

**FORM ADV PART 2**

**Stone Tower Fund Management LLC**

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**This brochure provides information about the qualifications and business practices of Stone Tower Fund Management LLC. If you have any questions about the contents of this brochure, please contact us at 212-258-0940. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Stone Tower Fund Management LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**We refer to ourselves as a “registered investment adviser”. Registration does not imply a certain level of skill or training.**

## **ITEM 2. MATERIAL CHANGES**

Stone Tower Fund Management is required to identify and discuss material changes made to this Brochure since the last annual update. Accordingly, please note the following material changes:

On December 16, 2011, Apollo Global Management (NYSE: APO) announced that it agreed to merge Stone Tower Capital LLC and its related management companies into Apollo's capital markets business. Apollo Global Management, LLC and its subsidiaries is an alternative investment manager in private equity, credit-oriented capital markets and real estate. The transaction is expected to close in April 2012.

Stone Tower Fund Management provides investment advice to a number of investment vehicles that offered private placement interests beginning in 2011 including: (1) Stone Tower Credit Strategies Master Fund and (2) Stone Tower Structured Credit Recovery Fund II. Starting in 2011, Stone Tower Fund Management also provides investment advice to a number of managed accounts.

The discussion above relates solely to material changes made to Stone Tower Fund Management's Form ADV Part 2A, dated March 31, 2011.

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#### **ITEM 4. ADVISORY BUSINESS**

Stone Tower Fund Management LLC (“Stone Tower,” or “we”) was formed in 2005 and it and its advisory affiliate, Stone Tower Debt Advisors LLC, are owned by a domestic entity that is ultimately controlled by Mr. Michael J. Levitt through his ownership in Stone Tower Capital LLC, a Delaware limited liability company. Stone Tower manages investment advisory accounts of private investment funds and of separately managed accounts as more fully described below.

##### ***Private Investment Funds***

***Credit Funds.*** Stone Tower serves as the investment manager for two feeder funds that invest in an offshore master fund, Stone Tower Credit Master Fund Ltd. (the “Credit Master Fund”), a Cayman Islands exempted company. Stone Tower Credit Fund LP is a Delaware limited partnership that serves as the onshore feeder fund (“Credit Onshore Fund”), and Stone Tower Offshore Credit Fund Ltd. is a Cayman Islands exempted company that serves as the offshore feeder fund (the “Credit Offshore Fund”). The Credit Master Fund is invested primarily in shares of Stone Tower Credit Funding I Ltd., a Cayman Islands exempted company (the “Credit Initial Financing Subsidiary”), which operates as a market value collateralized loan obligation fund and invests directly or indirectly in loans and other financial instruments. Stone Tower serves as the investment manager for the Credit Master Fund and the Credit Initial Financing Subsidiary. Stone Tower primarily provides investment advice with respect to non-investment grade credit and credit-related assets. The Credit Onshore Fund, the Credit Offshore Fund, the Credit Master Fund and the Credit Initial Financing Subsidiary (and any other financing subsidiary established in the future) (collectively, the “Credit Funds”), seek to generate consistent portfolio returns with limited volatility by focusing on investing in non-investment grade credit and credit-related assets. The Credit Funds seek to accomplish this investment objective by investing primarily in a diversified portfolio of performing, non-investment grade, floating rate, senior secured loans. The Credit Funds may also invest, without limitation, in high yield bonds and other corporate credit-related and structured credit-related instruments, including synthetic assets and indices. We tailor our advisory services to the stated objectives of the Credit Funds. Limitations and restrictions on certain investments or types of investments, if any, are set forth in the operative agreements of, and/or the investment management agreements entered into with, the Credit Funds.

***Structured Credit Recovery Funds.*** Stone Tower serves as the investment manager for two feeder funds that invest in an offshore master fund, Stone Tower Structured Credit Recovery Master Fund Ltd. (the “Structured Credit Recovery Master Fund”), a Cayman Islands exempted company. Stone Tower Structured Credit Recovery Fund LP, a Delaware limited partnership, serves as the onshore feeder fund (“Structured Credit Recovery Onshore Fund”) and Stone Tower Offshore Structured Credit Recovery Fund Ltd., a Cayman Islands exempted company serves as the offshore feeder fund (the “Structured Credit Recovery Offshore Fund”). Stone Tower serves as the investment manager for the Structured Credit Recovery Master Fund. Stone Tower primarily provides investment advice with respect to structured credit and related assets. The Structured Credit Recovery Onshore Fund, the Structured Credit Recovery Offshore Fund and the Structured Credit Recovery Master Fund (collectively, the “Structured Credit Recovery Funds”), seek to generate consistent portfolio returns by investing in structured credit products of

various asset types, vintages, maturities and capital structure priorities. The Structured Credit Recovery Funds seek to accomplish this investment objective by investing primarily in a diversified portfolio of various tranches of collateralized loan obligation issuers (“CLOs”) and collateralized debt obligation issuers (“CDOs”), residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), consumer and commercial asset-backed securities (“ABS”), and other structured credit-related assets, including synthetic assets and indices. We tailor our advisory services to the stated objectives of the Structured Credit Recovery Funds. Limitations and restrictions on certain investments or types of investments, if any, are set forth in the operative agreements of, and/or the investment management agreements entered into with, the Structured Credit Recovery Funds.

Stone Tower also serves as the investment manager for Stone Tower Structured Credit Recovery Master Fund II Ltd., a Cayman Islands exempted company. Stone Tower Structured Credit Recovery Fund II LP, a Delaware limited partnership, serves as the onshore feeder fund (“Structured Credit Recovery Onshore Fund II”) and Stone Tower Offshore Structured Credit Recovery Fund II Ltd., a Cayman Islands exempted company serves as the offshore feeder fund (the “Structured Credit Recovery Offshore Fund”). Stone Tower serves as the investment manager for the Structured Credit Recovery Master Fund II. Stone Tower primarily provides investment advice with respect to structured credit and related assets. The Structured Credit Recovery Onshore Fund II, the Structured Credit Recovery Offshore Fund II and the Structured Credit Recovery Master Fund II (collectively, the “Structured Credit Recovery Funds II”), seek to generate consistent portfolio returns by investing in structured credit products of various asset types, vintages, maturities and capital structure priorities. The Structured Credit Recovery Funds II seek to accomplish this investment objective by investing primarily in a diversified portfolio of various tranches of CLOs and CDOs, RMBS, CMBS, ABS, and other structured credit-related assets, including synthetic assets and indices. We tailor our advisory services to the stated objectives of the Structured Credit Recovery Funds II. Limitations and restrictions on certain investments or types of investments, if any, are set forth in the operative agreements of, and/or the investment management agreements entered into with, the Structured Credit Recovery Funds II.

The Structured Credit Recovery Funds and the Structured Credit Recovery Funds II shall be referred to collectively as the “Structured Credit Funds.”

***Credit Solutions Funds.*** Stone Tower serves as the investment manager for two feeder funds that invest primarily in an offshore master fund, Stone Tower Credit Solutions Master Fund Ltd. (“Credit Solutions Master Fund”). Stone Tower Credit Solutions Fund LP, a Delaware limited partnership, serves as the onshore feeder fund (“Credit Solutions Onshore Fund”) and Stone Tower Credit Solutions Fund Ltd., a Cayman Islands exempted company, serves as the offshore feeder fund (“Credit Solutions Offshore Fund”). Stone Tower serves as the investment manager for the Credit Solutions Master Fund. The Credit Solutions Master Fund, Credit Solutions Onshore Fund and Credit Solutions Offshore Fund (collectively, the “Credit Solutions Funds”), seek to achieve consistent portfolio returns by capitalizing on the dislocation in many sectors of the non-investment grade corporate credit market through investing in a diversified portfolio of capital solution investments, rescue financings and debtor-in-possession loans. We tailor our advisory services to the stated objectives of the Credit Solutions Funds. Limitations and

restrictions on certain investments or types of investments, if any, are set forth in the operative agreements of, and/or the investment management agreements entered into with, the Credit Solutions Funds.

***Credit Strategies Funds.*** Stone Tower serves as the investment manager for two feeder funds that invest primarily in an offshore master fund, Stone Tower Credit Strategies Master Fund Ltd. (“Credit Strategies Master Fund”). Stone Tower Credit Strategies Fund LP is a Delaware limited partnership that serves as the onshore feeder fund (“Credit Strategies Onshore Fund”) and Stone Tower Offshore Credit Strategies Fund Ltd., a Cayman Islands exempted company serves as the offshore feeder fund (“Credit Strategies Offshore Fund”). Credit Strategies Master Fund, Credit Strategies Onshore Fund and Credit Strategies Offshore Fund (collectively, the “Credit Strategies Funds”), seek to generate attractive returns while managing the risk of capital loss by investing in long and short absolute return investment opportunities in the corporate credit, structured credit and credit-related markets. We tailor our advisory services to the stated objectives of the Credit Strategies Funds. Limitations and restrictions on certain investments or types of investments, if any, are set forth in the operative agreements of, and/or the investment management agreements entered into with, the Credit Strategies Funds.

***Separately Managed Accounts.***

We serve as investment manager for separately managed accounts that invest primarily in non-investment grade bank loans generally made to, or issued by, companies located in the U.S. In addition, we serve as investment manager for separately managed accounts that invest primarily in structured credit products of various asset types, vintages, maturities and capital structure priorities. These accounts invest primarily in RMBS, CMBS, ABS, CLOs and CDOs. We tailor our advisory services to the stated objectives of each separately managed account. Limitations and restrictions on certain investments or types of investments, if any, are set forth in the investment management agreement entered into with, and in investment guidelines provided by, each separately managed account client.

***Investment Discretion***

In each case, we have discretion to determine investment acquisitions and dispositions consistent with the stated investment objectives and limitations of the respective client. We do not participate in wrap fee programs.

As of December 31, 2011, we provided discretionary asset management for over \$7,791,196,874 billion of client assets.

**ITEM 5. FEES AND COMPENSATION**

***Private Investment Funds***

***Credit Funds.*** As described more fully in the applicable offering memorandum for the respective Credit Fund, each investor is generally charged a quarterly base management fee of .375% (1.5% annualized) of the value of the investor’s investment at the beginning of each

calendar quarter. Fees are not generally negotiable, though they may be waived or reduced at the discretion of the general partner of the Credit Onshore Fund or the board of directors of the Credit Offshore Fund, as applicable. The management fee is due and payable at the beginning of each calendar quarter, and the fees are deducted from the account of the fund.

Investors have the right, subject to certain limitations described more fully in the governing documents for the Credit Onshore Fund and the Credit Offshore Fund, at the end of each fiscal quarter, to withdraw any capital contribution and any net capital appreciation thereon upon not less than 65 days' prior written notice. Withdrawing investors are entitled to be refunded on a pro rata basis any prepaid fees in excess of that for the period of actual investment. Withdrawals occurring on or prior to the last day of the twelfth full calendar month after the date a capital contribution was made are subject to a withdrawal fee of 4% of the portion of the amount withdrawn. As more fully described in the applicable offering memorandum, redemption requests may be pro rata reduced to the extent that redemption requests are received for any redemption date aggregating more than 25% of the net asset value of the applicable Credit Fund as of such redemption date or 50% of the net asset value of the applicable Credit Fund's outstanding shares or interests in any 12-month period.

We may elect to (i) reduce, waive or calculate differently such management fees with respect to certain investors and/or (ii) issue one or more additional classes or series of interests, and the management fees, redemption terms and other terms and provisions of such classes or series may differ from those described above.

***Structured Credit Funds.*** As described more fully in the offering memorandum for the respective Structured Credit Funds, investors are charged an annual base management fee of 2% of such investor's average funded capital commitment as of the relevant payment date until the earlier of (i) the return of such investor's capital contributions plus a preferred return and (ii) the fourth anniversary of the final closing date. Thereafter, investors are charged an annual base management fee of 1% of such investor's average funded capital commitment. Fees are not generally negotiable, though they may be waived or reduced at the discretion of the general partner or the board of directors of the respective fund, as applicable. The management fee is due and payable at the beginning of each calendar quarter, and the fees are deducted from the account of the fund.

Investors do not have the right to withdraw or redeem their investment. Accordingly, there are no refunds of prepaid management fees. The Structured Credit Funds terminate five years after the final closing date, unless extended by the general partner or the board of directors of the respective fund, as applicable, for up to two subsequent one-year periods.

We may (i) reduce, waive or calculate differently such management fees with respect to certain investors and/or (ii) issue one or more additional classes or series of interests, and the management fees, redemption terms and other terms and provisions of such classes or series may differ from those described above.

***Credit Solutions Funds.*** As described more fully in the applicable offering memorandum for the respective Credit Solution Fund, each investor is generally charged a quarterly base

management fee of .375% (1.5% annualized) of the value of the investor's investment at the beginning of each calendar quarter. Fees are not generally negotiable, though they may be waived or reduced at the discretion of the general partner of the Credit Solutions Onshore Fund or the board of directors of the Credit Solutions Offshore Fund, as applicable. The management fee is due and payable at the beginning of each calendar quarter, and the fees are deducted from the account of the fund.

Investors do not have the right to withdraw or redeem their investment. Accordingly, there are no refunds of prepaid management fees. The Credit Solution Funds terminate four years after the final closing date, unless extended by the general partner of the Credit Solutions Onshore Fund or the board of directors of the Credit Solutions Offshore Fund, as applicable, for up to two subsequent one-year periods.

We may elect to (i) reduce, waive or calculate differently such management fees with respect to certain investors and/or (ii) issue one or more additional classes or series of interests, and the management fees, redemption terms and other terms and provisions of such classes or series may differ from those described above.

***Credit Strategies Funds.*** As described more fully in the applicable offering memorandum for the respective Credit Strategies Fund, each investor is generally charged a quarterly base management fee of .375% (1.5% annualized) of the value of the investor's investment at the beginning of each calendar quarter. Fees are not generally negotiable, though they may be waived or reduced at the discretion of the general partner of the Credit Strategies Onshore Fund or the board of directors of the Credit Strategies Offshore Fund, as applicable. The management fee is due and payable at the beginning of each calendar quarter, and the fees are deducted from the account of the fund.

Investors have the right, subject to certain limitations described more fully in the governing documents for the Credit Strategies Onshore Fund and the Credit Strategies Offshore Fund (i) upon not less than 90 days' prior written notice on the first anniversary of investment; or (ii) on a quarterly basis thereafter upon not less than 65 days' prior written notice, at the end of each fiscal quarter; to withdraw any capital contribution and any net capital appreciation thereon. Withdrawing investors are entitled to be refunded on a pro rata basis any prepaid fees in excess of that for the period of actual investment. As more fully described in the applicable offering memorandum, redemption requests may be pro rata reduced to the extent that redemption requests are received for any redemption date aggregating more than 25% of the net asset value of the applicable Credit Strategies Fund as of such redemption date or 50% of the net asset value of the applicable Credit Strategies Fund's outstanding shares or interests in any 12-month period.

We may elect to (i) reduce, waive or calculate differently such management fees with respect to certain investors and/or (ii) issue one or more additional classes or series of interests and the management fees, redemption terms and other terms and provisions of such classes or series may differ from those described above.

### ***Separately Managed Accounts***



Separately managed accounts generally pay Stone Tower a management fee based on a percentage of the assets being managed. Management fees are generally paid on a quarterly basis in arrears (but in some cases are paid in advance). Clients may generally withdraw from or terminate a separately managed account at any time, subject to the terms and conditions specified in the respective investment management agreement. The terms and conditions may include a redemption fee. A withdrawing client will be entitled to be refunded on a pro rata basis any prepaid fees in excess of that for the period of actual investment. All terms and conditions including, but not limited to withdrawal/termination, management fees, redemption fees and refunds are negotiated on an account-by-account basis.

### ***Other Fees and Expenses***

The private investment funds we manage incur fees and expenses including brokerage commissions, custodian fees, audit and accounting fees and other transaction expenses which are described in the applicable offering memorandum. Our separately managed accounts may incur fees and expenses including brokerage commissions, custodian fees and other transaction expenses. See Item 12 Brokerage Practices below.

Neither we nor any of our “supervised persons” accept compensation for the sale of securities or other investment products.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

### ***Private Investment Funds***

***Credit Funds and Credit Strategies Funds.*** As described more fully in the applicable offering memorandum for the respective private fund, each investor is generally charged an annual incentive or performance allocation/fee that is equal to 20% of the net capital appreciation of the investor’s investment at the end of the fiscal year. Normally, any loss is carried forward so that no performance fee is charged unless all the losses incurred through the end of the period for which the fee is paid have been recouped, subject to certain adjustments (such an arrangement being called a “high water mark”). Fees are not generally negotiable, though they may be waived or reduced at the discretion of (i) the general partner of an applicable onshore private fund and (ii) the board of directors of an applicable offshore private fund.

***Structured Credit Recovery Funds and Credit Solutions Funds.*** As described more fully in the offering memorandum for the respective private fund, as dispositions of assets occur, investors are charged an incentive or performance allocation fee that is generally equal to 20% of the disposition proceeds that are in excess of (a) such investor’s capital contributions and (b) the amount that would provide such investor with a specified internal rate of return or “hurdle rate” on the amount described in clause (a). Fees are not generally negotiable, though they may be waived or reduced at the discretion of (i) the general partner of an applicable onshore private fund and (ii) the board of directors of an applicable offshore private fund.

### ***Separately Managed Accounts***

Some of the separately managed accounts pay us an incentive fee based on the performance of the assets. Incentive fees are generally calculated and paid annually. All terms and conditions including, but not limited to withdrawal/termination, management fees, incentive fees, redemption fees and refunds are negotiated on an account-by-account basis.

### ***Conflicts of Interest***

Because we receive incentive or performance-based fees with respect to clients' investments, and different clients may pay different levels of fees, there may be an incentive for us to select investments that are riskier or more speculative than would otherwise be selected and to allocate what we believe to be superior investment opportunities to clients and/or accounts that will pay higher fees. We disclose these potential conflicts of interest so that clients understand this risk. We also address these potential conflicts of interest by establishing and applying policies and procedures for allocating investment opportunities, which seek to ensure that investments are allocated among our client accounts fairly over time. See Item 11 below for a further discussion of conflicts of interest and allocation of investment opportunities.

## **ITEM 7. TYPES OF CLIENTS**

We and our affiliates manage private investment funds that are exempt from registration under Section 3(c)(7) of the US Investment Company Act of 1940, as amended. We also manage separately managed accounts for large US and non-US institutional investors, including US public and private pension plans, non-US financial institutions and superannuation funds. We do not have a minimum account size, although separately managed accounts will generally be considered only for institutional clients with accounts in excess of \$50 million.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

While we generally follow the analytical methodologies and investment strategies discussed below, these methodologies and strategies are not intended to represent an exclusive list but to provide examples. Not all these methodologies or strategies may be utilized at the same time or in the same proportions, and we may modify and/or implement additional strategies as appropriate for different investments or in response to different market conditions.

### **Methods of Analysis – Investment Process**

***Corporate Credit Investment Process.*** We have implemented a disciplined investment selection process and a bottom-up approach to due diligence and valuation. When evaluating prospective investments, we perform credit analysis on the company in order to identify assets that can provide attractive current income and/or capital appreciation. We study particular industries and focus on fundamental credit analyses of various companies within those industries. In addition to strong enterprise value coverage and consistent cash flow generation, our investment team looks for investments in companies with strong market share, sufficient pricing power,

commitment to deleveraging, strong management teams (whether existing or available) and sufficient equity support from sponsors and management.

Our investment team gathers data through a detailed due diligence process comprised of historical financial analysis paired with cash flow forecasts, a review of relevant publicly available information, meetings with management and occasional site visits. The due diligence process may also include the review and assimilation of information from a variety of third-party sources, including, without limitation, company and industry specific data, industry analysts and consultants, materials prepared by public and private research firms, industry trade publications, various statistical services, research departments of brokerage firms, other independent research firms and interaction with company management teams and other individuals from our network who are familiar with specific companies or industries. The analyst then sets a price and yield target while identifying any catalysts needed to reach the targeted return and evaluating any specific issues such as operational challenges, cyclical pressures, financial risks and industry and general economic dynamics. Once the analyst completes such due diligence, the investment team determines the likelihood of a potential default and decides if the potential return outweighs the risk.

Once this process has been completed the portfolio manager responsible for the investment presents the idea to the investment committee. New investments require investment committee approval prior to their initial purchase.

***Structured Credit Investment Process.*** We have implemented a disciplined investment selection process that includes both a top-down and bottom-up approach to due diligence and valuation. To gain exposure to the broadest array of ideas possible, we interface with major banks and broker-dealers, as well as key market participants which in many cases we've known for long periods of time. Given the experience of our investment team and our position in the market, we are approached by a vast array of counterparties regarding potential trades.

If a trade appears to offer potential, the investment team begins a series of evaluations designed to provide an in depth examination of the security as well as to determine its intrinsic value. In performing this analysis, the investment team employs a consistent, disciplined investment process across all sectors of the structured credit markets. At the deal level, we examine the documentation, the structure and the cash flow waterfall. On the level of the underlying collateral, we examine the credit quality of the assets, their characteristics and their likely behavior under different scenarios. Once this analysis has been completed, we stress the collateral and the structure to determine the robustness of the asset. From this we generate our own notion of intrinsic worth and determine the asset's relative value in comparison to other similar assets in the market.

Once this process has been completed, the portfolio manager responsible for the investment presents the idea to the investment committee. New investments require investment committee approval prior to their initial purchase.

We actively monitor the assets in client portfolios through daily portfolio reviews and meetings in conjunction with ongoing surveillance using our proprietary surveillance system. When the

asset is purchased, the investment team sets internal performance covenants. The surveillance system alerts the portfolio manager when a performance covenant has been breached. This provides an early warning of potential credit deterioration in a position. The investment team will then perform a re-underwriting of the position to determine if it should be held or sold.

## **Investment Strategies**

### ***Private Investment Funds***

***Credit Funds.*** The Credit Funds utilize a credit intensive strategy and primarily invest in non-investment grade bank loans. An experienced team of investment professionals endeavors to provide a steady portfolio return profile by combining current income and total return strategies. As described more fully in the applicable offering memorandum for the Credit Funds, a majority of the investments are expected to consist of an indirect investment in the assets purchased by the Credit Initial Financing Subsidiary (as a result of the Credit Onshore Fund's, the Credit Master Fund's and the Credit Offshore Fund's collective equity ownership of the Credit Initial Financing Subsidiary). The portfolio of assets will be selected using our investment process, which is rooted in assessing the cash flow generation and enterprise value of each individual borrower. We anticipate that the portfolio will provide the Credit Funds with a steady income stream and low price volatility. We also seek to capitalize on temporary market dislocations and liquidity driven events by investing in distressed assets that we believe have the prospect for near-term credit improvement or will undergo a significant positive credit event. Distressed assets are expected to provide the Credit Funds with capital appreciation.

***Structured Credit Recovery Funds.*** The Structured Credit Funds utilize a similar strategy and will endeavor to provide a relatively steady portfolio return profile by combining current income and total return strategies. The core portfolio of ABS investments will be selected using our investment process, which is rooted in assessing cash flow generation and the timing and probability of principal recovery for each individual asset. While the Structured Credit Funds' portfolio is not expected to be heavily traded, trades may occur during the two years following the Structured Credit Recovery Funds' final closing date when we believe (i) there is a risk of default or capital loss sooner than initially expected, (ii) there are better relative value investment opportunities, (iii) there is a price increase on an asset causing credit spreads to tighten faster than expected or (iv) there are opportunities to replace assets or exposures that have been reduced as a result of amortization. Following this reinvestment period, we may cause the Structured Credit Funds to enter into certain defensive hedges. We seek to capitalize on temporary market dislocations and liquidity driven events by investing in distressed structured credit investments that we believe have the prospect for credit improvement or will undergo a significant positive credit event. Certain distressed structured credit investments are expected to provide the Structured Credit Funds with capital appreciation potential.

***Credit Solutions Funds.*** The Credit Solutions Funds seek to invest in the senior, secured or senior secured debt of companies whose capital structures are a poor fit with a company's current operations. We focus on companies with demonstrated track records of generating significant cash flow and that have strong asset and enterprise values, but are performing at levels inconsistent with prior expectations. The Credit Solutions Funds may originate new loans

and intend to buy existing loans generally at a discount from holders who for a variety of reasons no longer wish to hold a particular investment. Loans purchased in the secondary market will usually afford us the opportunity to restructure the loan on attractive terms. The Credit Solutions Funds will hold capital solution investments, rescue financings, and debtor-in-possession loans. We do not expect to make investments in equity securities of companies, but may negotiate warrants or contingent equity compensation where appropriate and may hold equity securities resulting from a restructuring of a credit investment.

***Credit Strategies Funds.*** The Credit Strategies Funds seek to generate attractive returns while managing the risk of capital loss by identifying long and short absolute return investment opportunities in the corporate credit, structured credit and credit-related markets. The Credit Strategies Funds may target public and private situations and may have long and short positions. We expect to utilize a flexible, opportunistic investment strategy to identify (i) assets that are substantially undervalued or overvalued and (ii) situations that are likely to be significantly affected by specific events or trends. We will also actively seek to hedge, and take advantage of, opportunities in deteriorating credit markets through the use of credit-specific short sales or positions, synthetic derivatives and other debt, equity or synthetic securities. We will seek to invest in structured credit, debt and equity securities that provide uniquely attractive risk-adjusted return profiles on credit investments collateralized in many cases by corporate loans and securities, residential mortgages, commercial mortgages and consumer and commercial receivables. Credit Strategies Fund investments may include, but will not be limited to RMBS, CMBS, ABS, CLOs, CDOs, structured investment vehicles (“SIVs”) and synthetic securities referencing these assets. We may also invest in, or hedge using, other structured credit-related instruments and indices. Credit Strategies Fund long and short investments may also include debt and/or equity securities that we believe (i) are undervalued or overvalued, (ii) have the prospect for near-term credit improvement or decline and/or (iii) will undergo a significant positive or negative credit event.

### ***Separately Managed Accounts***

Corporate credit separately managed accounts generally seek to invest in a diversified portfolio of primarily non-investment grade bank loans to achieve a specified objective such as providing as high a level of current income as is consistent with the preservation of capital. With respect to structured credit separately managed accounts, we generally invest in a diversified portfolio of structured credit products to achieve a specified objective such as generating portfolio returns either within a specified range or in excess of a specified benchmark.

### ***Risks of Loss***

All investments involve the risk of loss of capital. We believe that investment programs and research techniques moderate this risk through a careful selection of securities, the possible use of short positions, derivative instruments and other financial instruments (as permitted by the governing documents of the respective investment vehicle or the respective client). However, no guarantee or representation is made, and there can be no assurance, that we will be successful.

An investment in a private fund is suitable only for sophisticated investors that have no need for immediate liquidity in their investment. These investments are not freely transferable and, depending on the terms of the respective private fund, there may be no or extremely limited redemption rights. Redemption rights, if any, in certain private investment funds may be suspended in whole or in part, if there exists in the opinion of the general partner or board of directors of the private fund a state of affairs where disposal of the private fund's assets or the determination of the net asset value would not be reasonably practicable or would be seriously prejudicial to the non-redeeming investors, or where giving effect to any redemption could cause, or render more likely to occur, an event of default, failure of any credit or compliance tests or breach of any covenants under any credit agreements or documents governing an investment, or could render any such test or covenant more difficult to satisfy.

There are investment risks associated with the types of investments we may purchase and sell for the accounts of private investment funds and separately managed accounts, which are described below. Additional risks associated with our private investment funds are disclosed in the applicable private investment fund offering memorandum.

*Asset Backed Securities - ABS.* Consumer and commercial ABS investments could be made in a range of asset classes and are subject to certain risks, including, among others, credit risk, liquidity risk, interest rate and other market risk, operational risk, structural risk, sponsor risk, monoline wrapper risk and other legal risk.

*Consumer Asset Backed Investments (Including Auto Loans and Leases).* Economic conditions in states where obligors reside may affect delinquencies, losses and prepayments on the receivables. The following economic conditions may affect payments on the receivables (i) levels of unemployment, (ii) interest rates, (iii) inflation rates and (iv) consumer perceptions of the economy. In addition, epidemics and extreme weather conditions (such as hurricanes, floods, snowstorms, tornadoes, mudslides and forest fires) could cause substantial business disruptions, economic losses, unemployment and an economic downturn. Higher energy and fuel costs could reduce the amount of money that obligors have available to make monthly payments. Obligor could potentially become delinquent in making monthly payments or default.

*Asset Backed Investments Collateralized by Credit Card Receivables.* As owner of credit card accounts, financial institutions retain the right to change various terms and conditions of their credit card accounts, including finance charges and other fees they charge and the required minimum monthly payment. Changes in relevant law, changes in the marketplace or prudent business practices could cause financial institutions to change credit card account terms. A pay out event triggering the start of the amortization period could occur if a financial institution decreases the finance charges or fees it charges and that reduction results in a material decrease in the yield on the credit card receivables arising in those credit card accounts. In addition, financial institutions may change the terms of those credit card accounts to maintain their competitive position in the credit card industry. Changes in the terms of those credit card accounts, including increases in the finance charges or fees it charges, may reduce the amount of credit card receivables arising under those credit card accounts or the amount of collections on those credit card receivables and result in reductions in payments to interestholders. If consumer payment rates decrease significantly at a time when interestholders are scheduled to receive

payments of principal, interestholders might receive principal more slowly than expected. A financial institution's ability to make payments will be impaired if sufficient new credit card receivables are not generated by such financial institution. Financial institutions may be prevented from generating sufficient new credit card receivables due to regulatory restrictions or for other reasons. Financial institutions do not guarantee that new credit card receivables will be created, that any credit card receivables will be transferred or that credit card receivables will be repaid at a particular time or with a particular pattern.

*Collateralized Loan and Collateralized Debt Obligations.* CLO and CDO securities generally are limited-recourse obligations of the issuer payable solely from the underlying securities or collateral, or the proceeds thereof. Holders of these securities must rely solely on distributions on the underlying securities or proceeds thereof for payment. If distributions on the underlying securities are insufficient to make payments, no other assets will be available for payment of the deficiency and such deficiency will be extinguished. The underlying securities or collateral may consist of high-yield securities, loans, structured finance securities and other debt instruments, which in many cases will be rated below investment grade. The lower rating of high-yield securities and below investment grade loans reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. The underlying securities or collateral of a CLO or CDO issuer may bear interest at a fixed rate while the securities issued by the CLO or CDO may bear interest at a floating rate (or the reverse may be true). As a result, there could be a floating/fixed rate basis mismatch, timing mismatch or adjustment mismatch that could adversely impact the ability of the CLO or CDO to make payments on its securities.

*Equity Securities Issued by CLOs or CDOs.* CLO or CDO equity securities represent leveraged investments in the underlying collateral held by the CLO or CDO. The use of leverage creates risk for the holders because the leverage increases their exposure to losses with respect to the collateral. As a result, the occurrence of defaults with respect to only a small portion of the collateral could result in the substantial or complete loss of the investment in the CLO or CDO equity securities. CLO or CDO equity securities represent unsecured equity interests in the relevant CLO or CDO, which like other securities issued by CLOs or CDOs are payable solely from and to the extent of the available proceeds from the collateral held by it. CLO or CDO equity securities are also subordinated to the prior payment of all obligations under debt securities issued by the CLO or CDO. Except for the CLO or CDO issuer, no person is obligated to pay dividends or any other amounts with respect to the CLO or CDO equity securities. If distributions on the collateral are insufficient to pay required fees and expenses and to make payments on the debt securities of the CLO or CDO in accordance with the applicable priority of payments, no other assets of the CLO or CDO or any other person will be available for the payment of the dividends or other amounts with respect to the CLO or CDO equity securities.

*Synthetic CLOs and CDOs.* Synthetic CLOs and CDOs enter into credit default swaps and total return swaps. CLOs and CDOs that invest in credit default swaps rely on the creditworthiness of the credit default swap counterparty. Consequently, in addition to relying upon the creditworthiness of the reference securities, the CLO or CDO issuer is also relying upon the creditworthiness of the credit default swap counterparty to perform its obligations under the credit default swaps. The CLO or CDO issuer has no legal or beneficial interest in any

reference security or any other obligation of any reference entity. The CLO or CDO issuer has no right directly to enforce compliance by the obligor under any reference obligation with the terms thereof, does not have any rights of set-off against such obligor, does not have any voting rights with respect to such reference obligation, does not directly benefit from any collateral supporting such reference obligation and does not have the benefit of the remedies that would normally be available to a holder of such reference obligation.

*Mortgage-backed Securities.* RMBS and CMBS have various risks, including credit, market, interest rate, structural and legal risks. Risks affecting the underlying real estate investments of an RMBS or CMBS include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. The cyclicity and leverage associated with real estate-related instruments have historically resulted in periods of adverse performance, including performance that may be materially more adverse than the performance associated with other instruments.

*Subprime Mortgage Backed Securities - RMBS.* RMBS are backed by collateral pools of subprime residential mortgage loans, mortgage loans that have been originated using underwriting standards that are less restrictive than the underwriting requirements used as standards for other first and junior lien mortgage loan purchase programs such as the programs of Fannie Mae and Freddie Mac. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories, where the amount of the loan at origination is 80% or more of the value of the mortgaged property, made to borrowers with low credit scores, made to borrowers who have other debt that represents a large portion of their income and made to borrowers whose income is not required to be disclosed or verified. Due to economic and market conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced unprecedented increased rates of delinquency, foreclosure, bankruptcy and loss and they are likely to continue to experience rates that are higher than those experienced by mortgage loans underwritten in a more traditional manner.

*Commercial Mortgage Backed Securities - CMBS.* Commercial mortgage loans, in addition to certain risk factors that are applicable to RMBS securities (described above), generally lack standardized terms, have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. Additional risks may be presented by the type and use of a particular commercial property. Commercial properties tend to be unique and are more difficult to value than single-family residential properties. Commercial lending is generally viewed as exposing a lender to a greater risk of loss than residential one-to-four family lending since it typically involves larger loans to a single borrower than residential one-to-four family lending.

*Structured Investment Vehicles - SIVs.* SIVs generally issue one or more classes of debt securities, including medium term notes, Euro notes and commercial paper of various degrees of seniority. The securities issued by SIVs are often backed by ABS, RMBS, CMBS, CLO or CDO securities or other asset types of the kind discussed above and, accordingly, are subject to the risk factors inherent in the types of assets backing the securities of the SIV. SIVs may have swap counterparties or liquidity providers that provide hedging, liquidity or other credit support or



enhancement. These features of SIVs make them subject to counterparty and performance risks similar to those discussed above. In addition to the risks relating the underlying assets of a SIV, the structure and securities issued by a SIV may introduce certain other risks such as credit, market, liquidity, downgrade, hedge or liquidity counterparty, interest or currency, redemption, prepayment, the effects of leverage and other risks inherent in structured vehicles.

*High-Yield Securities.* High-yield securities trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace and include bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities that react primarily to fluctuations in the general level of interest rates and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing.

*Corporate Leveraged Loans.* Corporate leveraged loans originated by banks and other financial institutions, may be term loans and revolving loans that may pay interest at a fixed or floating rate, may be senior or subordinated and may be secured or unsecured. These loans may be illiquid. To the extent that they are non-investment-grade, they may also bear risks associated with high-yield bonds described above.

*Bank Loans.* Bank loans and loan participations are subject to unique risks, including (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) so-called lender-liability claims by the issuer of the obligations, (iii) environmental liabilities that may arise with respect to collateral securing the obligations and (iv) limitations on the ability to directly enforce rights with respect to participations. Bank loans are further subject to the risk that the borrower will fail to make timely payments of principal and/or interest.

*Distressed Securities.* Distressed securities include those securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled companies is the fact that it frequently may be difficult to obtain information as to the true condition of such companies. These investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. A company's securities may be considered speculative and the ability of such company to pay its debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within a company. In liquidation (both in and out of bankruptcy) and

other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security having a lower value and/or adverse terms.

*Bankruptcy Claims.* We may invest on behalf of clients in bankruptcy claims, which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest, and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

*Trust Preferred Securities.* Trust preferred securities, typically issued by banks, insurance companies and similar institutions, have characteristics that are common to both preferred stock and debt securities and represent a leveraged investment in collateral of the issuer. Trust preferred securities will generally be part of the issued share capital of an issuer and will not be secured under any indenture or by any pool of collateral or asset types. The issuer generally will pledge substantially all of its assets to secure any notes or any other obligations, all of which are senior to trust preferred securities. The collections on and proceeds of the issuer's assets will be available to make payments in respect of the trust preferred securities only if, as and when funds are released from the lien of any debt indenture in accordance with its terms. Since the timing and amount of cash available for the trust preferred securities is subject to many uncertainties, there can be no assurance that the issuer will have funds remaining after application of available funds to its debt, expenses and other obligations to make distributions in respect of trust preferred securities.

*Index-Related Risks.* Indices and index-related products may be used to make investments or pursue hedging strategies. Several economic and market factors will influence the value of the underlying credit products comprising the various indices, including (i) the value of any index at any time, (ii) the volatility (frequency and magnitude of changes in value) of any index, (iii) interest and yield rates in the particular credit markets, (iv) geopolitical conditions and economic, financial, political and regulatory or judicial events that affect the credit products underlying the applicable indices, or credit markets generally, and that may affect the final value of the applicable indices, (v) the time remaining to the maturity of the underlying credit products comprising the various indices, (vi) a variety of economic, financial, political, regulatory or judicial events and (vii) the credit worthiness of the underlying credit products comprising the various indices. The publishers of the indices can add, delete or substitute the credit products underlying each of the indices, and can make other methodological changes required by certain events relating to the underlying credit products that could change the value of the indices. Any such changes could adversely affect the value of the underlying credit products.

*Investments in Securities Indexed to the Value of Foreign Equity Securities.* Investments in securities indexed to the value of foreign equity securities involve risks associated with the securities markets in those countries, including the risk of volatility in those markets,

governmental intervention in those markets and cross-shareholdings in companies in certain countries. Foreign companies are subject to accounting, auditing and financial reporting standards and requirements different from those applicable to U.S. reporting companies.

*Swap Contracts.* A credit default swap (“CDS”) is a contract between two parties that transfers the risk of loss if a company defaults in its obligation to pay principal or interest on time or files for bankruptcy. In the event of a default, the swap may be terminated and the purchaser of credit protection will receive from the counterparty, the person who wrote the protection, a payment of the agreed amount. We may purchase for client accounts credit default protection as a hedge, or we may write credit default protection with a view to receiving spread income. We also may purchase for client accounts credit default protection even though our clients do not own the referenced instrument.

A total return swap (“TRS”) is a two-party contract under which each party agrees to exchange with the other specified investment returns from investments or instruments. A TRS enables the client to gain exposure to an underlying credit instrument without actually owning the credit instrument. Generally, a total return (interest, fixed fees and capital gains/losses on an underlying credit instrument) is paid to a counterparty in exchange for the receipt of a floating rate payment. The TRS investor pays only a fraction of the value of the total amount of the credit instrument that is referenced in the swap as collateral posted with the counterparty, so that the TRS is a leveraged investment in the underlying credit instrument.

Transactions in swap contracts, such as CDSs and TRSs, expose our clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem with the counterparty and, as a result, there will be a loss in the investment. The lack of a complete and “foolproof” evaluation of the financial capabilities of swap counterparties and the absence of credit evaluation and regulatory oversight of market participants may increase the potential for such losses.

*Repurchase and Reverse Repurchase Agreements.* We may invest on behalf of clients in repurchase and reverse repurchase agreements. In a repurchase agreement, we “sell” securities to a broker-dealer or financial institution, and agree to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase agreement, we “buy” securities from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid, plus interest at a negotiated rate. There is a risk that the counterparty will not perform its obligations, in the case of a repurchase agreement, to sell the securities and, in the case of a reverse repurchase agreement, to repurchase the securities. In the event of a default in a reverse repurchase agreement, there may be additional costs associated with disposing of the securities.

## **ITEM 9. DISCIPLINARY INFORMATION**

None.

## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

We are not registered, nor do we have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. We are also not registered, nor do we have any application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser or an associated person of any of the foregoing.

Stone Tower Debt Advisors LLC, a Delaware limited liability company, is an affiliate of Stone Tower and is a registered investment adviser controlled by Michael J. Levitt. Stone Tower Debt Advisors LLC serves as a manager for CLOs, CDOs, structured investment vehicles, trusts, managed accounts, and Cayman Islands exempted companies that invest in CLOs. CDOs and other structured finance vehicles.

Stone Tower Credit Partners GP LLC, a Delaware limited liability company, is the general partner of the Credit Onshore Fund. Stone Tower Structured Credit Recovery Partners GP LLC, a Delaware limited liability company, is the general partner of Structured Credit Recovery Onshore Fund. Stone Tower Credit Partners II GP LLC, a Delaware limited liability company, is the general partner of the Stone Tower Credit Onshore Fund II. Stone Tower Structured Credit Recovery Partners II GP LLC, a Delaware limited liability company, is the general partner of Structured Credit Recovery Onshore Fund II. Stone Tower Loan Value Recovery Fund GP LLC, a Delaware limited liability company, is the general partner of the Loan Value Recovery Fund, a separately managed account structured in form of an investment fund. Stone Tower Credit Solutions GP LLC, a Delaware limited liability company, is the general partner of the Credit Solutions Onshore Fund. Stone Tower Credit Strategies GP LLC, a Delaware limited liability company, is the general partner of the Credit Strategies Onshore Fund. These general partner entities are affiliates of Stone Tower and are controlled by Michael J. Levitt.

See discussion of conflicts of interest at Item 11 below.

#### **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

***Code of Conduct.*** Employees are subject to Stone Tower's Code of Ethics which is based on the fundamental principal that Stone Tower and its employees have a fiduciary duty to the Firm's clients and investors and must, in this fiduciary capacity, place the interests of clients and investors before their own. The Code of Ethics requires that employees conduct themselves with integrity and dignity and act in a professional and ethical manner in all dealings on our behalf, comply with applicable federal securities laws, act with competence and strive to maintain and improve their competence, use proper care and exercise independent professional judgment in the execution of their duties, and avoid actions or relationships that might conflict or appear to conflict with job responsibilities or the interests of Stone Tower and its clients.

***Personal Trading in Securities.*** Employees are subject to Stone Tower's Code of Ethics, which is designed to ensure that no employee takes any action in respect of a personal investment in securities that is adverse or appears to be adverse to the interests of Stone Tower or any of its clients. The Code of Ethics includes provisions such as:

- A requirement that employees not trade in securities of issuers identified on a restricted list.
- Periodic reporting of all activity in personal securities accounts.
- Restrictions on the use of material nonpublic information.
- Annual certifications of compliance.

Our Code of Ethics also requires that employees obtain our approval before investing in any initial public offering of securities or in any private placement of securities.

A copy of the Code of Ethics will be made available to any client upon request.

***Principal and Cross Transactions.*** Stone Tower and its personnel generally do not purchase or sell any securities for their own accounts to or from its client accounts. In the rare event of a principal transaction, it would be executed in compliance with the requirements of applicable law, including Section 206(3) of the Investment Advisers Act of 1940. As neither Stone Tower nor any of its affiliates is registered as a broker-dealer, it does not engage in agency cross transactions. From time to time, subject to investment guidelines and restrictions, Stone Tower may direct one fund to sell securities to another fund through an internal cross transaction in which neither Stone Tower nor a related person will receive compensation. Any such transaction will be effected at the price and on terms determined by Stone Tower to be fair to both parties to the cross transaction. In determining price, Stone Tower utilizes valuation procedures which are designed to take into account to the maximum extent possible third party bid and ask prices at the time of the valuation.

***Conflicts of Interest.*** Stone Tower and its affiliates manage accounts with similar investment strategies. However, certain conflicts may arise from the fact that Stone Tower may give advice or take action with respect to the investments of one or more clients that may not be given or taken with respect to other clients with similar investment programs, objectives, and strategies. Accordingly, clients with similar strategies may not hold the same securities or instruments or achieve the same performance. Stone Tower also may advise clients with conflicting programs, objectives or strategies. These activities also may adversely affect the prices and availability of securities or instruments held by or potentially considered for one or more clients.

Certain inherent conflicts of interest also may arise from the fact that Stone Tower and its affiliates will provide investment management services to the private investment funds, CLOs, CDOs and to separately managed accounts and, may in the future carry on investment activities for other clients, including other investment funds, CLOs, CDOs and other structured products, client accounts and proprietary and sponsored accounts. Employees may invest in the private investment funds and other products managed by Stone Tower.

Clients managed by Stone Tower or an affiliate may invest in the senior and/or subordinated securities of CLOs, CDOs and similar structured investment vehicles sponsored by Stone Tower or an affiliate, and in loans held by another client. In addition, certain private investment funds managed by Stone Tower may originate loans or participate in other direct lending opportunities which may then be sold to other private investment funds managed by us. In such circumstances, Stone Tower and its affiliates will be subject to certain conflicts of interest.

Stone Tower and its personnel may have conflicts in allocating their time and services among its clients and those of its affiliates. Future activities of Stone Tower, including the establishment of other investment funds, may give rise to additional conflicts of interest.

***Allocation of Investment Opportunities.*** Stone Tower and its affiliates seek to ensure the equitable allocation of scarce opportunities where Stone Tower and its affiliates are unable to obtain the full amount of the instruments that they wish to purchase for their relevant client accounts. In these situations, it is the policy of Stone Tower and its affiliates to first determine the amount of the instrument they wish to acquire based on availability, the size and objectives of the accounts and other relevant factors, without regard to allocations to any particular accounts. The executed order will be allocated in a manner that we believe treats each client account fairly over time. Because of the nature of the instruments we deal in, generally, we would be unable to allocate to all eligible accounts on a pro rata basis. Rather, Stone Tower and its affiliates consider a wide range of factors including each account's available cash and investment capacity, investment level, diversification, limitations in the governing documents for each account and other account guidelines and relevant factors. We may also give special consideration to certain accounts such as new accounts (including those in which it or its affiliates may have an interest) with a substantial amount of available cash.

## **ITEM 12. BROKERAGE PRACTICES**

We generally invest on behalf of clients in senior loans, debt securities, derivatives, hedges, and other instruments, which typically do not involve brokers or brokerage commissions, although an assignment fee is often charged by the administrative agent for a particular loan, and fees may be payable when buying and selling bank loans. We may buy or sell securities directly from or to a dealer acting as principal at prices that include markups or markdowns. Our objective in selecting broker-dealers is to obtain "best execution."

In selecting brokers and dealers to effect portfolio transactions for clients, we consider such factors as the ability of the broker or dealer to effect the size and scope of the transaction, its facilities, reliability and financial responsibility, and the provision or payment (or the rebate to Stone Tower clients for payment) of the costs of brokerage or research products or services which we consider to be of benefit to our clients. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged to clients by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products or services.

Research products and services provided to Stone Tower may include research reports on particular industries and companies, economic surveys and analyses, advice from legal, strategic, financial and industry consultants and advisors, recommendations as to specific securities, and other products and services (*e.g.*, quotation equipment and computer-related costs and expenses, including investment- and trading-related computer hardware and software) providing lawful and appropriate assistance to us and our affiliated registered investment adviser, Stone Tower Debt Advisors LLC, in the performance of their respective investment decision-making responsibilities.

While we have not entered into any soft dollar arrangements, any use of commissions or “soft dollars” generated by clients to pay for research and research-related products or services is expected to fall within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Under Section 28(e), research products or services obtained with soft dollars generated by one or more of our clients may be used by us to service the accounts of other clients.

### **ITEM 13. REVIEW OF ACCOUNTS**

Our investment professionals generally attend a daily meeting to discuss and review client holdings. The number of credits followed by an investment professional varies. Key portfolio information and account metrics are reviewed by investment professionals and senior management on a current basis. Special reviews of accounts may be undertaken in response to changes in market conditions, strategic outlook or investment objectives.

Investors in private investment funds generally receive periodic unaudited performance information and investor capital statements and annual audited financial statements. In addition to account statements received directly from the custodian, each separately managed account receives the reports specified in its investment management agreement. Upon request, Stone Tower also makes available certain additional information.

### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

Stone Tower and its affiliates sponsor the formation of each private investment fund client and do not engage or compensate third party referral agents in locating private investment fund clients. We and our affiliates may engage placement agents to assist in the sale of limited partnership interests or shares in a sponsored private investment fund. Compensation that may be paid to placement agents will be borne by us or our affiliate, as applicable, and will not be an expense or deduction of capital of a referred limited partner. We do not generally engage solicitors for separately managed accounts. Cash payments, if any, to solicitors of separately managed accounts will be made only in accordance with Rule 206(4)-3 under the Advisers Act.

### **ITEM 15. CUSTODY**

We do not maintain custody of client funds and securities. All funds and securities of clients are maintained with independent custodians. Stone Tower is responsible for the custody arrangements on behalf of each of the private investment funds. Separately managed account clients must establish their own custodial arrangements if they do not wish to use the custodian recommended by us. Separately managed account clients must provide to their custodian a letter granting us the authority to manage their assets. In each case, the custodian opens and maintains a separate account in the name and on behalf of the client and holds all funds and all security certificates on behalf of that client.

***Private Investment Funds.*** Each private investment fund is subject to annual audit, and copies of the audited financial statements, prepared in accordance with generally accepted accounting

principles are sent annually, within 120 days after the end of each year, to investors in the private investment fund. We maintain bank and/or brokerage accounts for the benefit of each private investment fund. Each such account is opened and maintained in the name of the respective private investment fund.

***Separately Managed Accounts.*** The custodian sends account statements at least quarterly to each client. Clients are urged to review these statements regularly to ensure accuracy. In addition, we generally prepare account summaries from our internal records that show holdings and unrealized gains and losses. We urge clients to check them against their account statements to ensure that there are no material discrepancies.

## **ITEM 16. INVESTMENT DISCRETION**

Stone Tower has entered into an investment management agreement with each private investment fund client, which agreement provides us with discretion to determine investments to be purchased and sold and the terms of those transactions. Limitations on our investment discretion are set forth in the respective investment management agreement, the agreement of limited partnership or other operative agreement of the respective private investment fund and/or any applicable side letter agreements with investors. Separately managed accounts are also managed on a discretionary basis. Clients opening separately managed accounts are required to execute an investment management agreement that, among other things, grants us the authority to manage their assets on a discretionary basis. Limitations on our investment discretion are set forth in the respective investment management agreement and in any investment guidelines or limitations provided by the client.

## **ITEM 17. VOTING CLIENT SECURITIES**

We do not generally anticipate that a majority of client investments will result in our receiving proxies. Nevertheless, Stone Tower has developed securities voting policies. A log is maintained of each upcoming event, if any, that would require a securities voting decision on behalf of a client. In each such instance, we make sure we have relevant disclosure materials, proxies and/or consents and other documentation and information necessary to cast votes in a timely manner. We determine whether there exists a material conflict of interest that could influence the voting decision in a manner that would be adverse to the interests of any client. If there is no material conflict of interest, then the portfolio manager in consultation with the investment professional will make the voting determination. If the portfolio manager responsible for the voting decision is subject to a material conflict, then the voting decision will be reviewed by two members of senior management without material conflicts and the Chief Compliance Officer.

Our policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, if any, in a manner that serves the best interests of our clients taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. We may refrain from voting proxies if we believe that voting



would be inappropriate taking into consideration the cost of voting the proxy and the anticipated benefit to our clients.

**ITEM 18. FINANCIAL INFORMATION**

Not applicable

**ITEM 19. REQUIREMENT FOR STATE-REGISTERED ADVISERS**

Not applicable