Ms. Rupp does not receive economic benefits from any person or entity other than Peritus in connection with the provision of investment advice to clients.

Supervision

Ms. Rupp's investment recommendations are supervised by Peritus' CEO, Ron Heller, and by Peritus' CIO, Tim Gramatovich as well as Peritus' investment management committee. Mr. Gramatovich has the ultimate responsibility on this committee. Ms. Rupp's activities are also overseen by the Chief Operating Officer and Chief Compliance Officer, David Desmond. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure supplement.

Mr. David J. Desmond, COO, CCO - Biographical Information

Educational Background and Business Experience

Mr. Desmond joined Peritus in August of 2005 and is responsible for the strategic planning and financial management of the firm, as well as the coordination of sales, marketing and customer support and general business operations. Mr. Desmond also serves as the Chief Compliance Officer for the company, interfacing with the trading and portfolio management operations and other departments to monitor all necessary areas of compliance.

Mr. Desmond has over 26 years of business experience, ranging from roles in marketing research, sales, operations, finance, and consulting, to strategy and planning. He has served in a variety of organizations, including both large corporate enterprises such as AT&T and US West/Qwest Communications, as well as senior positions in entrepreneurial organizations.

Mr. Desmond was born in 1964. Mr. Desmond earned his Bachelor of Science degree in Business Administration from California Polytechnic State University in San Luis Obispo, CA, and an MBA with honors from St. Mary's College, Moraga, CA in Marketing and in Business Law.

Disciplinary Information

Mr. Desmond has not been involved in any legal or disciplinary events that would be material to a client's evaluation of Mr. Desmond or of Peritus.

Other Business Activities

Mr. Desmond serves on the Board of Directors for American Medical File, Inc. (AMF). AMF is a private entity company owned largely by investors who are clients of Peritus. Mr. Desmond receives no monetary compensation for serving on the board; however, he does receive equity in the name of Peritus. Mr. Desmond is not engaged in any other investment related business, and does not receive compensation in connection with any other business activity outside other than what has been identified above.

Additional Compensation

Mr. Desmond does not receive economic benefits from any person or entity other than Peritus in connection with the provision of investment advice to clients.

Supervision

Mr. Desmond's sales and marketing of Peritus is supervised by Peritus' CEO, Ron Heller. Mr. Desmond's role is solely on the sales and marketing side to external clients and prospects of Peritus as well as the COO and CCO roles described previously. Mr. Desmond does not make any securities recommendations to the Peritus Investment Committee, clients or prospects. Any of these individuals can be reached directly by calling the telephone number on the cover of this brochure supplement.