

**ITEM 1
COVER PAGE**

PART 2A OF FORM ADV: FIRM BROCHURE

CERBERUS CAPITAL MANAGEMENT, L.P.

March 30, 2012

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ADDITIONAL INFORMATION ABOUT CERBERUS CAPITAL MANAGEMENT, L.P. ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT WWW.ADVISERINFO.SEC.GOV.

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ITEM 2

MATERIAL CHANGES

Since Cerberus Capital Management, L.P. (the "Adviser") filed its Part 2A of Form ADV: Firm Brochure on March 31, 2011 (the "Adviser's Brochure"), there have been two material changes to the Adviser's Brochure to report. Effective as of March 31, 2012, the Adviser will have relocated its principal office and place of business from 299 Park Avenue, 22nd Floor, New York, New York 10171 to 875 Third Avenue, New York, New York, 10022. The second material change is that the Adviser and its Affiliates (as defined in Item 4) are providing administrative and/or investment management services to seven new Private Funds (as defined in Item 4) and accordingly additional risk factors have been added to Item 8.

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ITEM 4

ADVISORY BUSINESS

A. General Description of Advisory Firm.

Cerberus Capital Management, L.P., a Delaware limited partnership (the "Adviser"), launched in November 1992 with offices in New York. The principal owner is Stephen A. Feinberg who owns his interests in the Adviser indirectly through two entities.

The Adviser and its affiliates (the "Affiliates") (the Adviser and the Affiliates are sometimes collectively referred to as the "Advisers") provide administrative and/or investment management services to U.S. limited partnerships and limited liability companies, non-U.S. limited partnerships and non-U.S. corporations (collectively, the "Private Funds"), single investment special purpose investment vehicles and a managed account (collectively, with the Private Funds, the "Clients") based on their respective investment objectives. Certain Advisers serve as the general partner to those Private Funds that are formed as U.S. limited partnerships or non-U.S. limited partnerships. The Advisers tailor their advisory services as described in the investment program of the relevant Client's private placement memorandum, as set forth in such Client's organizational documents and/or as set forth in the investment management agreement with such Client. Please refer to Item 8 for a more detailed description of Advisers' investment strategies as well as the securities, and other instruments, purchased by Clients under the management of the Advisers.

Since filing the Adviser's Brochure, seven new Private Funds have been launched, Cerberus Institutional Overseas V, Ltd., a Cayman Islands company ("CIO V"), Cerberus Institutional Partners V, L.P., a Delaware limited partnership ("CIP V"), Cerberus Levered Loan Opportunities Fund I, L.P., a Delaware limited partnership ("CLLOF"), Cerberus Offshore Levered Loan Opportunities Fund, Ltd., a Cayman Islands company ("COLLOF"), Cerberus Offshore Levered Loan Opportunities Master Fund, L.P., a Cayman Islands exempted limited partnership ("COLLOMF"), Cerberus RMBS Opportunities Feeder Fund, Ltd., a Cayman Islands company ("RMBS Feeder"), and Cerberus RMBS Opportunities Fund, L.P., a Cayman Islands exempted limited partnership ("RMBS"). In addition to these new Private Funds, as of the date hereof, the Advisers also provide administrative and/or investment management services to the following Private Funds: Blackacre Capital Partners, L.P., a Delaware limited partnership ("BCP"), Blackacre Overseas Fund, Ltd., a Bahamas corporation ("BAO"), Cerberus International, Ltd., a Bahamas corporation ("CI"), Cerberus International II, Ltd., a Cayman Islands corporation ("CI II"), Cerberus International II Master Fund, L.P., a Cayman Islands exempted limited partnership ("CI II Master"), Cerberus Partners, L.P., a Delaware limited partnership ("CP"), Cerberus Partners II, L.P., a Delaware limited partnership ("CP II"), Styx International, Ltd., a Bahamas corporation ("SI"), Styx Partners, L.P., a Delaware limited partnership ("SP"), Cerberus Asia Partners, L.P. – Series One and Series Two, a Cayman Islands exempted limited partnership ("CAP"), Cerberus Institutional Partners (America), L.P. – Series One and Series Two, a Delaware limited partnership ("CIPA"), Cerberus Institutional Partners (International), L.P. – Series One, a Delaware limited partnership ("CIPI"), Cerberus Institutional Partners, L.P. – Series One, Series Two, Series Three and Series Four, a Delaware limited partnership ("CIP"), Cerberus Institutional Overseas, Ltd, a Bahamas corporation ("CIO"), Cerberus Institutional Overseas III, Ltd., a Bahamas corporation ("CIO III"), Cerberus Institutional Overseas IV, Ltd., a

Bahamas corporation ("CIO IV"), Cerberus Institutional Real Estate Partners, L.P. – Series One and Series Two, a Delaware limited partnership ("CIREP"), Cerberus SPV, LLC, a Delaware limited liability company ("Cerberus SPV"), Cerberus International SPV, Ltd., a Cayman Islands corporation ("CI SPV"), Ableco, L.L.C., a Delaware limited liability company ("Ableco") and 299 Credit Finance Holdings LLC, a Delaware limited liability company ("299 Credit"), A5 Funding L.P., a Cayman Islands exempted limited partnership ("A5"), Ableco Finance LLC, a Delaware limited liability company ("Ableco Finance") and Cerberus Offshore Levered I L.P., a Cayman Islands exempted limited partnership ("COL I"), each of A5, Ableco Finance and COL I is a collateralized loan obligation (the "CLOs"). An Affiliate of the Adviser provides investment management services to Gabriel Assets, LLC, a Delaware limited liability company ("Gabriel"), which is a managed account of such Affiliate and to CG Investor, LLC, together with CG Investment Group, LLC, Cerberus CG Investor I LLC, Cerberus CG Investor II LLC and Cerberus CG Investor III LLC (collectively, the "CG Investor Companies") and Cerberus FIM Investors, LLC ("CFI"), all of which are single investment special purpose investment vehicles formed under the laws of the State of Delaware.

The Advisers provide investment management services to the Private Funds, Gabriel, as well as to CG Investor Companies and CFI, on a discretionary basis.

B. Description of Advisory Services.

Please see Item 8.

C. Availability of Customized Services for Individual Clients.

The Advisers tailor their advisory services as described in the investment program of the relevant Client's private placement memorandum or as set forth in such Client's organizational documents (*e.g.*, a Client's limited liability company agreement) and/or as set forth in the investment management agreement with such Client.

In addition, the Advisers have the right to enter and have entered into agreements, such as side letters, with certain underlying investors of the Private Funds that may in each case provide for terms of investment that are more favorable to the terms provided to other underlying investors of the Private Funds. Such terms may include the waiver or reduction of management and/or incentive fees/allocations, the provision of additional information or reports, rights related to specific regulation requests of certain clients, more favorable transfer rights, and more favorable liquidity rights.

Persons reviewing this Form ADV Part 2A should not construe this as an offering of any of the Private Funds described herein, which will only be made pursuant to the delivery of a private placement memorandum to prospective investors.

D. Wrap Fee Programs.

The Adviser does not participate in wrap fee programs.

E. Assets Under Management.

The Adviser manages approximately \$19.5 billion as of January 1, 2012 on a discretionary basis. Assets under management (the "AUM") are calculated in the following manner: (i) the net asset value, plus deferred compensation (for Private Funds structured as hedge funds and the managed account); (ii) total committed capital (for Private Funds structured as private equity funds that are currently in their investment period, except for CIP V which launched after January 1, 2012); and (iii) the remaining called capital invested, at cost (for the Private Funds structured as private equity funds that are currently in liquidation). The AUM does not include (i) cash available plus leverage facility for A5, Ableco Finance, Ableco, 299 Credit and COL I; or (ii) called capital for single investment vehicles.

ITEM 5

FEES AND COMPENSATION

A. Advisory Services and Fees.

The Private Funds

Management Fees

With respect to Clients that are hedge funds, the Adviser or one of its Affiliates is generally paid a quarterly management fee, in the range of 0.25% to 0.5% (1% to 2% per annum), of (i) the aggregate net asset value of each investor's capital account for those Clients that are Delaware limited partnerships and (ii) the aggregate net asset value of each series of shares for those Clients which are non-U.S. corporations. All management fees are paid quarterly in advance.

With respect to Clients that are structured as private equity funds, management fees are charged at a rate of 1.5% per annum and paid quarterly in advance, with the exception of one of the private funds which are paid quarterly in arrears. During a private fund's investment period (or commitment period) the management fee rate is charged on either commitments or total assets as set forth in such private fund's financial statements as determined in accordance with GAAP ("AUM"). During the liquidation periods of the private funds, the management fees charged are based on the amount of capital then-currently invested (at cost) or on AUM. With respect to some of the private funds, the management fee rate is reduced to 1% on previously issued series as a new series is issued.

Performance-Based Compensation

With respect to Clients that are hedge funds, an Affiliate of the Adviser is generally entitled to an annual performance-based allocation or fee equal to 20% net gain earned by each investor subject to a "high water mark". Certain hedge fund clients provide a preferred return to investors, in the range of 6% to 8%, with a catch-up allocation or fee, in the range of 2 % to 15% an Affiliate of the Adviser.

Certain allocation or fee reductions exist with respect to certain of the Adviser's hedge funds for investors agreeing to "roll-over" their investment to successor entities.

With respect to Clients that are structured as private equity funds, an Affiliate of the Adviser is generally entitled to receive carried interest on proceeds realized upon the disposition of the assets of such private fund, which are distributed first, to all investors *pro rata* based on capital contributions in an amount equal to the capital contributions of all such investors. Certain private funds provide a preferred return in the range of 6% to 8% to investors. In those private funds providing a preferred return, an Affiliate of the Adviser is generally entitled to a "catch-up distribution" of either 100% of the next proceeds or 60% of the next proceeds. Remaining distributions after provision for the catch-up provide an Affiliate of the Adviser with carried interest distributions at a rate of either 15% or 20%, with the balance of such distributions, 85% or 80%, respectively, being distributed to investors.

Certain Clients in liquidation pay either no fees or compensation or pay, in advance, a quarterly management fee at a rate of 1% per annum.

Cerberus SPV and CI SPV

With respect to Cerberus SPV and CI SPV, an Affiliate receives a quarterly management fee equal to 0.125% of the net asset value of each member's or shareholder's interest, respectively, in Cerberus SPV or CI SPV determined as of the first day of such quarter, payable in advance at the beginning of such quarter. For any partial quarter, an Affiliate shall be entitled to a management fee computed on the same basis, but pro rated upon the number of days of such period.

Ableco and 299 Credit

Ableco and 299 Credit are affiliated loan origination companies. An Affiliate is entitled to be reimbursed selling, general and administrative expenses (exclusive of organizational and debt financing expenses) in an amount not to exceed 1% per annum of the total committed capital (*i.e.*, aggregate capital contributions plus the maximum committed debt financing).

With respect to Ableco and 299 Credit, upon a liquidity event (including dissolution) the net proceeds will be distributed to Ableco's and 299 Credit's members, first, to the members in an amount equal to the sum of the member's unreturned capital contributions *pro rata* in accordance with the members' relative unreturned capital contributions, and second, 80% to the holders of Class B interests and 20% to an Affiliate, in each case *pro rata* to the respective member in accordance with its percentage interest.

CLOs

With respect to A5, Ableco Finance and COL I a 0.25% management fee (1% per annum) is paid to an Affiliate. For any private fund investing indirectly in A5, Ableco Finance or COL I, such private fund's total management fee payable does not exceed such management fee set forth in such private fund's private placement memorandum.

Managed Account

With respect to Gabriel, an Affiliate receives 45% of the incentive fees attributable to appreciation paid to the manager of Gabriel with respect to the assets in Gabriel managed by such Affiliate, but no less than 9% of the net capital appreciation of such assets. Gabriel also reimburses an Affiliate for its *pro rata* share, based upon assets under the Adviser's management, of Adviser's overhead expenses limited to 1% per annum of the average month-end assets of Gabriel managed by such Affiliate, with such limitation being waived in whole or in part upon agreement of Gabriel and such Affiliate.

Single Investment Special Purpose Investment Vehicles

With respect to CG Investor Companies, an Affiliate has the right to receive a quarterly management fee of 0.25% (1% per annum) paid in advance on the first day of each quarter until substantially all of CG Investor Companies' assets are sold, liquidated or distributed on (i) the capital contributions made to CG Investor Companies by non-managing members for purposes of the acquisition of the assets of CGI Holdings LLC (*f/k/a*: Chrysler Holdings LLC) and the expenses associated with such acquisition and (ii) capital contributions payable to CG Investor Companies by non-managing members for purposes of making follow-on investments and such expenses associated with such follow-on investments.

The members of the CG Investor Companies bear a 20% carried interest after receiving a return of their capital contributions and a 10% preferred return.

Fee Waivers

With respect to the Private Funds, CP SPV and single investment special purpose investment vehicles, such management fees, incentive allocations, incentive fees and carried interest have been and may be waived or reduced by the Advisers with respect to certain investors in the Private Funds and the single investment special purpose investment vehicles.

A. Payment of Fees.

Management fees, incentive allocations, incentive fees and carried interest are deducted directly from the Private Funds and may be also deducted directly from single investment special purpose investment vehicles. With respect to Gabriel, fees are billed to, and then paid by, Gabriel.

B. Additional Expenses and Fees.

A Client may bear the following expenses: investment-related expenses (*e.g.* costs and expenses associated with the investigation of investment opportunities (whether or not consummated), negotiating, financing, sourcing, acquiring, holding, hedging, settling and disposing of its investments or proposed investments and other transaction costs, including travel expenses, transaction fees, consulting, advisory, investment banking, legal and other professional fees relating to investments or contemplated investments, brokerage commissions, information-related expenses, clearing and settlement charges, custodial fees, interest expenses, appraisal fees and expenses and certain expenses of the operations team as described below), expenses incurred in collection of monies owed to the Client, legal, auditing and accounting expenses (including expenses associated with the preparation of Client financial statements, tax returns and schedules K-1), reasonable expenses of such Client's advisory board and its members, insurance expenses (including directors' and officers' insurance, errors and omissions insurance and other similar policies), fees and expenses of such Client's administrator, if any, any entity-level taxes, fees or other governmental charges levied against the Client or any special purpose vehicle or alternative investment vehicle, all litigation-related and indemnification expenses, wind-up and liquidation expenses, extraordinary expenses and expenses comparable to any of the foregoing.

To the extent that an employee of Cerberus Operations and Advisory Company, LLC ("COAC"), an affiliate of the Adviser, not physically resident in, or supported by, the Adviser's or its Affiliates' offices on a substantially full-time basis is (i) primarily involved in due diligence for a proposed investment or transaction; (ii) actively working at or with one or more of the portfolio companies as an operating executive or consultant; (iii) providing material assistance to the management of one or more of the portfolio companies; or (iv) providing material assistance to the Adviser and its Affiliates in connection with the surveillance and monitoring of one or more investments, the cost of such person is generally borne by the portfolio company and/or the Clients investing in such investments or involved in such transaction. All other employees of COAC are paid by COAC, the Adviser or its Affiliates.

The Adviser or an Affiliate may cause the Client to reimburse the Adviser or an Affiliate for all costs associated with such Adviser or Affiliate providing the services of certain employees of COAC to the Client or the Client's portfolio investments.

C. Prepayment of Fees.

Please see responses to Item 5A. above.

D. Additional Compensation and Conflicts of Interest.

Neither the Adviser, its Affiliates, nor any of their supervised persons accept compensation for the sale of securities or other investment products.

ITEM 6
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

The Adviser's Affiliates receive performance-based compensation in the form of an incentive allocation, an incentive fee or carried interest with respect to the following Clients: CLLOF, CP, CP II, CI, CI II, COLLOF, RMBS, SP, SI, CAP, CIPA, CIPI, CIP, CIP V, CIREP, Ableco, 299 Credit, Gabriel and CG Investor Companies. Other Clients that are either charged no compensation or only a management fee are in liquidation and are not making new investments other than follow-on investments.

In the allocation of investment opportunities, performance-based fee/allocation arrangements may also create (i) an incentive to favor accounts with performance fee/allocation arrangements over accounts that are not charged, or from which an adviser will not receive (*e.g.*, because the Private Fund is below the high water mark), a performance fee/allocation; and (ii) an incentive to favor accounts from which an adviser will receive a greater performance fee/allocation over accounts from which an adviser will receive a lesser performance fee/allocation. The Advisers have adopted an Investment Allocation Policy and Procedures (the "Allocation Procedures") designed to ensure that all Clients are treated fairly and equally and to prevent this form of conflict from influencing the allocation of investment opportunities among Clients. In accordance with the Allocation Procedures, the Advisers will endeavor to treat each Client in a fair and equitable manner.

ITEM 7
TYPES OF CLIENTS

The Clients to whom the Adviser and its Affiliates provide investment management services and advice to are the Private Funds, single investment special purpose investment vehicles and a limited liability company, which arrangement is a managed account arrangement, as described above, and CLOs.

The offering documents of each Private Fund may set minimum amounts for investment by prospective investors in such Private Funds. These minimum amounts may be waived by the Adviser or an Affiliate.

ITEM 8

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis and Investment Strategies.

The following are the principal investment strategies used by the Advisers in managing the investment portfolios of the Clients. Clients' investment portfolios may differ based on whether they concentrate their investments in a single one of these strategies, all of the strategies, or, less than all of the strategies. Client's investment portfolios may also differ based on geographical focus, liquidity needs and other considerations. The Adviser generally pursues, or has pursued, on behalf of its Clients investments in the following four categories: (i) distressed securities and assets; (ii) distressed private equity; (iii) real estate; and (iv) lending. Investments within these categories may involve any part of the capital structure of a company. Investments may be passive, active and control investments in a wide range of industries and countries.

At present, no new investments, other than follow-on investments, are being made by CP, CI, CAP, CIPA, BAO, BCP, CIP, SP, SI, Cerberus SPV and CI SPV as the Adviser or its Affiliates are currently liquidating the existing investment portfolio of each of these Private Funds. The Advisers generally focus on investments relating to operationally challenged, financially troubled, underperforming and/or undervalued companies and impaired assets.

Distressed Securities and Assets. The Advisers make investments on behalf of Clients in debt of distressed companies, including debt with varying terms with respect to collateral, relative seniority or subordination, purchase price, convertibility, interest requirements and maturity (*e.g.*, bonds, debentures, notes, commercial and consumer performing and non-performing whole loans (including prime and subprime), trust certificates and commercial paper and trade claims) and publicly-traded equity and equity-related securities of distressed companies, including preferred stock, convertible preferred stock, common stock and warrants. In addition, the Advisers seek investments in debt and equity securities of mortgage-backed securities (backed by prime, Alt-A, Alt-B, sub-prime mortgages and commercial mortgages), asset-backed securities, collateralized debt obligations ("CDOs"), collateralized loan obligations ("CLOs"), other forms of asset-backed securities and other pools of distressed assets. The Advisers may also invest in pools of performing and non-performing loans (including, residential, multi-family and commercial loans).

Distressed Private Equity. The Advisers make investments on behalf of Clients in debt and equity and equity-related securities of distressed, under managed or undervalued companies, including companies with operational issues that may not be considered to be distressed by the markets. Distressed companies typically include: (i) those facing operating difficulties or those that the Advisers believe would benefit from operational improvements; (ii) those undergoing, or considered likely to undergo, reorganization under U.S. bankruptcy law or similar laws in other countries; (iii) those which are or have been engaged in other extraordinary transactions, such as debt restructuring, reorganization and liquidation outside of bankruptcy; and (iv) those facing a broad range of liquidity issues.

Distressed Private Equity investments may include the purchase of: (i) a distressed subsidiary or division from a healthy parent; (ii) a distressed subsidiary or division from a distressed parent; (iii) a healthy subsidiary from a distressed parent; (iv) an entire distressed corporation; or (v) a company, or a subsidiary or division thereof, that the Advisers believe can benefit from the Advisers' operational expertise to create value, even when the market generally does not view such company as operationally challenged or distressed.

Real Estate. The Advisers may invest on behalf of their Clients (either directly or through the purchase of an operating company whose primary assets are real estate) in real and personal property, including, without limitation, office, retail, industrial, hotel, residential, recreational, health care or mixed-use assets or land. The Advisers, on behalf of their Clients, may also invest in various debt instruments secured by real estate. Investments under this strategy may include direct equity, structured and customized debt and preferred equity investments, REITs, secondary limited partnership interests, real estate operating companies and other operating companies with material real estate risk, mortgage loans and bridge financings.

Lending. The Advisers, on behalf of their Clients, may originate loans to, or purchase, assignment of or participations in loans made to, distressed companies. Such investments may include senior secured, junior secured and mezzanine loans and other secured and unsecured debt that has been recently originated or that trade on the secondary market. The Advisers will seek to make investments that provide acquisition financing to private equity funds and other companies seeking acquisition financing and will also lend to, or purchase secured and unsecured debt obligations of, companies that (i) are likely to become subject to U.S. or foreign bankruptcy proceedings; (ii) are seeking to avoid restructuring; (iii) are not distressed, but have lost the support of their financial lenders; (iv) do not have sufficient capital to manage their operations; and/or (v) are seeking terms for their debt that are more flexible or appropriate for their current circumstances. The types of investments in this strategy include, but are not limited to, investments in loans, debt instruments issued in connection with acquisition financing and refinancings of existing company debt, publicly-traded bonds, high yield bonds, bank debt, bridge loans, debtor-in-possession and exit loans, mortgages and other fixed-income securities.

The Advisers may use leverage for liquidity and investment purposes, subject to the Client's offering and organizational documents. The Advisers may (but need not) employ various hedging techniques to reduce actual or potential risks to which the Client's portfolio may be exposed. The Advisers may invest in various derivative instruments both to hedge its portfolio positions and to opportunistically seek to meet the Advisers' investment objectives, including (i) futures and forward contracts; (ii) swaps, including, without limitation, credit default swaps, baskets of credit default swaps, total return swaps and index swaps, interest rate swaps; (iii) options, warrants, caps, collars, floors and forward rate agreements; and (iv) other synthetic opportunities (including, without limitation, ABX, CMBX, CDX, CDX.HY, LCDX and iTraxx indices).

The Advisers' may, from time to time, seek to adopt a temporary defensive investment strategy by investing in investment grade and/or U.S. government securities, money market funds, commercial paper, certificates of deposit and other money market instruments and interest-bearing accounts.

Risks Relating to Investment Strategies.

The investment programs for each of the Clients involve a substantial degree of risk. The Adviser has listed certain risks below; however, these risks are not comprehensive. Clients are strongly encouraged to review the risks of their investment program, as contained in the Client's private placement memorandum or as set forth in our Client's organizational documents and/or as set forth in our investment management agreement with such Client. In addition, while certain risks may be more important for certain investment strategies, certain risks may overlap investment strategies.

Risks Associated with Investments in Distressed Securities

General Distressed Securities Risks. Clients typically invest in securities and assets of U.S. and non-U.S. companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to such Clients, they involve a substantial degree of risk. Any one or all of the issuers of the securities in which such Clients may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. Furthermore, with respect to a Client's investments in loans, there is no assurance that the Adviser or its Affiliates will correctly evaluate the value of the assets collateralizing such Client's loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Client invests, such Client may lose its entire investment, may be required to accept cash or securities with a value less than such Client's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from such Client's investments may not compensate the Client adequately for the risks assumed.

Troubled company and other investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Adviser or its Affiliates. To the extent that the Adviser or an Affiliate becomes involved in such proceedings, a Client may have a more active participation in the affairs of the issuer. In addition, involvement by the Adviser or an Affiliate in an issuer's reorganization proceedings could result in the imposition of restrictions limiting such Client's ability to liquidate its position in the issuer.

Investments for Clients may be made in bonds or other fixed income securities, including, without limitation, "higher yielding" (and, therefore, higher risk) debt securities that are below "investment grade" and 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 of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. It is likely that a major economic recession could have a materially adverse impact on the value of such securities. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade.

The Investments May be Volatile. Clients may invest in distressed securities. A principal risk in investing in distressed securities is the traditional volatility in the market prices of such securities. Fluctuations or prolonged changes in the volatility of such securities, therefore, can adversely affect the value of investments held by a Client. Many non-U.S. financial markets are not as developed or as efficient as those in the United States, and as a result, price volatility may be higher for a Client's investments.

Illiquid Nature of Distressed Securities. The market for distressed securities will most likely be less liquid than the market for securities of companies that are not distressed. At times, a major portion of an issue of distressed securities may be held by relatively few investors. Furthermore, at times, a large portion of a Client's portfolio may be invested in investments for which there is not current liquidity. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, a Client may find it more difficult to sell such securities when the Adviser or an Affiliate believes it advisable to do so or may be able to sell such securities only at prices lower than if the securities were more widely held. In such circumstances, it may be more difficult to determine the fair market value of such securities for purposes of computing the Client's net asset value. In some cases a Client may be prohibited by contract from selling investments for a period of time. In addition, the types of investments held by a Client may be such that they require a substantial length of time to liquidate.

A Client may invest in unregistered securities of distressed companies. There is no assurance that there will be a ready market for resale of such investments. Illiquidity may result from the absence of an established market for certain investments as well as legal or contractual restrictions on their resale by such Client. To the extent there is a market for such securities, the market will be limited to a narrow range of potential counterparties, such as institutions and investment banks. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. As a consequence, such Client's ability to participate in or liquidate such investments may be restricted and the value of such investments may be subject to wide fluctuation.

Risks Associated with Investments in Private Investments

Control Issues. Clients may have control positions in addition to advisory roles in portfolio company investments, along with certain contractual rights to protect its investments, (including shareholder agreements, redemption rights and/or placement of a designee of the Adviser or an Affiliate on the boards of directors or as a board observer of portfolio companies), such Clients may not always have control over its portfolio companies. A Client runs the risk of refusal of management or shareholders of portfolio companies to adopt the recommendations of such Client, disagreement with existing management and any resulting negative impact on the value of the portfolio company or such Client's ability to exit from such investment at a profit as a result of such refusal or disagreement.

Although the Adviser or an Affiliate may seek protective positions, including board representation, in connection with its private investments, to the extent a Client takes minority positions in companies in which it invests, the Adviser or an Affiliate may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect such Client's position in such companies.

Furthermore, in connection with the disposition of certain investments, a Client may be required to make representations about the business and financial affairs of the underlying company, and to indemnify the purchasers of such company if those representations ultimately prove to be inaccurate.

Investing in Leveraged Companies. Private investments in highly-leveraged companies involve a high degree of risk. Some of a Client's investments in companies may involve leverage, which in turn will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, a Client may suffer a partial or total loss of capital invested in the company, which, depending on the size of such Client's investments, could adversely affect the return on the capital of such Client.

Need for Follow-on Funding. A Client may be called upon to provide follow-on funding for its portfolio companies or may have the opportunity to increase its investment in portfolio companies. There can be no assurance that a Client will wish to make such follow-on investments or have available capital to do so, and the inability to make such follow-on investments may have a substantial negative impact on a portfolio company in need of capital or may diminish such Client's ability to influence the portfolio company's future development.

Risks Associated with Investments in Real Estate

General Real Estate Risks. Real estate and real estate related investments generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate, including: (i) risks associated with the general economic climate; (ii) local real estate conditions; (iii) risks due to dependence on cash flow; (iv) risks and operating problems arising out of the absence of certain construction materials; (v) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); (vi) the financial condition of tenants, buyers and sellers of properties; (vii) changes in availability of debt financing; (viii) energy and supply shortages; (ix) changes in tax, real estate, environmental and zoning laws and regulations beyond the control of the Adviser and its Affiliates; (x) various uninsured or uninsurable risks; (xi) natural disasters; and (xii) the ability of the Clients or third-party borrowers to manage the real properties. With respect to investments in the form of real property owned by the Clients, the Clients will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon and ultimately disposing of such property. With respect to investments in equity securities, debt securities or other financial instruments, the Clients will in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. In addition, the Clients may invest in mortgage loans that are structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time. The Clients' investment strategy, which may frequently involve the acquisition of distressed or underperforming assets in a leveraged capital structure, will involve a high degree of legal and financial risk, and there can be no assurance that the Clients' rate of return objectives will be realized or that there will be any return of capital. There is no assurance that there will be a ready market for resale of investments because investments in real estate-related assets generally are not liquid.

Illiquidity may result from the absence of an established market for the investments, as well as from legal or contractual restrictions on their resale by the Clients.

Development Risks. A Client may acquire equity and/or debt interests in real estate developments and/or in businesses that engage in real estate development. To the extent that a Client invests in such development activities, it will be subject to the risks normally associated with such activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of such Client or the Advisers, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the financial condition and results of operations of the Clients.

Risks Associated with Lending

Bank Loans. The Clients' investment program may include investments in bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv) limitations on the ability of the Clients to directly enforce their rights with respect to participations; and (v) possible claims for the return of some or all payments in a debt made within 90 days (and in some cases, within one year) of the date of the issuer's/borrower's insolvency came under Title 11 of the United States Code and under certain state laws. Successful claims by third parties arising from these and other risks will be borne by the Clients.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to other markets.

Non-Performing Nature of Debt. It is anticipated that some of the loans purchased by the Advisers for the Clients will be non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments with respect to the loans.

General Credit Risks Related to Loan Origination or Purchaser. While loans originated or purchased by a Client are intended to be secured by collateral, such Client may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Advisers cannot guarantee the adequacy of the protection of a Client's interests. Furthermore, the Advisers cannot assure that claims may not be asserted that might

interfere with enforcement of a Client's rights. In the event of a foreclosure, a Client may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to such Client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Ability to Lend on Advantageous Terms; Competition and Supply. Certain Clients will make and purchase loans. A Client's success, in this area, will depend, in part, on such Client's ability to obtain or originate loans on advantageous terms. In making and purchasing loans, a Client will compete with a broad spectrum of lenders. Additionally, the market of making and purchasing loans has become heavily populated with, among others, private investment funds, some of which are willing to lend money on better terms (from a borrower's standpoint) than such Client. Increased competition for, or a diminution in the available supply of, qualifying loans may result in lower yields on such loans, which could reduce returns to investors.

Equitable Subordination. Under Title 11 of the United States Code ("US Code"), a court may use its equitable powers to subordinate the claim of a lender to some or all of the other claims against the borrower under certain circumstances. The concept of equitable subordination is that a claim may normally be subordinated only if its holder is guilty of some misconduct. The remedy is intended to be remedial, and not penal. In determining whether equitable subordination of a claim is appropriate in any given circumstance, courts generally look to whether the following conditions have been satisfied: (i) whether the claimant has engaged in some type of inequitable conduct; (ii) the misconduct must have resulted in injury to the creditors of the bankrupt company or conferred an unfair advantage on the claimant; and (iii) equitable subordination must not be inconsistent with other applicable provisions of the bankruptcy code. While the stated test could be interpreted broadly, equitable subordination is usually confined to three general paradigms: (i) when a fiduciary of the debtor (who is also a creditor) misuses its position to the detriment of other creditors, (ii) when a third party (which can include a lender) controls the debtor to the disadvantage of other creditors, and (iii) when a third party actually defrauds other creditors. A Client may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the Client should be equitably subordinated.

Recharacterization. Under Title 11 of the US Code, and under certain State laws a court may use its equitable powers to "recharacterize" the claim of a lender, *i.e.*, notwithstanding the characterization by the lender and borrower of a loan advance as a "debt," to find that the advance was in fact a contribution of equity. Typically, recharacterization occurs when an equity holder asserts a claim based on a loan made by the equity holder to the borrower at the time the borrower was in such poor financial condition so that other lenders would not make such a loan. In effect, a court that recharacterizes a claim makes a determination that the original circumstance of the contribution warrants treating the holder's advance not as debt but rather as equity. In determining whether recharacterization is warranted in any given circumstance, courts look to the following factors: (i) the names given to the instruments (if any) evidencing the indebtedness, (ii) the presence or absence of a fixed maturity or scheduled payment, (iii) the presence or absence of a fixed rate of interest and interest payments, (iv) the source of repayments, (v) the adequacy or inadequacy of capital, (vi) the identity of interest between the creditor and the equity holders, (vii) the security (if any) for the advances, (viii) the borrower's ability to obtain financing from outside lending

institutions, (ix) the extent to which the advances were subordinated to the claims of outside creditors, (x) the extent to which the assets were used to acquire capital assets, and (xi) the presence or absence of a sinking fund to provide for repayment. These factors are reviewed under the circumstances of each case, and no one factor is controlling. A Client may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the Client should be recharacterized.

Fraud by Borrower. Of paramount concern in lending is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Advisers to perfect or effectuate a lien on the collateral securing the loan. The Advisers will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonably possible, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to Clients may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Risks Associated with Foreclosure on Real Estate and Physical Assets. Certain loans made by Clients are secured by real estate or other physical assets. To the extent a Client needs to foreclose on such loans such Client may, directly or indirectly, own such real estate or other physical assets and may be subject to the risks incident to the ownership and operation of real estate or other physical assets, including: (i) risks associated with both the domestic and international general economic climate; (ii) local conditions pertaining to such assets; (iii) the financial condition of tenants of properties (in the case of real estate) and of the asset itself; (iv) various uninsured or uninsurable risks; (v) natural disasters; and (vi) the ability of the Client, through the Advisers, to manage the assets. In addition, a Client may, directly or indirectly, incur the burdens of ownership of real property, which include the paying of expenses and taxes and maintaining such property and any improvements thereon, until a sale can be made. There is no assurance that there will be a ready market for resale of real estate or such other assets or that such real estate collateral will be sufficient to satisfy such defaulted loan obligation.

General Risks

Risks Associated with Bankruptcy Cases. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of a Client. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where a Client, by virtue of such action, is found to exercise "domination and control" of a debtor, such Client may lose its priority if the debtor or other creditors can demonstrate that the debtor's business was adversely impacted or other creditors and equity holders were harmed by such Client.

Generally, the duration of a bankruptcy case can only be roughly estimated. Unless such Client's claim in such case is secured by assets having a value in excess of such claim, no interest will be permitted to accrue and, therefore, such Client's return on investment can be adversely affected by the passage of time during which the plan of reorganization of the debtor is being negotiated, approved by the creditors, and confirmed by the bankruptcy court.

The risk of delay is particularly acute when a creditor holds unsecured debt or when the collateral value underlying secured debt does not equal the amount of the secured claim. Under most circumstances, unless the debtor is proved to be solvent, no interest or fees are permitted to accrue after the commencement of the debtor's case, as a matter of U.S. bankruptcy law. Reorganizations outside of bankruptcy are also subject to unpredictable and potentially lengthy delays.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a Client's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other alteration of, the class.

The administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors (other than out of assets or proceeds hereof, which are subject to valid and enforceable liens and other security interests) and equity holders. In addition, certain claims that have priority by law (for example, claims for taxes) may be quite high.

The Adviser or an Affiliate, on behalf of a Client, may seek representation on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of such Client's position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Adviser or an Affiliate concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to such Client, it will resign from that committee or group, and such Client may not realize the benefits, if any, of participation on the committee or group. In addition, if such Client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of its investments in such company while it continues to be represented on such committee or group.

A Client may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Bank Loans and Participations. A Client's investment program may include investments in bank loans and participations. These obligations are subject to unique risks, including: (1) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (2) so-called lender-liability claims by the issuer of the obligations; (3) environmental liabilities that may arise with respect to collateral securing the obligations; (4) limitations on the ability of a Client to directly enforce its rights with respect to participations; and (5) possible claims for the return of some or all payments in a debt made within 90 days (and in some cases, within one year) of the date of the issuer's/borrower's insolvency came under Title 11 of the United States Code and under certain state laws. In analyzing each bank loan or participation, the Affiliate compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Client.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to other markets.

Investments in Undervalued Assets. A Client's investment portfolio is often invested in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses.

The Clients may be forced to sell, at a substantial loss, assets which the Adviser or an Affiliate believes are undervalued, if they are not in fact undervalued. In addition, the Clients may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of the Clients' funds would be committed to the assets purchased, thus possibly preventing the Clients from investing in other opportunities. In addition, the Clients may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

Risks of Litigation. Investing in distressed securities can be a contentious and adversarial process. Different investor groups may have qualitatively different, and frequently conflicting, interests. A Client's investment activities may include activities that are hostile in nature and will subject such Client to the risks of becoming involved in litigation by third parties. This risk may be greater where such Client exercises control or significant influence over a company's direction. The expense of defending against claims against such Client by third parties and paying any amounts pursuant to settlements or judgments would be borne by such Client and would reduce net assets and could require such Client's investors to return distributed capital and earnings to such Client. The Adviser or an Affiliate will be indemnified by such Client in connection with such litigation, subject to certain conditions.

Non-U.S. Investments. The Clients may invest in the securities of issuers located throughout the world. In making such investments, appropriate consideration will be given to the following factors, among others. Many securities markets are not as developed or efficient as others. Securities of some issuers are less liquid and more volatile than securities of comparable issuers in other countries. Similarly, volume and liquidity in securities markets vary and, at times, volatility of price can be greater in some countries than in others. The issuers of some of the securities, such as non-U.S. bank obligations, may be subject to different regulations than other issuers. In addition, there may be less publicly available information about issuers in some markets as opposed to issuers in other markets, and some issuers generally are not subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to other issuers.

The Clients may be subject to additional risks which include possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the securities may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by the Clients from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the Clients will reduce its net income or return from such investments. While the Adviser and its Affiliates will take these factors into consideration in making investment decisions for the Clients, no assurance can be given that the Clients will be able to fully avoid these risks.

Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in developing countries are new and largely untested. As a result, the Clients may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on the Clients and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in a court outside of the United States. Regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. Anti-fraud and anti-insider trading legislation is often rudimentary. The concept of fiduciary duty is also limited when compared to such concepts in Western markets. In certain instances, management may take significant actions without the consent of investors.

Equity Securities. Clients may invest in equity and equity related securities. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments.

Hedging Transactions. The Clients may utilize a variety of financial instruments, such as futures, forward contracts, swaps, and options and short positions, generally for risk management purposes in order to (i) protect against possible changes in the market value of the Clients' investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Clients' unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Clients' portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Clients' financial instruments; (vii) protect against any increase in the price of any financial instruments the Clients anticipates purchasing at a later date; or (viii) act for any other reason that the Adviser and its Affiliates deems appropriate. While the Clients may enter into hedging transactions to seek to reduce risk, such transactions may not be fully effective in mitigating the risks in all market environments or against all types of risk (including unidentified or unanticipated risks), thereby incurring losses to the Clients. In addition, such hedging transactions may result in a poorer overall performance for the Clients than if it had not engaged in any such hedging transactions. Moreover, the Adviser and its Affiliates may determine not to hedge

against, or may not anticipate, certain risks and the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties).

Call Options. The Clients may purchase and sell call options and there are risks associated with the sale and purchase of call options. The seller (writer) of a call option that is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss.

The buyer of a call option assumes the risk of losing its entire premium investment in the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security (if the market price of the underlying security declines).

Put Options. The Clients may purchase or sell (write) put options and there are risks associated with the sale and purchase of put options. The seller (writer) of a put option that is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option.

The buyer of a put option assumes the risk of losing its entire premium investment in the put option. If the buyer of the put holds the underlying security, the loss on the put will be offset, in whole or in part, by any gain on the underlying security.

Short Selling. A Client's investment program may include short selling for certain purposes. Such practice can, in certain circumstances, substantially increase the impact of adverse price movements on such Client's portfolio. A short sale of equity securities involves the theoretical risk of an unlimited increase in the market price of securities sold short. A short sale of a debt instrument such as a bond involves the theoretical risk of an increase in the market price plus accrued interest. Moreover, short selling is limited to securities that can be borrowed, and it may be necessary to cover short positions at an undesirable time and at undesirable prices because securities that were shorted can no longer be borrowed. In such cases, a Client can be "bought in" (*i.e.*, forced to repurchase securities in the open market to

return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Futures Contracts. Clients may invest in futures contracts. The value of futures depends upon the price of the instruments, such as commodities, underlying them. Futures contracts are expected to be used primarily to manage currency and general market risk. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, investments in futures are also subject to the risk of the failure of any of the exchanges on which a Client's positions trade or of its clearinghouses or counterparties.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent a Client from promptly liquidating unfavorable positions and subject such Client to substantial losses or from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Forward Trading. Clients may invest in forward transactions. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade, and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the Adviser or an Affiliate would otherwise recommend, to the possible detriment of a Client. Market illiquidity or disruption could result in significant losses to such Client.

Swap Agreements and Synthetic Assets. The Clients may acquire exposure to the risk of structured finance securities, debt securities and loans synthetically through products such as credit default swaps (including CDS and CDX contracts), total return swaps, credit linked notes, structured notes, trust certificates and other derivative instruments (each, a "Synthetic Asset"). There can be no assurance that Synthetic Assets, if undertaken as hedges, will be an effective hedging technique.

A Synthetic Asset could take many forms, including a credit derivative transaction that references a structured finance security, debt security and loan or a credit derivative transaction that references a portfolio or index of corporate reference entities or a portfolio or index of reference obligations consisting of structured finance securities, debt securities, bonds or other financial instruments (each, a "Reference Obligation"). Exposure to such Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of the assets referenced. The Clients will have a contractual relationship only with the synthetic asset counterparty, and not with the issuer(s) (the "Reference Entity") of the Reference Obligations unless a credit event occurs with respect to any such Reference Obligation, physical settlement applies and the synthetic asset counterparty delivers the Reference Obligation to the Clients. Other than in the event of such delivery, the Clients generally will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and the Clients will not have any rights of set-off against the Reference Entity. In addition, the Clients generally will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Clients also will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. The Clients will be subject to the credit risk of the synthetic asset counterparty, as well as that of the Reference Entity, as well as the documentation risk associated with these instruments.

In the event of the insolvency of the synthetic asset counterparty, the Clients will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Clients will be subject to the credit risk of the synthetic asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one synthetic asset counterparty will subject such Synthetic Assets to an additional degree of risk with respect to defaults by such synthetic asset counterparty as well as by the respective Reference Entities.

While the Clients expects that returns on a Synthetic Asset may reflect those of each related Reference Obligation, as a result of the terms of the Synthetic Asset and the assumption of the credit risk of the synthetic asset counterparty, a Synthetic Asset may have a different expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default.

Repurchase and Reverse Repurchase Agreements. A Client may enter into repurchase and reverse repurchase agreements. When a Client enters into a repurchase agreement, such Client "sells" securities issued by the U.S. or a non-U.S. government, or agencies thereof, to a broker-dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. While the securities are "sold" the Client may not be able to vote such securities on issues that may affect the ultimate value of the investment. In a reverse repurchase transaction, a Client "buys" securities issued by the U.S. or a non-U.S. government, or agencies thereof, 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 by such Client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by a Client involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such cases may involve costs to a Client.

Risks Associated with CDO Investments. Clients may invest in CDOs. The value of the CDOs generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets (the "CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished.

CDO Collateral may consist of high-yield debt securities, loans, ABS and other instruments (which often are rated below investment grade or of equivalent credit quality). High-yield debt securities and loans may be unsecured and subordinated to other obligations of the issuer. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer and/or economic conditions may impair the ability of the issuer or obligor to make payments of principal or interest.

The lack of an established, liquid secondary market for some CDOs (and CDO equity in particular) may have an adverse effect on the market value of those CDOs and will in most cases make it difficult to dispose of such CDOs at market or near market prices. Additionally, the public markets for high-yield corporate debt securities have experienced periods of volatility and periods of reduced liquidity, and CDOs will be subject to certain other transfer restrictions that may contribute to illiquidity. Therefore, if the Client decides to dispose of any particular CDO, no assurance can be given that it will be able to dispose of such CDO at the prevailing market price, if at all. Such illiquidity may adversely affect the price and timing of liquidations of CDO securities by the Clients.

Subordination of CDO Debt and CDO Equity. A Client's portfolio may consist of CDO equity and subordinate CDO debt. Subordinate CDO debt generally is fully subordinated to the CDO's senior tranches. CDO equity generally is fully subordinated to any CDO debt tranches. To the extent that any losses are incurred by a CDO in respect of its CDO collateral, such losses will be borne first by the holders of the CDO equity, next by the holders of any subordinated CDO debt and finally by the holders of the CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment while any CDO senior tranches are outstanding the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any subordinated CDO debt and/or the holders of the CDO equity, as applicable.

Risks Associated with Commercial Mortgage Loans. The Clients may invest in commercial mortgage loans. The value of the Clients' commercial mortgage loans will be influenced by the rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as result of such defaults. The factors influencing delinquencies, defaults and loss severity include (i) economic and real estate market conditions by industry sectors (e.g., multifamily, retail, office, etc.); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (i.e., the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Many commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans and CMBS bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation.

Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

Risks Associated with CMBS. The Clients may invest in CMBS and other mortgage-backed securities, including subordinated tranches of such securities. The value of CMBS will be influenced by factors affecting the value of the underlying real estate portfolio, and by the terms and payment histories of such CMBS.

Some or all of the CMBS contemplated to be acquired by the Clients may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated CMBS, so-called "B-pieces," in which the Clients may invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than "B" by rating organizations may be regarded as having extremely poor prospects of attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect the Clients from loss.

The Clients may acquire subordinated tranches of CMBS issuances. In general, subordinated tranches of CMBS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of nonpayment than senior tranches of CMBS or CMBS backed by third-party credit enhancement. As an investor in subordinated CMBS, the Clients will be first among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral. In addition, an active secondary market for such subordinated securities is not as well developed as the market for other mortgage-backed securities. Accordingly, such subordinated CMBS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

The value of CMBS and other mortgage-backed securities in which the Clients may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments while most residential mortgage loans may be prepaid at any time without penalty.

Risks Associated with Residential Mortgage Loans. The Clients may invest in residential mortgage loans, including subprime mortgages. Subprime mortgage loans are generally made to borrowers with lower credit scores. Accordingly, such mortgage loans backing residential mortgage-backed securities are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities. Recently, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance of the Clients. Delinquencies and losses with respect to residential mortgage loans have increased in recent months, and may continue to increase, particularly in the subprime sector. In addition, in recent months, housing prices and appraisal values in many states have declined or stopped appreciating, after extended periods of significant appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans, particularly with respect to second homes and investor properties and with respect to any residential mortgage loan where the aggregate loan amount (including any subordinate liens) is close to or greater than the related property value.

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable-rate mortgage loans. Borrowers with adjustable payment mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin.

Certain residential mortgage loans may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the required minimum monthly payments are less than the interest accrued on the loan, the interest shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. Because the related mortgagors may be required to make a larger single payment upon maturity, the default risk associated with such mortgage loans may be greater than that associated with fully amortizing mortgage loans.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have recently experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims.

Interest-Only Mortgage Loans. The Clients may invest in interest-only mortgage loans. Interest-only mortgage loans permit the borrowers to make monthly payments of only accrued interest generally for an initial period following origination. After such interest-only period, the borrower's monthly payment will be recalculated to cover both interest and principal so that the mortgage loan will amortize fully prior to its final payment date. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers to qualify for a mortgage loan who would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

Higher Risk of Loss on Loans Secured by Non-Owner Occupied Properties. The Clients may invest in mortgage loans that are secured by multifamily or mixed use properties, or by properties, including improved and unimproved land, held by borrowers for investment, or as second homes. These mortgage loans may present a greater risk of loss, and the unimproved land may present a significantly greater risk of loss, if a borrower experiences financial difficulties, because these borrowers may be more likely to default on a mortgage loan secured by non-owner occupied property than a mortgage loan secured by a primary residence of a borrower.

Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans. The Advisers may rely on credit scores as part of its due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generated by models developed by a third party that analyzed data on consumers in order to establish patterns that are believed to be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit, and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (*i.e.*, a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans.

Risks Associated with Residential Mortgage-Backed Securities. The Clients may invest in residential mortgage-backed securities ("RMBS"). Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in

pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. Certain mortgage loans may be of sub-prime credit quality (i.e., do not meet the customary credit standards of Fannie Mae and Freddie Mac). Delinquencies and liquidation proceedings are more likely with sub-prime mortgage loans than with mortgage loans that satisfy customary credit standards. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers which, among other things, may regulate interest rates and other fees, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. In addition, a number of legislative proposals have been introduced at both the federal, state and municipal level that are designed to discourage predatory lending practices. Violation of such laws, public policies and principles may limit the servicer's ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and administrative enforcement. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

It is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Asset-Backed Securities. Asset-backed securities ("ABS") use trusts and special purpose corporations to securitize various types of assets, primarily automobile and credit card receivables. The Clients may invest, either directly or indirectly, through CDOs, in these and other types of ABS that may be developed in the future.

ABS present certain risks that are not presented by mortgage-backed securities. Primarily, these financial instruments do not have the benefit of security interest in collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of entities involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with mortgage-backed securities, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

Leverage and Borrowing Risks. Certain Clients have the power to borrow funds and may do so when deemed appropriate by the Adviser and its Affiliates, including to enhance the Clients' returns and satisfy withdrawal requests that would otherwise result in the premature liquidation of investments. These Clients may borrow funds from brokers, banks and other lenders to finance its trading operations, which borrowings may be secured by assets of the Clients. The use of such leverage can, in certain circumstances, maximize the losses to which the Clients' investment portfolio may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that asset or the Client is leveraged. The cumulative effect of the use of leverage by the Clients in a market that moves adversely to the Clients' investments could result in a substantial loss to the Clients, which would be greater than if the Clients were not leveraged. Leverage may be achieved through, among other methods, direct borrowing, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements and swaps. The access to capital could be impaired by many factors, including market forces or regulatory changes. The Clients have unrestricted borrowing powers.

The use of margin and short-term borrowings creates several risks for the Clients. If the value of the Clients' securities falls below the margin level required by a prime broker, additional margin deposits would be required. If the Clients are unable to satisfy any margin call by a prime broker, then the prime broker could liquidate the Clients' position in some or all of the financial instruments that are in the Clients' accounts at the prime broker and cause the Clients to incur significant losses. Furthermore, secured counterparties and lenders may have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of collateral posted by the Clients. This could increase exposure to the risk of a counterparty default since, under such circumstances, the Clients may be unable to recover the posted collateral promptly or may be unable to recover all of the posted collateral. The occurrence of defaults may trigger cross-defaults under the Clients' agreements with other brokers, lenders, clearing

firms or other counterparties, creating or increasing a material adverse effect on the performance of the Clients.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and equity swaps generally involves little or no margin deposit and, therefore, will provide substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to the Clients.

Systemic Risk. Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Clients interact on a daily basis.

Currency and Exchange Rate Risks. A Client may invest in securities denominated or quoted in currencies other than the U.S. Dollar, changes in currency exchange rates may affect the value of such Client's portfolio and the unrealized appreciation or depreciation of investments. Such Client may seek to protect the value of some or all of its portfolio holdings against currency risks by engaging in hedging transactions, if available, cost-effective and practicable. Such Client may enter into forward contracts and futures contracts on currencies, as well as purchase put and call options on currencies. There is no certainty that instruments suitable for hedging currency shifts will be available at the time when such Client wishes to use them or that, even if available, the Partnership will elect to utilize a hedging strategy.

Investment in Secondary Partnership Interests. A Client may invest generally in minority positions in existing funds and partnerships. Investments in private funds and limited partnerships whose interests are not quoted can involve a greater risk than investments in quoted companies. The ability of a minority investor in such funds and companies to influence their affairs or to protect their position is generally limited. As a result, a Client may not be permitted to participate in the management and operations of such funds. Instead, the managers of such funds will have the sole authority to manage and operate such funds. Similarly, a Client or the Advisers is not likely to obtain representation on the board of directors or any control over the management of any company in which such Client may invest. The success of each investment will depend on the ability and success of the management of the portfolio companies in addition to economic and market factors. Moreover, the marketability of interests in such funds is restricted. Managers of the funds and limited partnerships in which a Client holds secondary interests generally will receive compensation based on the performance of their portfolios.

Uninsured Losses. The Advisers, on behalf of the Clients, will attempt to maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. Insurance against certain risks, such as earthquakes or floods, may be unavailable, available in amounts that are less than the full-market value or replacement cost of underlying properties or subject to a large deductible. In addition, there can be no assurance the particular risks which are currently insurable will continue to be insurable on an economically affordable basis.

Risks of Environmental Liabilities. Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under or in its property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances. The presence of hazardous substances, or the failure to remediate hazardous substances properly, may adversely affect the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral. In addition, some environmental laws create a lien on contaminated property in favor of the government for costs it incurs in connection with the contamination. In addition, to clean up actions brought by federal, state and local agencies and private parties, the presence of hazardous substances on a property may lead to claims of personal injury, property damage or other claims by private plaintiffs.

Financing Among Clients. Applicable tax and regulatory considerations may sometimes lead to certain real estate, Asian and other equity investments being structured in a manner such that a Client (or the entity through which such Client makes an investment) obtains debt financing from (or enters into a similar transaction with) other Clients. In such cases, the equity interest of such Client is subordinate to such loans and, accordingly, there may be circumstances in which the loans made by the other Clients is repaid in full while such Client is not able to recoup its equity investment or earn an adequate return. These transactions, however, are structured so that the projected return to the equity investment of such Client, after taking into account such borrowings, if obtained, would exceed the return to the other Clients with respect to its loans. The Adviser or an Affiliate will act in the best interests of all Clients in determining the amount of each such investment opportunity to structure as debt, the amount to structure as equity and the terms of any debt instruments. Additionally, the equity and debt holders with respect to an investment may have conflicting interests during the term of a particular investment, especially if the investment is not performing well.

Third-Party Involvement. A Client may co-invest with third parties through partnerships, joint ventures or other entities. Such investments may involve risks in connection with such third party involvement resulting in a negative impact on such investment, including the possibility that a third party co-venturer may have financial difficulties, may have economic or business interests or goals that are inconsistent with those of such Client or may be in a position to take (or block) action in a manner contrary to the Client's investment objective.

Contingent Liabilities. From time to time a Client may incur contingent liabilities in connection with an investment. For example, a Client may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, such Client would be obligated to fund the amounts due.

Taxes and Derivatives. The regulatory and tax environment for derivative instruments in which a Client may participate is evolving, and changes in the regulation or taxation of such investments may materially adversely affect the value of such investments and the ability of a Client to pursue its investment strategies.

Counterparty Risk. Some of the markets in which a Client may effect its transactions are "over-the-counter" or "inter-dealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes a Client to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing such Client to suffer a loss. In addition, in the

case of a default, a Client could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client has concentrated its transactions with a single counterparty or small group of counterparties. Clients are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, a Client has a limited internal credit function which evaluates the creditworthiness of its counterparties. The ability of a Client to transact business with any one or more counterparties, the lack of complete evaluation of such counterparties financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by such Client.

Necessity for Counterparty Trading Relationships; Counterparty Risk. The Adviser or an Affiliate expects to establish, on behalf of a Client, relationships to obtain financing, derivative intermediation and prime brokerage services that permit such Client to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Adviser or an Affiliate will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships would limit a Client's trading activities could create losses, preclude such Client from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent such Client from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Adviser or an Affiliate establishes additional relationships could have a significant impact on a Client's business due to such Client's reliance on such counterparties.

Furthermore, there is a risk that any of a Client's counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of a Client's counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of such Client's securities and other assets from such Client's prime brokers or broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, a Client may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to a Client's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on a Client and its assets.

A Client is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, a client has a limited internal credit function which evaluates the creditworthiness of its counterparties. The ability of a Client to transact business with any one or more counterparties, the lack of complete evaluation of such counterparty's financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a Client.

Risks of Counterparty Default. The stability and liquidity of repurchase agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. If there is a default by the counterparty to such a transaction, a Client will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of a Client being less than if such Client had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of a Client's counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of such Client's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, a Client may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to a Client's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on a Client and its assets. Investors in a Client should assume that the insolvency of any counterparty would result in a loss to such Client, which could be material.

Bank or Broker-Dealer Insolvency. While care is taken in selecting banks and broker-dealers that will maintain custody of certain of the assets of a Client, there is a residual risk that any of such banks or broker-dealers could become insolvent. Additionally, a large percentage of a Client's assets are held by a limited number of banks and broker-dealers. While most securities and assets deposited with broker-dealers will be clearly identified as being assets of a Client, such Client will be an unsecured creditor with respect to cash balances held with banks and broker-dealers, and hence, such Client may be exposed to a credit risk with regard to such parties.

Risk Arbitrage Trading by the Partnership Entails Significant Risks. In addition to investing in distressed securities, a Client may invest in risk arbitrage transactions, which are inherently volatile. The short-term performance of a Client's investments therefore may fluctuate significantly.

The price offered for securities of a company in a tender offer, merger or other acquisition transaction will generally be at a significant premium above the market price of the securities prior to the offer. The announcement of such a transaction generally will cause the market price of the securities to begin rising. A Client may purchase such securities after the announcement of the transaction at a price that is higher than the pre-announcement market price, but that is lower than the price at which the Adviser or an Affiliate expects the transaction to be consummated. If the proposed transaction is not consummated, the value of such securities purchased by such Client may decline significantly. It also is possible that the difference between the price paid by a Client for securities and the amount anticipated to be received upon consummation of the proposed transaction may be very small. If a proposed transaction in fact is not consummated or is delayed, the market price of the securities may

decline sharply. In addition, where a Client has sold short the securities it anticipates receiving in an exchange offer or merger, such Client may be forced to cover its short position in the market at a higher price than its short sale, with a resulting loss. If a Client has sold short securities which are not the subject of a proposed exchange offer, merger or tender offer and the transaction is consummated, such Client also may be forced to cover its short position at a loss.

In certain proposed takeovers, a Client may determine that the price offered for the securities is likely to be increased, either by the original bidder or by a competing offeror. In such circumstances, such Client may purchase securities at a market price that is above the offer price, incurring the additional risk that the offer price will not be increased or that the offer will be withdrawn. If no transaction ultimately is consummated, it is likely that a substantial loss will occur.

The consummation of a merger, tender offer or exchange offer can be prevented or delayed, or the terms changed, by a variety of factors, including: (i) the opposition of the management or shareholders of the target company, which may result in litigation to enjoin the proposed transaction; (ii) the intervention of a governmental regulatory agency; (iii) efforts by the target company to pursue a defensive strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, the failure to obtain the necessary shareholder (or, in some cases, regulatory) approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; or (vii) the failure of an acquirer to obtain the necessary financing to consummate the transaction.

In addition to engaging in securities arbitrage activity, a Client may invest and trade in the securities of companies that it believes are undervalued or that may become the target of a takeover. If the anticipated transaction in fact does not occur, or if the securities do not increase in value as anticipated, such Client may sell them at no gain or at a loss.

Uncertain Exit Strategies. Due to the illiquid nature of many of the positions which a Client is expected to acquire, as well as the uncertainties of the reorganization and active management process, the Adviser or an Affiliate is unable to predict with confidence what the exit strategy will ultimately be for any given investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Contribution and Indemnity Agreements. In connection with certain investments participated in by multiple Clients, one or more Clients may be required to provide to third parties guarantees, indemnification or assume certain liabilities associated with such investments (each, a "Liability"). In instances where not every Client participating in such investment is required by such third party to bear its *pro rata* share of such Liability, the Adviser or its Affiliates will cause such other Clients to enter into contribution and indemnification agreements for the benefit of the Clients agreeing to assume such Liability equal to their *pro rata* share of such Liability based on their ownership of the related investment. Although the Clients entering into such contribution and indemnification agreements will have assets in an amount necessary to cover their share of the assumed Liability at the time of entering such contribution and indemnification agreements, such assets may depreciate in value and/or may not be sufficiently liquid to provide prompt

contribution to the other Clients in the event an assumed Liability is required to be paid to such third party.

Conflicts Among Clients Relating to Investments in Different Parts of the Capital Structure of Portfolio Companies. Clients may invest in different layers of the capital structure of a portfolio company. For example, one or more Clients may own debt of a portfolio company while other Clients own equity in the same portfolio company. Furthermore, certain Clients may participate in debt originated to finance the acquisition by the Clients of an equity or other interest in a portfolio company. To the extent a reorganization or other major corporate event occurs with respect to such portfolio company, conflicts may exist between debt holders and equity holders and, accordingly, between certain Clients. The Adviser and its Affiliates seek to resolve such conflicts of interest in a fair and equitable manner. Conflict resolution may result in certain Clients receiving less consideration than they may have otherwise received in the absence of such a conflict of interest.

Certain Clients may invest in portfolio companies or other assets in which the other Clients already have an investment. A Client may provide follow-on funding for a portfolio company, which may benefit such Clients and the other Clients. A Client will not make such an investment unless the Adviser or its Affiliates believe the investment is consistent with such Client's investment program. Additionally, a Client may invest in a portfolio company in which another Client has a pre-existing investment. There can be no assurance that such Client will wish to make such investment or have available capital to do so, and the inability to make such follow-on investment may result in dilution of such Client's investment in the portfolio company.

ITEM 9
DISCIPLINARY INFORMATION

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of the Adviser's advisory business or the integrity of the Adviser's management.

ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

The Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the Securities and Exchange Commission (the "SEC") as a broker-dealer or registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status.

The Adviser and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

Affiliated Advisers

Each of Cerberus Associates, L.L.C. ("Cerberus Associates"), Cerberus Associates II, L.L.C., Cerberus Asia Associates, L.L.C., Cerberus Institutional Associates (America), L.L.C., Cerberus Institutional Associates, L.L.C., Cerberus Institutional Associates II, L.L.C., Cerberus Institutional International Associates, L.L.C., Cerberus Levered Opportunities GP, LLC, Cerberus Real Estate GP, L.L.C., Old Stand Real Estate, LLC, Cerberus RMBS Associates, L.L.C. and Styx Associates LLC, is an Affiliate and serve, respectively, as the general partner of CP, CP II, CAP – Series One and Series Two, CIPA – Series One and Series Two, CIP – Series One, Series Two, Series Three and Series Four, CIP V, CIPI – Series One, CLLOF, CIREP – Series One and Series Two, BCP, RMBS, CULLOF and SP. Cerberus Associates also serves as the managing member of Cerberus SPV. Partridge Hill Overseas Management, LLC ("PHOM"), which is also an Affiliate, serves as the investment manager to CI, CI SPV and SI. Cerberus Capital Management II, L.P. ("CCM II"), which is also an Affiliate, serves as the investment manager of CI II and RMBS Feeder. Blackacre Capital Management, LLC, an Affiliate, serves as the investment manager of BAO.

Several Affiliates of the Applicant currently serve as management companies to the Private Funds and provide certain administrative and managerial services. CCM II is the management company for CLLOF, CP, CULLOF, RMBS and SP. Blackacre Capital Management II, LLC is the management company of BCP. PHOM is the management company of CAP. CCM II and Cerberus Institutional Management II, LLC ("CIM II") both provide administrative and managerial services to CIP. CIM II is also the management company for CIPA and CIP V. Cerberus Institutional International Management Company, LLC is the management company for CIPI. Cerberus Real Estate Capital Management, LLC is the management company for CIREP. Partridge Hill Management, LLC, an Affiliate, serves as an investment manager to Gabriel. CG Manager, LLC, is an Affiliate and serves as the managing member of each of CG Investor, LLC ("CG Investor"), Cerberus CG Investor I LLC, Cerberus CG Investor II LLC and Cerberus CG Investor III LLC. CG Investor serves as the managing member of CG Investment Group, LLC. CG Investment Manager, LLC, is an Affiliate and serves as the management company to the CG Investor Companies.

In addition to the above affiliated general partner, investment management and management companies, the Adviser retains and provides compensation to the following affiliated advisers: (i) Cerberus Japan K.K., a Tokyo-based affiliate, (ii) Cerberus Asia Pacific Advisors Limited, a Hong Kong-based affiliate, (iii) Cerberus Beijing Advisors Limited, a Beijing-based affiliate, (iv) Cerberus Deutschland Beteiligungsberatung GmbH, a Frankfurt-based affiliate, (v) Cerberus European Capital Advisors, LLP, a London-based affiliate which is registered with the U.K. Financial Services Authority, (vi) Cerberus Iberia Advisors, S.L., a Madrid-based affiliate, (vii) Cerberus Global Investment Advisors, LLC, an affiliate with offices in New York and Baarn, The Netherlands and (viii) Cerberus Middle East Capital Advisors Limited, a Dubai-based affiliate which is registered with the Dubai Financial Services Authority. Certain affiliated advisers provide advice on Asian, European and other non-U.S. investment opportunities.

With respect to U.S. investment opportunities, the Adviser retains and provides compensation to the following affiliated advisers: (i) Cerberus California, LLC, a Los-Angeles-based affiliate and (ii) Cerberus Capital Chicago LLC, a Chicago-based affiliate.

Operations Team

The Adviser established Cerberus Operations and Advisory Company, LLC, a New York and Chicago-based affiliate and Cerberus Asia Operations and Advisory Limited, a Hong Kong-based affiliate (collectively, "Cerberus Operations") to employ a team of operating advisers for the purpose of providing services to the Clients and portfolio companies in which the Clients invest. Clients and/or the portfolio companies in which they have invested reimburse Cerberus Operations or its affiliates for the cost of providing such services as described below. To the extent that a member of the operations team not physically resident in, or supported by, the Advisers' offices on a substantially full-time basis is: (i) primarily involved in due diligence for a proposed transaction; (ii) actively working at or with one or more of the Clients' portfolio companies as an operating executive or consultant; (iii) providing material assistance to the management of one or more of the portfolio companies; or (iv) providing material assistance to the Clients in connection with the surveillance and monitoring of one or more portfolio companies, the cost of such person is generally borne by the portfolio company or the Client or Clients invested in the relevant portfolio company. All other members of the operations team are paid by the Advisers. To the extent the cost of an operations team member is paid by the Clients, such costs are allocated between or among Clients in proportion to the amount of their investment in the relevant portfolio company. To the extent an operations team member performs some services paid by the Clients and some services paid by the Advisers, such costs are allocated among the Clients and the Advisers in proportion to the percentage of time spent on such matters.

Affiliated Service Providers

Yamato Servicing K.K. ("Yamato") and Shin Ze Asset Management Servicing Company ("Shin Ze") are the companies affiliated with the Adviser that perform loan servicing, management and due diligence with respect to certain investments made by the Private Funds. Such Private Funds pay fees for the services Yamato and Shin Ze provide, which fees do not offset management fees or performance-based compensation paid to the Advisers. The arrangements with Yamato and Shin Ze contain terms at least as favourable as are generally attainable on an arm's length basis and provide for compensation that is competitive with the compensation paid for comparable services.

Ancillary Fees

The Adviser or its Affiliates may receive directors' fees, break-up fees and other fees in connection with a Private Fund's or the managed account's investments. The amount received by the Adviser or its Affiliates will typically reduce dollar-for-dollar the management fees, incentive fees, incentive allocations or carried interest to be received.

Conflicts of Interest

As indicated above, the Adviser and its Affiliates manage a number of Clients, some of which have investment programs that are similar or substantially similar. In addition, the Adviser or its Affiliates may in the future establish, sponsor and become affiliated with other pooled investment vehicles and companies that have investment programs that are similar or substantially similar to the investment program of its current Clients. As a result of the foregoing, the Adviser and its personnel may have conflicts of interest in allocating their time and resources between clients, in allocating investments among Clients and other entities, and in effecting transactions between Clients and other entities, including ones in which the Adviser or its personnel may have a financial interest. Accordingly, the Adviser will devote so much of its time and will allocate the time and resources of its operations team to its Clients as in its judgment the conduct of each Client's account reasonably requires.

In addition, generally, the Adviser exercises investment responsibility on behalf of, or directly or indirectly purchases, sells, holds or otherwise deals with, any portfolio investment for the account of multiple Clients and multiple businesses. Clients will not have any right to participate in any manner in any profits or income earned or derived by or accruing for the Adviser or its Affiliates from the conduct of any business or from any transaction in investments effected by the Adviser or its Affiliates for any account other than its own.

To address these potential conflicts of interests in its material relationships, the Adviser has adopted policies and procedures, including a Code of Ethics and the Allocation Procedures. For a more detailed discussion of the Adviser's Code of Ethics and allocations and conflicts of interest policies, please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," below.

D. Material Conflicts of Interest Relating to Other Investment Advisers.

Two of the Clients currently have legacy investments in three "sub-advisers". These investments represent less than 0.05% of the Adviser's assets under management.

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

A. Code of Ethics.

The Advisers have implemented a personal securities trading policy, which is incorporated by reference to the Advisers' Code of Ethics and Business Conduct (the "Code of Ethics"), that prohibits employees from engaging in transactions with respect to the securities of any issuer, public or private, subject to certain limited exceptions. One of the exceptions to the prohibition on personal trading of certain types of securities (generally, governmental securities, money market instruments, money market funds, open-end mutual funds and unit investment trusts) where employees do not have any opportunity to benefit from any of the private, proprietary or confidential information of the Advisers or the Clients. In addition, employees may transact in exchange-traded funds and participate in private investments upon advance written notice to and written approval from the Securities Compliance Committee of the Advisers. Consistent with the foregoing policies, it is possible that employees of the Advisers will buy or sell securities or other instruments of the type or kind of securities or other instruments also recommended to Clients.

The Advisers are committed to the highest standards of ethical conduct. In furtherance thereof, the Advisers' Code of Ethics designates a Compliance & Risk Management Committee (the "Compliance & Risk Management Committee") charged with the implementation of the Code of Ethics. The Code of Ethics specifies and prohibits certain types of transactions deemed to create actual conflicts of interest, the potential for conflicts, or the appearance of conflicts, and establishes general guidelines for the conduct of the Adviser personnel as well as clearance and/or reporting requirements and enforcement procedures.

In recognition of the trust and confidence placed in the Advisers by the investors in the Private Funds, and by managed accounts, and to give effect to the Advisers' belief that their operations should be directed to the benefit of the Clients, the Advisers adopted the following general principles to guide the actions of their employees:

- (i) The interests of the Clients are paramount. All employees must conduct themselves and their operations to give maximum effect to this tenet by assiduously placing the interests of the Clients before their own.
- (ii) All permitted personal transactions in securities by employees must be accomplished so as to avoid the appearance of a conflict of interest on the part of such personnel with the interests of the Clients.
- (iii) All employees must avoid actions or activities that allow a person to profit or benefit from his or her position with respect to the Clients or that otherwise improperly bring into question the person's independence or judgment.
- (iv) All employees must report any violation(s) of the Code of Ethics or inappropriate conduct to the Compliance & Risk Management Committee.

- (v) All employees must comply with all applicable laws, rules and regulations, including Federal securities law.

The Advisers require that all Adviser personnel avoid any relationship or activity that might impair, or even appear to impair, such individual's ability to make objective and fair decisions when performing job functions. The Code of Ethics prohibits Adviser personnel from using Adviser property or information for personal gain or personally taking for themselves any opportunity that is discovered through their Adviser position. The Code of Ethics further requires that employees disclose any situation, including situations pertaining to the employee's family members, with reasonably could be expected to give rise to a conflict of interest. The Code of Ethics also contains general prohibitions against fraud, deceit and manipulation, as well as additional restrictions and requirements regarding gifts, entertainment and outside activities.

The Advisers have adopted a Securities Compliance Policy and have designated a Securities Compliance Committee charged with the implementation of such policy. The Securities Compliance Policy sets forth, among other things, policies and procedures regarding material nonpublic information and proprietary Adviser information, and employee accounts and trading. The policies and procedures contained in the Securities Compliance Policy are designed to (a) provide for the proper handling of both material nonpublic information about companies or other issuers and proprietary information of the Advisers, (b) prevent violations of laws and regulations prohibiting the misuse of material nonpublic information about companies or other issuers and/or proprietary information of the Advisers, and (c) avoid situations that might create an appearance that material nonpublic information about companies or other issuers or proprietary information of the Advisers has been misused. In furtherance thereof, the Securities Compliance Policy prohibits employees from misusing material nonpublic information and/or nonpublic proprietary information, and sets forth general and specific procedures to restrict the flow of material nonpublic information from employees performing investment, transactional, lending, finance, private research and/or private analysis activities at the Advisers to employees responsible for or involved in the securities trading activities of the Advisers.

Notwithstanding the internal screen procedures set forth in the Securities Compliance Policy, there may be certain instances where the Advisers receive material nonpublic information due to their various activities on behalf of the Clients and are restricted from purchasing or selling securities or other instruments from the Clients. The Advisers seek to minimize those cases whenever possible, consistent with applicable law and the Securities Compliance Policy, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

The Securities Compliance Policy is incorporated by reference to the Code of Ethics. The Adviser will provide a copy of the Code of Ethics to any Client or investor of a Private Fund or prospective client or investor in a Private Fund upon request.

Adviser personnel are required to certify to their compliance with the Code of Ethics, including the Securities Compliance Policy, on an annual basis.

B. Securities That You or a Related Person Has a Material Financial Interest.

From time to time, the Advisers may, on behalf of the Clients, engage in cross trades. Such cross trades will be executed at the market price (or fair value) consistent with any required approvals and with valuation procedures established by the Advisers and the relevant Clients

for the securities or other instruments being purchased and sold. The Advisers have implemented policies and procedures to ensure that cross trades are, in the reasonable determination of the Advisers, in the best interests of each transacting Client. The Advisers will receive no transaction-based compensation in connection with cross trades (other than incentive allocations/fees and management fees received in the ordinary course of business). In addition, cross trades generally will be effected without brokerage commissions being charged. To the extent a cross trade may be viewed as a principal transaction due to the ownership interest in a Client by the Advisers or their employees, the Advisers will either not effect such transactions or comply with the requirements of Section 206(3) of the Advisers Act, including that the Advisers will notify Clients (or an independent representative of the Clients) in writing of the transaction and obtain the consent of Clients (or an independent representative of the Clients).

From time to time, a Client may enter into a participation agreement granting an economic interest with respect to an investment in exchange for value to one or more other Clients in accordance with a pre-arranged allocation schedule. There are a number of reasons why the Advisers might pre-arrange an arrangement where an investment opportunity is participated between or among Clients at the time of an investment rather than allocate such investment directly to each participating Client. The Advisers do not consider such a pre-arranged participation arrangement between or among Clients to constitute a cross trade for purposes of the Advisers Act.

C. Investing in Securities That You or a Related Person Recommends to Clients.

See response to Item 11(A).

D. Conflicts of Interest Created by Contemporaneous Trading.

The Adviser manages investments on behalf of a number of Clients. Certain Clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. Investment decisions and allocations are not necessarily made in parallel among all Clients. If an investment is appropriate for one or more of the Clients, the investment generally will be allocated among such Clients *pro rata* based on available investment capital for each Client eligible to participate in such investment. A Client's available investment capital is determined as follows: (i) with respect to a Client structured as a private equity fund, available investment capital is capital commitments to such Client at the final closing of the private equity fund and (ii) with respect to a Client that is a hedge fund, available investment capital is the net asset value of such fund at the time of the investment. The available investment capital, as determined in accordance with clause (i) and (ii) above, is then (i) increased by the amount of financing available to a Client pursuant to a fixed financing arrangement and (ii) reduced by an allowance, determined periodically in advance for each Client, reflecting assets or committed capital not available for new investments and/or for anticipated future cash needs of such Client. However, the Adviser in its sole discretion may make non-*pro rata* allocations among the Clients based upon a wide variety of factors including, among other things, tax and regulatory considerations, the overall portfolio composition of such Clients and the risk profile and investment restrictions (including limitations with respect to leverage) for such Clients.

Additionally, Clients managed by the Adviser and its Affiliates have different investment restrictions and, accordingly, may make investments that are different. Because the Adviser and/or its Affiliates may make non-pro rata allocations, Clients managed by the Adviser or its Affiliates may produce results that are materially different from each other.

For tax and regulatory considerations, investments may be structured so that one Client account receives loans from, or makes loans to, another Client account. In structuring such investments, the Adviser and/or Affiliates will weigh the conflicting interests of the different Clients in determining the amount to allocate to debt and equity and the terms of these loans.

Certain Clients managed by the Adviser and its Affiliates have tax considerations that limit the types of investments such Clients may make and that impact the method by which such Clients must structure their investments. As a result of tax considerations, Clients may end up investing in different levels of the capital structure of the same portfolio company.

The Adviser and its Affiliates may cause a Client to purchase a security from (including participations in loans or other investments) or sell a security to, another Client.

ITEM 12

BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.

The Adviser or its Affiliates has complete discretion, without obtaining specific client consent, to (i) buy or sell securities, (ii) the amount of the securities to be bought or sold, (iii) the broker or dealer to be used in such purchase or sale and (iv) the commission rates paid in connection with such purchase or sale.

The Adviser or its Affiliates will effect transactions with brokers that (with respect to U.S. securities) are registered with the SEC and are members of the Financial Industry Regulatory Authority. The Adviser or its Affiliates will select brokers on the basis of their ability to provide best execution (including both the trade price and commission).

Investors in the Clients may include fund of funds affiliated with brokers or, possibly, brokerage firms themselves. The fact that any such investor has invested in a Client will not be taken into consideration in selecting brokers (including prime brokers).

1. Research and Other Soft Dollar Benefits.

The Adviser or its Affiliates will attempt to negotiate the lowest available commission rates commensurate with the assurance of reliable, high quality brokerage services; however, the Adviser or its Affiliates may select brokers that charge a higher commission or fee than another broker would have charged for effecting the same transaction; provided, that the selection of a broker will be made on the basis of best execution, taking into consideration various factors, including commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions, the broker's facilities, and the broker's provision or payment of the costs of research and other services or property that are of benefit to the Adviser or other Clients to which the Adviser or Affiliates provide investment services; provided, further, that the Adviser or Affiliates may be influenced in its selection of brokers by their provision of other services, including, without limitation, capital introduction, marketing assistance, consulting with respect to technology, operations, equipment and office space, and other services or items. Such execution services, research, investment opportunities or other services may be deemed to be "soft dollars"; however, the Adviser or its Affiliates have not entered into written soft dollar arrangements.

The provision by a broker of research and other services and property to the Adviser creates an incentive for the Adviser or its Affiliates to select such broker since the Adviser and its Affiliates would not have to pay for such research and other services and property as opposed to solely seeking the most favourable execution for a Client. Any research, services or property provided by a broker may benefit any Client of the Adviser and such benefits may not be proportionate to commission dollars related to the provision of such research, services or property.

2. Brokerage for Client Referrals.

As discussed above, subject to best execution, the Advisers may consider, among other things capital introduction, marketing assistance, consulting with respect to technology, operations, equipment and office space, and other services or items in selecting broker-dealers for Client transactions. The Advisers do not receive Client referrals in exchange for brokerage business.

3. Directed Brokerage.

The Adviser does not recommend, request or require that a client direct the Adviser to execute transactions through a specified broker-dealer.

B. Aggregated Orders for Various Client Accounts.

If the Adviser determines that the purchase or sale of the same security is in the best interest of more than one Client, the Adviser may, but is not obligated to, aggregate orders in order to reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client will receive the average price with transaction costs allocated *pro rata* based on the size of each Client's participation in the order as determined by the Adviser. In the event of a partial fill, allocations generally will be made on a *pro rata* basis on the initial order but may be modified on a basis the Adviser deems appropriate, including for example, in order to avoid odd lots or *de minimis* allocations.

C. Trade Errors.

Trade errors and allocation errors may occur as a result of mistakes made on the part of an executing broker, or mistakes on the part of Adviser personnel including, but not limited to, portfolio managers, traders and operations staff. To the extent that errors occur, the Advisers maintain trade error and allocation error policies and procedures. In accordance with such procedures, trade errors are: (i) corrected by the Advisers as soon after discovery as practicable; and (ii) corrected in a manner whereby the Advisers minimize any profit and loss as a result of trade errors. The Advisers strive to correct all trade errors prior to settlement. Any profit that results from a trade error is left in the account of the applicable Client. Broker-dealers ("brokers") that cause trade errors as a result of their own mistakes should be responsible for any losses that result from such errors. The Advisers do not compensate brokers with soft dollars for absorbing trade errors. Should an error be made with regard to the allocation of a particular investment opportunity, the details of the error and its resolution are memorialized in the Advisers' books and records.

Pursuant to various exculpation and indemnification provisions, the Advisers and their personnel generally will not be liable to the Clients for any act or omission, absent bad faith, gross negligence, willful misconduct or fraud. In addition, the Clients generally will be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Client, absent bad faith, gross negligence, willful misconduct or fraud. As a result of these provisions, the Client (and not the Advisers) will be responsible for any losses resulting from trading and allocation errors and similar human errors, absent bad faith, gross negligence, willful misconduct or fraud. Trading and allocation errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system, failures of oral communication between and among investment staff, trading staff and

operations staff, or typographical or drafting errors related to derivatives contracts or similar agreements. Given the nature of the Clients' business, investors are advised that trading and allocation errors (and similar errors) will occur and the Clients, in such cases, will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the personnel of the Advisers.

ITEM 13

REVIEW OF ACCOUNTS

A. Frequency and Nature of Review of Client Accounts or Financial Plans.

The Adviser performs various daily, monthly, quarterly and other periodic reviews of the Private Funds' portfolios and the portfolios of the managed account. Daily reviews include account liquidity monitoring by the Adviser's risk personnel and members of the Financial Risk Management Sub-Committee, as well trade reviews by the Adviser's Head Trader and Chief Compliance Officer. Monthly reviews include portfolio valuation, price validations and account concentration monitoring by the Adviser's Chief Financial Officer and risk personnel. Quarterly reviews include portfolio valuation reviews by the Adviser's Valuation Committee. Periodic reviews include portfolio monitoring by the Adviser's Chief Administrative Officer/Co-General Counsel.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review.

A review of a Client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

Investors in the Private Funds receive from the Adviser or its Affiliates, typically in an electronic format, unaudited quarterly reports providing summary financial and other information on their Private Fund. The Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Adviser or its Affiliates. In addition, the Adviser or its Affiliates provide to investors of the Private Funds, typically in an electronic format, audited financial statements concerning their respective Private Fund and tax information necessary for the completion of such investor's return within 120 days of the end of the Private Fund's fiscal year.

Investors are also provided with performance and other detailed information so that each investor can monitor its investment in the Clients. The Advisers welcome inquiries from investors in the event any investor desires information not contained in the Advisers' Form ADV Part 1, Form ADV Part 2 or other relevant offering material or Client reports. The Advisers will endeavor to answer all reasonable and appropriate questions in a timely fashion, while maintaining the confidentiality of sensitive non-public and proprietary information related to the operations and investments of the Advisers and the Clients. The Advisers do not publish investor questions and answers and generally do not otherwise disseminate such answers to all investors of the relevant Client.

In addition, with respect to CAP, CIPA, CIPI, CIP, CIP V and CIREP, the Adviser and its Affiliates will hold an annual meeting for their respective investors.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients.

The Adviser does not receive economic benefits from non-Clients for providing investment advice and other advisory services.

B. Compensation to Non-Supervised Persons for Client Referrals.

Neither the Adviser nor a related person directly or indirectly compensates any person for Client referrals. The Adviser has engaged a placement agent (the "Placement Agent") to solicit certain types of prospective investors ("Placement Agent Clients") for investments in the Private Funds. The Adviser may in the future enter into additional arrangements with third party placement agents, distributors or others to solicit investors in the Private Funds and such arrangements will generally provide for the compensation of such persons for their services at the Adviser's expense.

ITEM 15

CUSTODY

Rule 206(4)-2 promulgated under the Advisers Act (the "Custody Rule") (and certain related rules and regulations under the Advisers Act) imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

The Advisers are required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which they have custody with a "qualified custodian". Qualified custodians include banks, brokers, futures commission merchants and certain foreign financial institutions.

Rule 206(4)-2 imposes on advisers with custody of clients' funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients' funds or securities. However, an adviser need not comply with such requirements with respect to pooled investment vehicles subject to audit and delivery if each pooled investment vehicle: (i) is audited at least annually by an independent public accountant, and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to their investors, all limited partners, members or other beneficial owners within 120 days (180 days in the applicable case of a fund of fund adviser) of its fiscal year-end. The Advisers rely upon this audit exception with respect to the Clients.

ITEM 16
INVESTMENT DISCRETION

The Adviser or its Affiliates have been appointed as the investment manager, management company, manager or general partner of the "Clients" with discretionary trading and investment authorization. The Adviser or its Affiliates have full discretionary authority with respect to investment decisions, and its advice with respect to the "Clients" is made in accordance with the investment objectives and guidelines as set forth in such Client's respective private placement memoranda, if any, investment management agreement or other organizational document. The Adviser or its Affiliates assume discretionary authority to manage the Clients through the execution of investment management agreements or through the organizational documents of Clients (*e.g.*, limited partnership agreements).

ITEM 17
VOTING CLIENT SECURITIES

The SEC adopted Rule 206(4)-6 under the Advisers Act, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rules, the Advisers have adopted proxy voting policies and procedures (the "Policies"). The Adviser is committed to voting proxies in a manner consistent with the best interest of the Clients. While the decision whether or not to vote a proxy must be made on a case-by-case basis, the Adviser generally does not vote a proxy if it believes the proposal is not adverse to the best interest of the Clients, or, if adverse, the outcome of the vote is not in doubt. In the situations where the Adviser does vote a proxy, the Adviser generally votes proxies in accordance with specified guidelines. A copy of the Policies and the proxy voting record relating to a Client may be obtained by contacting the Adviser.

ITEM 18
FINANCIAL INFORMATION

The Adviser is not required to include a balance sheet for its most recent financial year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.