

Item 1 - Cover Page  
Form ADV Part 2A  
Firm Brochure

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July 1, 2012

### **Important Disclosure:**

**This brochure provides information about the qualifications and business practices of Silvermine Capital Management, LLC ("Silvermine" – we may also refer to ourselves by "Firm", "we," "our" or similar terms). If you have any questions about the contents of this brochure, please contact Lisa Conrad at (203) 399-3033 or [lisa.conrad@silverminecap.com](mailto:lisa.conrad@silverminecap.com). 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.**

**This Brochure presents certain information in the manner and format promulgated by the SEC. Silvermine has been a SEC registered investment-advisor since September, 2009. SEC registration does not imply a certain level of skill or training. Additional information about Silvermine is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2 - Material changes**

The Firm is required to identify and discuss any material changes made to its Brochure since the last annual update to the brochure filed March 2012. Since the last annual brochure, the following material changes have occurred:

- Schedule A of Part 1A of our Form ADV has been updated to reflect that Michael Pettingill serves as the Firm's General Counsel and Lisa Conrad serves as our Chief Compliance Officer. Giorgio Boero, our former Chief Compliance Officer, continues to serve as Chief Financial Officer.

Silvermine is also updating its assets under management in Item 4 to reflect the following new Clients:

- ECP CLO 2012-3, Ltd.
- ECP CLO 2012-4, Ltd.

Part 2B, Brochure Supplement has also been updated to reflect the outside activity of one of the principals. We believe that there is no material conflict associated with this outside activity.

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#### **Item 4 – Advisory Business**

Silvermine offers investment advisory services to its Clients primarily acting as the collateral manager and reference collateral manager (i.e., with respect to Clients (as defined below) that hold only derivative obligations whose value is calculated by reference to loans or debt securities) for issuers of collateralized loan obligations ("CLOs") (collectively, the "CLO Issuers"). Each CLO Issuer typically is a non-U.S. entity that issues rated notes ("Rated Notes") and non-rated notes ("Equity", together with the Rated Notes, "Notes") under an indenture ("Indenture"). The Notes are secured either by (1) a portfolio consisting primarily of "Leveraged Loans" (described further below under Item 8 "*Methods of Analysis, Investment Strategies and Risk of Loss – Risks*") managed by Silvermine, or (2) a guaranteed investment contract and a total return swap ("TRS") referencing a portfolio of reference obligations (again consisting primarily of Leveraged Loans) managed by Silvermine subject to a total return swap ("TRS").

We also offer advisory services to separate accounts ("Separate Accounts") for investors who wish to obtain exposure to Leveraged Loans and similar investments either directly or through a TRS. We are engaged to manage the reference portfolio and do not provide advice on a TRS. The investment mandates for the Separate Accounts are substantially similar to the CLOs. Unless specifically noted, CLO Issuers together with Separate Accounts are referred to herein collectively as "Clients." Investment management agreements and related Indentures contain detailed specifications and requirements regarding the types of Leveraged Loans and other assets we are permitted to acquire (or obtain synthetic exposure to) on behalf of Clients, and specify the circumstances in which we can purchase and sell, as well as the overall composition of the portfolio (diversity, concentration, ratings, etc.) These investment guidelines are generally not tailored to the individualized needs of any particular CLO Note holder. At inception, however, specific asset criteria may be established in consultation with certain prospective Note holders. Generally, CLO Note holders must consider whether a particular CLO meets their investment objective and risk tolerance prior to investing.

As of June 30, 2012, we had approximately \$3.0 billion under management on a discretionary basis.

Since the Firm's inception in March 2005, the principal owners have been G. Steven Kalin and Richard F. Kurth.

We do not participate in wrap fee programs.

#### **Item 5 – Fees and Compensation**

We are paid by each CLO Issuer, on a quarterly basis in arrears: (i) senior and subordinated fees that range, on a combined basis, between .30% and .50% per annum of assets under management, and (ii) incentive fees which consist of an

agreed upon a percentage of excess cash flow (typically 20%) payable following the receipt by Equity holders of a specified internal rate of return (collectively, the “CLO Management Fees”). CLO Management Fees are calculated by a trustee for the CLO Issuer (the “Trustee”) and paid from the income generated by the CLO Issuer’s portfolios in accordance with a priority of payments specified in the Indenture. Senior management fees have a higher payment priority than subordinate management fees which are paid only to the extent cash flow remains after the CLO Issuer funds debt service on the Rated Notes and satisfies other third party fees and expenses. CLO Management Fees are generally negotiated by the Firm with the underwriter of the CLO Issuer’s Notes at the Issuer’s inception and may be greater or less than the range specified herein. Fees are generally not negotiable by CLO Note holders. Neither the Firm nor its employees accept compensation for the sale of securities or interests in the CLO Issuers.

Clients are responsible for their own organizational and transactional expenses. Such expenses include, among others: (i) legal, accounting, trustee, custodial and administration expenses associated with its organization and operation, and (ii) the implementation and execution of the investment strategy, including research, consultants, assignment fees and spreads.

Subject to the terms of the management agreement, we are reimbursed by Clients for certain expenses we incur in performing our obligations under our management agreements, such as subscriptions for pricing services, legal and other professional fees, fees to rating agencies and other expenses contemplated in the management agreements. Expense reimbursements are capped in the manner and amount stated in the each Indenture, management agreement and other ancillary documentation. Expenses may be shared pro rata by Clients to the extent that an expense is incurred for the benefit of more than one Client.

The Trustee receives reimbursement from the CLO Issuer for expenses incurred by it in carrying out its responsibilities under the Indenture, such as audit and tax preparation fees, stock exchange registration fees and legal opinions.

Our fees for the management of Separate Accounts, also paid in arrears, are generally similar to our CLO Management Fees and are subject to negotiation on an individual basis. As such, there is no set fee schedule. Our Separate Account fees are paid directly by or at the direction of the Separate Account, in accordance with the relevant management agreement.

Details regarding the fees of the Manager and expenses borne by the Clients are disclosed in the Indenture or the management agreement.

Generally, we do not require prepayment of fees unless otherwise permitted under the Indenture or management agreement. If prepayment were provided for, we would rebate a proportionate amount of the prepaid fees to the Client, in the event of a termination of our management services.

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

Our typical incentive performance fees and the way they are determined are described above under Item 5. *"Fees and Compensation."*

The receipt of performance-based compensation creates a potential conflict of interest between the Firm's interest to generate revenue for itself and the interests of Clients. Specifically, performance-based compensation may create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of a performance-based fee. Performance-based compensation may also create an incentive to favor the higher fee paying Clients when allocating investment opportunities.

Our performance-based fees are paid in accordance with the requirements of the Advisers Act. All fees are fully disclosed and, in the case of CLO Issuers, are generally paid only after the Equity holders have achieved a specified return. We seek to mitigate this conflict by fully disclosing all fees. Moreover, we also manage Client portfolios subject to guidelines designed to limit our ability to make speculative investments.

"Side by side" management refers to the simultaneous management of multiple Clients which follow similar, complementary or competing investment objectives, policies or strategies. Side by side management gives rise to potential or actual conflicts of interest, including as discussed above the incentive to favor higher fee paying Clients or Clients in which the Firm or its related persons have a pecuniary interest. The Firm has adopted a trade allocation policy designed to mitigate this conflict by seeking to allocate in a manner deemed fair and equitable over time in order to construct a well-diversified fully invested portfolio. Pro rata allocation of opportunities cannot be guaranteed and allocation decisions are driven by a number of factors including, guidelines, the overall risk profile of the portfolio, nature and target size of positions, available cash as well as market conditions and performance. In certain circumstances, the Firm may give special consideration to new Clients and or a Client with a substantial amount of cash to deploy or a need to raise cash. Accordingly, the Firm's allocation decisions will affect performance and certain Clients may not participate in gains or losses realized by other Clients with similar investment objectives.

## **Item 7 –Types of Clients**

The kind of clients we serve is described above in Item 4. *"Advisory Business."* We usually require a \$50 million minimum account size for Separate Accounts, although we have discretion to change the minimum on a case by case basis.

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

### Strategy

Our investment strategy emphasizes a proactive credit discipline designed to generate stable returns with minimal loss. The assumption of credit risk is based on our strong credit analysis.

We primarily focus on Leveraged Loans and have not invested outside of this asset class in any material respect. The CLO Issuers that we currently manage have guidelines within their Indentures which strictly limit the opportunity to invest in asset classes beyond Leveraged Loans. Our Separate Account management agreements contain similar restrictions.

Our portfolios are constructed based on the recommendations of our credit analysts ("Credit Analysts"). Their analysis focuses on the obligor's prospects as a going concern and the potential for credit improvement.

### Process

New deal opportunities in the Leveraged Loan market are generally presented by commercial banks or dealers. New deals are reviewed and screened by one of our two Managing Directors or one of our principals. New deals that pass this screen are assigned to the appropriate industry Credit Analyst. Among other things, our Credit Analysts focus on the variability of revenues and earnings, "downside case" debt service coverage and available sources of liquidity. Emphasis is placed on Leveraged Loans secured by liens on assets of the obligor. In addition, our Credit Analysts typically perform asset and enterprise valuations to evaluate a secondary repayment source, if one is available, should the issuer be unable to service its debt from cash flow. As part of the overall evaluation, Credit Analysts may consider comparisons or "comps" to similar issuers to help assess relative value and competitive staying power. The Credit Analysts must also demonstrate that the credit is appropriate for our investment strategy. During the process, our Credit Analysts may conduct one-on-one meetings with company management and engage with industry analysts. An independent cash flow model is generally constructed in conjunction with the overall evaluation and credit analysis. The purpose of the model is to stress test the issuer's cash flows in a variety of scenarios in order to understand the likelihood of default, potential exit strategies and the framework for recovery if default occurs. In conjunction with the cash flow model, an enterprise valuation is often performed. This valuation provides the basis for a default/recovery scenario analysis on the investment given its position in the capital structure. Additionally, as part of this process, the Credit Analyst is charged with developing a set of review triggers. This process is designed to create a framework to enhance our monitoring of the investment.

Once this analysis has been completed the Credit Analyst makes a presentation to our Credit Committee, which consists of our Credit Analyst team and co-chairs Richard Kurth and G. Steven Kalin (“Credit Committee Co-Chairs”). The potential investment is then discussed in the context of market pricing, client guidelines and portfolio weightings, among other things. The ultimate investment decision is made by the unanimous decision of Credit Committee Co-Chairs. Some Clients however, may require that credit decisions affecting their portfolios be discussed and approved by an investment committee of which a Client or Note holder representative is a member, together with Messrs. Kalin and Kurth. Such arrangements are fully disclosed. In some cases the Client or Note holder representative has veto power over investment decisions, as negotiated.

After the new issuance investment has been made, the Credit Analyst is responsible for tracking its performance and documenting issuer quarterly financial information on both a qualitative and quantitative basis. In addition, our Credit Analysts are expected to formulate a view of the quality of the borrower’s earnings and the outlook for its performance, confirm/modify approved exposure and ultimately opine as to whether the investment is a buy/sell or hold.

Key quarterly financial information is typically entered into the SCM system (the “System”), a proprietary software program developed exclusively for Silvermine according to our specific requirements and metrics. The System combines credit metrics with portfolio management tools in an integrated application. It provides the Credit Analyst with an overview of each credit, including exposure by Client, approved exposure, trading history and research notes. The System enables the Credit Analysts’ ongoing evaluation and monitoring of credits. For example, when periodic financial data is entered, the System is designed to display comparisons to plan, prior year and the Credit Analyst’s base-case. Likewise, the System’s metrics can include the review triggers described above to enhance monitoring.

### Risks Factors

Although our investment strategy emphasizes a proactive credit discipline designed to generate stable returns with minimal loss, there can be no assurance that our investment strategy will be successful. Clients risk the loss of some or all of their investment. Accordingly, Clients should give careful consideration to the following risk factors in evaluating the merits and suitability of the Firm’s strategies. The following should not be considered and does not purport to be a comprehensive summary of all of the risks associated with the Firm’s investment strategies. A description of additional risks relevant to each Client can be found in the final confidential offering circular or other disclosure document for each Client. Copies of such documents are available upon request. Clients should consult their own legal, tax and financial advisors.

*Default Risk.* If there is a default on a loan, reference loan, structured financial obligation or any other instrument in a Client portfolio (collectively “Collateral



Obligations”), the defaulted Collateral Obligation may become subject to either substantial workout negotiations or restructuring. That may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal and a substantial change in the terms, conditions and covenants with respect to the defaulted obligation; including the possibility that equity of the issuer may be issued in exchange for the original Collateral Obligation, in whole or in part. Furthermore, there can be no assurance that the ultimate recovery on a defaulted Collateral Obligation will be at least equal to either the minimum recovery rate assumed by a rating agency in rating the Collateral Obligation or any recovery rate used in connection with our analysis. Defaults could have an adverse effect on the performance of a Client’s portfolio.

*Investment in loans generally; lack of liquidity.* Leveraged Loans and interests therein have significant liquidity and market value risks as they are not generally traded in organized exchange markets but rather are traded by commercial banks and other institutional investors engaged in loan syndications. Because Leveraged Loans are privately syndicated and loan agreements are privately negotiated and customized, they are not purchased or sold as easily as publicly traded securities and holders do not generally have the protections and certainty provided by an established market or regulatory regime.

*Restrictions on our Ability to Manage.* The Indenture and the management agreements place significant restrictions on our ability to manage Clients’ portfolios. We are subject to compliance with guidelines contained in the Indenture or management agreement. Accordingly, during certain periods or in certain specified circumstances, we may not be able to effect purchases or sales which we would otherwise choose to effect in the best interests of Clients, in the absence of such guidelines.

*Leveraged or non-investment grade loans.* Our Clients invest primarily in Leveraged Loans, subject to the terms of the CLO Indenture or management agreement. Leveraged Loans may be considered a higher risk than other types of investments because they have historically experienced greater default rates. As a result, we cannot provide assurance as to the levels of defaults and/or recoveries that may be experienced in a Client’s portfolio.

*Interest rate risk.* When interest rates rise, the price at which an interest in a loan or a bond that bears a fixed rate of interest can be sold falls, with a greater proportionate effect dependent upon the length of the loan’s or bond’s maturity. While many of the interests in Leveraged Loans or bonds that we purchase on behalf of our Clients have adjustment provisions that cause the interest payable on the loan or bond to increase as interest rates rise generally, not all do and even those that do may not have adjustment provisions that give rise to a sufficient interest rate increase to maintain the secondary market value of the interest. As a result, an increase in interest rates may give rise to a realized loss in a client’s portfolio if we determine that loans or bonds in that portfolio should be sold.

*Prepayment risk.* Leveraged Loans are generally pre-payable in whole or in part at any time at the option of the obligor/issuer at par plus accrued unpaid interest. Prepayments on loans may be caused by a variety of factors that are often difficult to predict. Consequently, there exists a risk that loans purchased at a price greater than par may experience a capital loss as a result of such a prepayment.

*Risks of investment in Structured Finance Obligations.* A portion of a client's portfolio may consist of "Structured Finance Obligations" – i.e., collateralized loan obligation securities, issued by CLO Issuers that we do not manage, that satisfy certain criteria. Structured Finance Obligations are generally limited recourse obligations of the CLO Issuer in question and are payable solely from the assets of that CLO Issuer. The underlying assets typically consist primarily of Leveraged Loans. Investments in Structured Finance Obligations entail a number of risks, including prepayment risk, credit (i.e., default) risk, liquidity risk, interest rate risk, structural risk and legal risk, which may be different from those of Leveraged Loans or other types of assets. The performance of Structured Finance Obligations will be affected by a variety of factors, including its priority in the capital structure, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying loans or other assets that are being securitized. Legal risk may arise because Structured Finance Obligations are typically complex instruments that may be based upon difficult to interpret or unclear documentation. Structural risk may occur because we do not limit our exposure to the most senior Structured Finance Obligations.

*Risks relating to the accuracy and continued accuracy of ratings.* We take rating agency assessments significantly into account in reaching our judgments concerning the Collateral Obligations in which we invest on behalf of our clients. Credit ratings of obligors/issuers and Collateral Obligations represent the opinions of the rating agencies regarding the likelihood of payment of certain obligations when due but are not a guarantee of the creditworthiness of obligors/issuers or the repayment of (or payment of interest on) a Collateral Obligation. In addition, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that the current financial condition of an obligor/issuer at any given time may be better or worse than what the current rating indicates. Therefore, the ratings assigned to an obligor/issuer or its Collateral Obligations by a rating agency may not fully reflect the true risks of purchasing or being synthetically exposed to a Collateral Obligation.

*Settlement Risk.* Leveraged loans are subject to settlement periods/closings in excess of the securities standard (trade date plus three days). Settlement periods/closings can range from seven days or more depending upon a number of factors which may not be in the control of the Firm. The participants to a transaction, including Clients, are subject to ongoing market risk to the extent that lengthy settlement periods occur.

*Key Man.* The success of our performance is highly dependent upon the skills of the Firm and its personnel in identifying, analyzing, purchasing, managing and selling Client assets. As a result, Clients are highly dependent on our experience and those of our employees, any of whom may not continue to be associated with us. The loss of one or more of these key individuals could have a material adverse effect on Client performance. Moreover, management agreements may in some cases be terminated in the event of certain key men departures.

#### **Item 9 – Disciplinary Information**

This Item requires the Firm to disclose legal or disciplinary events that would be material to a Client’s evaluation of our advisory business or the integrity of our management. Silvermine has no information that is required to be disclosed in response to this Item.

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

We do not engage in other financial industry activities and have no affiliations with other entities in the financial industry.

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

We have adopted a Code of Ethics designed to address actual or potential conflicts of interest which might arise in the context of personal trading and other activities of our employees. The Code imposes certain restrictions and preclearance and reporting requirements on such activities. The Code includes provisions relating to personal trading, service on a board, gifts and entertainment, confidentiality, prohibitions on insider trading, rumors, and political contributions. With respect to personal trading, certain classes of securities have been designated as exempt from pre-clearance and reporting based on a determination that these would not interfere with the interests of Clients in any material respect. Likewise, employees are restricted from investing in any securities issued by an obligor of any position in Client portfolios or being considered for Client portfolios. Requests for copies of the Code may be directed to Lisa Conrad at [lisa.conrad@silverminecap.com](mailto:lisa.conrad@silverminecap.com) or at (203) 399-3033.

It is possible that our officers or employees may from time to time be members of the boards of directors of publicly held companies that may be the obligor of positions in Client portfolios or other obligations that are permitted investments for our Clients. In such a case, the Code provides that we will establish appropriate procedures such as creating information barriers or exclude such employee from making or influencing any decision related to the trading of such security for any of our Clients. We will seek to minimize the effect on Clients whenever appropriate to do so.

## **Cross trades**

When disclosed in our management agreements, we may effect cross transactions among our Clients on an agency basis (transactions directly between two clients) or, to a lesser extent, on a principal basis (transactions between the Client and Silvermine). In such events, our interests could conflict with those of the Client. For example, we may arrange for one Client which is liquidating to sell all or part of its portfolio to another Client which might be ramping up its investment portfolio. The Manager has adopted policies and procedures designed to address the conflicts which may arise in the context of cross trades. Generally, such trades will be effected at market value, or in the absence of readily ascertainable market value, at “fair value” as reasonably determined by the Firm in accordance with its relevant policies and procedures. The Firm receives no fee or compensation in connection with such activity and seeks to comply with the requirements of the Advisers Act for cross trades whether agency or principal.

## **Valuation**

From time to time, the Firm may have a role in determining asset values with respect to Clients’ portfolios and may be required to value an investment when the market price is not available or is unreliable. Investments that are fair valued generally will not have independent values and the fair values assigned to them as determined in good faith, may not match the next available reliable market price or the price at which an investment could be purchased or sold. CLO Issuers are closed end cash flow vehicles and, subject to the governing Client documentation, valuation of Client assets is generally not used for the purpose of subscriptions, redemptions, fee calculations or distributions.

## **Conflicts of interest**

In addition to the conflicts of interest already referenced here, various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Firm, its principals, its Employees, its Clients and other affiliated parties.

The Firm and its employees often own or hold Notes of the CLO Issuers. There is no assurance that the Firm’s interest will be aligned with the holders of a particular class of Notes. In particular, if at any time, the Equity is held by the Firm, its employees or affiliates, the Firm may face a conflict between the holders of the Rated Notes on the one hand and the owners of the Equity on the other when making investment decisions for the portfolio.

Further, the Firm serves and expects in the future to serve as portfolio manager or advisor for other Clients. Accordingly, the Firm may at certain times be simultaneously seeking to make purchases or sales of investments for one Client, its own account or the account of an affiliate, and for other Clients. Other Clients

which have a substantial amount of cash to invest/ramp up or need to raise cash/ramp down may have a priority when the Firm is allocating investment opportunities. Our allocation policy is described in more detail in Item 6 herein, *“Performance Fees and Side-by-Side Management.”* Likewise, the Firm may at times give advice or take action for their own account or for the account of Clients with similar investment strategies which may differ from action or advice for other Clients. There is no assurance that all Clients will hold the same portfolio or perform consistently with other Clients.

The Firm may have ongoing relationships with Note holders of the CLO Issuers that have a financial interest in obligors of Leveraged Loans held in the portfolios of CLO Issuers.

As part of its business, the Firm provides only investment advisory services but it may provide other services in the future. Clients should expect to receive no benefit from the fees or profits derived from such services. The Firm or its management may have relationships, render services to or engage in transactions with issuers of obligations that are eligible investments for Clients. By reason of the various activities of the Firm or its management, we may acquire confidential or material, non-public information or be restricted from effecting transactions that otherwise would have been initiated. Additionally, there may be circumstances in which one or more of the Firm’s employees will be precluded from providing services to Clients because of certain confidential information available to those individuals. The Firm seeks to minimize those situations when consistent with applicable law.

Although the professional staff of the Firm will devote as much time to the management of Clients’ portfolios as the Firm deems appropriate to perform its duties in accordance with its fiduciary duties and its responsibilities under the management agreements, Firm professionals may have conflicts in allocating time and services among Clients.

## **Item 12 – Brokerage Practices**

While Clients generally specify investment guidelines regarding diversification ratings and risk among other criteria, the Firm typically has full discretionary authority to manage fiduciary accounts for its Clients, including decisions on which investments to make, the amount and price of the investment, the principals and dealers, if selected for a particular transaction and the commissions paid, where applicable.

We transact in Leveraged Loans in both the primary and in the secondary bank markets. In the primary market, we deal directly with the syndicating bank; in the secondary market, we buy and sell interests in Leveraged Loans from commercial banks and dealers acting as principals, earning a mark up, not a commission, on such trades. Primary issuance is usually handled by a limited universe of banks

who syndicate new issuance among a group of lenders or potential lenders that have indicated an interest in participating. Secondary bank debt trading occurs through a bid and ask process. Accordingly, the Firm may not be in a position to select a dealer or bank in all cases. In such cases, the only bank or dealer making a market in a specific Leveraged Loan or offering the investment represents the only available market and thus is the “best” execution.

We have a fiduciary obligation to seek “best execution” in executing portfolio transactions. The SEC has stated that in deciding what constitutes best execution, the determinative factor is not quantitative, i.e., the lowest possible commission, but whether the transaction represents the best qualitative execution. When we are able to select banks and dealers, the Firm uses commercially reasonable efforts to seek the best overall terms available, and shall execute the transaction in the manner we reasonably believe to be the most favorable under the circumstances taking into account all factors we deem relevant including but not limited to timing, sale, and breadth of market, market conditions, assignment fees, and execution capabilities.

Research published by banks and dealers may be provided to and may be used by the Firm. Such research is generally provided free of charge and is not available for sale. Research includes written information about specific obligors, or sectors, market and financial commentary, economic studies and forecasts, statistics, pricing services as well as discussions with research personnel and management. The Firm may have an incentive to select or recommend dealers based on an interest in receiving research or access. The Firm does not pay higher commission fees or direct certain amounts of business in exchange for such research. Firm employees may be offered gifts and entertainment from dealers, banks or persons with whom the Firm does business. This may include tickets to sporting events, meals and other entertainment, seminars or educational training, token items and gifts associated with life events such as weddings and birthdays. The Firm’s Code of Ethics is designed to address this potential conflict with a policy which requires gifts or entertainment of substantial value to be pre-approved.

The Firm has no directed brokerage arrangements. If we were to engage in such arrangements, there is no assurance that best execution could be achieved.

Orders are allocated among eligible Clients in a manner which the Firm believes is fair and equitable over time, in order to construct a well-diversified fully invested portfolio. Pro rata is not always feasible and allocations are driven by a number of factors including, investment guidelines, the portfolio manager’s overall view of the portfolio, including the nature and target size of positions, available cash, cash needs as well as market conditions and performance. Accordingly, the Firm’s allocation decisions will affect performance and certain Clients may not participate in gains or losses realized by other Clients with similar investment objectives. There is no assurance that all Client portfolios will hold the same positions or will perform similarly.

Further, certain allocations to Clients which have performance compensation could result in an economic benefit to the Firm.

From time to time it is possible that trade errors occur in the course of providing investment management services to our Clients. While we believe we take reasonable precautions to minimize the opportunity for trade errors, there is no assurance that such errors will not occur. Our management agreements with Clients typically include a "Limitation of Liability" section which limits our liability to Clients unless there has been gross negligence, fraud or willful misconduct or reckless disregard by the Firm.

### **Item 13 – Review of Accounts**

We regularly review our clients' portfolios, often daily, to monitor compliance with each Client's Indenture and other governing documents. In addition, please see our discussion above under Item 8 above *"Method of Analysis, Investment Strategies and Risk of Loss – Process."*

In the case of a CLO Issuer, reports are prepared monthly and quarterly by the Trustee and are reviewed by us. Reports are sent by each CLO Issuer's Trustee to the parties identified in the Indenture, usually the CLO Issuer's directors and Note holders. The monthly reports contain information regarding the assets in a CLO Issuer's investment portfolio, information regarding a CLO Issuer's performance as measured by various performance tests and its satisfaction of diversification requirements and other information relevant to the ratings of the Notes issued by the CLO Issuer and as required by the terms of the Indenture. We receive a copy of the Client's statements delivered by the Trustee. Additionally, we provide Note holders in our CLO Issuers with quarterly reviews and an analysis of the quarterly distributions by the CLO Issuer and we may provide other information upon request.

We provide Separate Account clients with periodic reports and other analytic information, as may be negotiated and set forth in the management agreement or upon request.

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

We do not receive any economic benefit from anyone that is not a Client and do not compensate any person for Client referrals. If we were to compensate any person for client referrals, we will seek to comply with the applicable requirements of the Advisers Act.

### **Item 15 – Custody**

We do not have or obtain custody of Clients' funds or securities.

## **Item 16 – Investment Discretion**

In general we have full investment discretion to buy and sell investments on behalf of Clients (subject to constraints specified in the applicable management agreements, Indentures or related Client documentation). We are granted investment discretion in our investment management agreements. Some Clients however, may require that credit decisions affecting their portfolios be discussed and approved by an investment committee of which a Client or a Note holder representative is a member together with Messrs. Kalin and Kurth. In some cases the Client representative has veto power over investment decisions, as negotiated. All such arrangements are fully disclosed.

## **Item 17 – Voting Clients Securities**

Our clients typically delegate to us the power and responsibility to exercise voting rights (i.e., proxies, credit agreement amendments, waivers, forbearances, and other forms of corporate action) with respect to Leveraged Loans, debt securities or other interests held in Clients' accounts. Pursuant to applicable requirements of the Advisers Act, we have adopted policies and procedures reasonably designed to ensure that such voting discretion is exercised in the best economic interest of Clients and to avoid conflicts of interest between the Firm and Clients. Because employees are generally not allowed to trade in any Leveraged Loans, debt securities or in any related securities such as equities, options, futures, etc., issued by obligors of Leveraged Loans in Client portfolios (as described above under Item 11 "*Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*"), we believe we have no conflicts of interest in proxy voting on that basis. If one of our officers or employees serves on the board of directors of an issuer or guarantor of one of our portfolio investments, we will establish appropriate procedures such as excluding that person from participating in relevant voting decisions as to how to vote on matters relating to the issuer or guarantor.

Upon request, we will provide a copy of our proxy voting policies and procedures, as well as a record of how we exercised voting discretion with regard to a Client's portfolio. Requests for a copy of our proxy policy or how we exercised voting discretion should be directed to Lisa Conrad at [lisa.conrad@silverminecap.com](mailto:lisa.conrad@silverminecap.com) or (203) 399-3033.

## **Item 18 – Financial Information**

We are not required to provide a balance sheet in response to this item and are not subject to any financial condition that is reasonably likely to impair our ability to meet our financial obligations to our clients.