

**ITEM 1
COVER PAGE**

PART 2A OF FORM ADV: FIRM BROCHURE

MEDLEY CREDIT STRATEGIES, LLC

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This brochure provides information about the qualifications and business practices of Medley Credit Strategies, LLC (“**we**,” “**us**,” or “**our**”). If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer, Richard T. Allorto, at 212-759-0777 or rallorto@medleycapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

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

We are a registered investment adviser under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). Our registration under the Advisers Act does not imply any level of skill or training.

ITEM 2

MATERIAL CHANGES

Pursuant to the requirements and rules of the Securities and Exchange Commission (the “**SEC**”), we will ensure that you receive a summary of any material changes to this brochure and subsequent brochures within 120 days of the close of our fiscal year. We will also provide ongoing disclosure about material changes as such changes may arise.

Our brochure may be requested, free of charge, by contacting our Chief Compliance Officer, Richard T. Allorto, at 212-759-0777 or rallorto@medleycapital.com.

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Brochure Supplement(s)

ITEM 4 ADVISORY BUSINESS

A. General Description of Advisory Firm

We are a Delaware limited liability company, organized on March 18, 2009. On April 4, 2011, shortly after having consummated a business combination with Medley Capital Holdings, LLC (the “**Medley Business Combination**”), our name was changed from Viathon Capital IM GP, LLC to Medley Credit Strategies, LLC. We have been in business for approximately three years. Medley Capital Holdings LLC and Mr. Comizio are the principal owners of our firm. The principal owners of Medley Capital Holdings LLC are Andrew Fentress, Brook Taube, Seth Taube, and Bernard Schwartz, who own their interests indirectly through one or more entities.

We provide investment advisory services to Medley Credit Strategies, LP, a Delaware limited partnership (the “**Onshore Fund**”), Medley Credit Strategies, Ltd., a Cayman Islands exempted company (the “**Offshore Fund**”), and Medley Credit Strategies Master LP, a Cayman Island exempted limited partnership (the “**Master Fund**”). In addition, we currently provide investment advisory services as a sub-adviser to managed accounts (collectively, the “**Managed Account Clients**”), each of which is an affiliate of the other and engaged in business as an open-ended investment company and is registered under the Investment Company Act of 1940, as amended (the “**1940 Act**”).

We refer to each of the Onshore Fund, the Offshore Fund, and the Master Fund individually as a “**Fund**,” and collectively, as the “**Funds**.” We refer to the Funds and the Managed Account Clients, together with any future clients, collectively as our “**Clients**.”

In connection with the Medley Business Combination, we have adopted, with other advisory affiliates of Medley Capital (the “**Medley Capital Advisory Affiliates**”), a Code of Ethics and compliance policies and procedures which comprise our Regulatory Compliance Manual. The Code of Ethics and certain of these policies and procedures are described in this Brochure. The Medley Capital Advisory Affiliates file their own brochure under the name MCC Advisors, LLC.

B. Description of Advisory Services

We provide investment management, advisory, and certain administrative services, and other related services (collectively, the “**investment advisory services**”) pursuant to investment management agreements or other documents that describe the terms of the engagement (each, an “**IMA**”). In addition, we operate under basic policies and principles applicable to the conduct of our investment advisory business. These policies and principles are based upon general concepts of fiduciary duty, the specific requirements of the Advisers Act, the rules and regulations thereunder, and our internal policies.

The investment advisory services we provide to Clients include sourcing potential investments, conducting research and due diligence on potential investments and equity sponsors, analyzing investment opportunities, structuring investments, and monitoring investments and portfolio companies.

Although we primarily focus on investments related to credit opportunities and special situations, including, without limitation, capital structure arbitrage, distressed and event driven instruments, we provide investment advice to Clients regarding a variety of investments and do not specialize in a particular form of investment advisory service.

When formulating investment advice and managing the assets of the Funds, we seek to construct a diversified portfolio of investments using an approach that prioritizes capital preservation while allowing for the creation of an attractive return on investment. We focus on investments in a broad range of securities and fixed income instruments, including, without limitation, loans, debt, and equity of moderately levered, stressed, or distressed companies, as well as options, swaps, and other derivative instruments. Investments in such financial instruments may be made on securities exchanges, over-the-counter, and through privately negotiated transactions.

C. Availability of Customized Services for Individual Clients

We tailor our advisory services to the individual needs of our Clients. The Client's IMA, offering memorandum (the "OM"), or other organizational documents (together with the IMA and the OM, the "**Offering Documents**") provide more detailed descriptions of each Client's investment objectives and may contain investment guidelines, policies, or restrictions. Unless otherwise specified in the applicable Offering Documents, there are no material limitations to the types of securities, instruments, or interests in which we may invest in on behalf of our Clients. We reserve the right and flexibility to invest in any security, instrument, or interest and any sector of the market to carry out the overall objectives of our Clients. Such objectives, strategies, and policies may be expected to evolve materially over time.

We provide our services to the Managed Account Clients in accordance with their investment objectives, policies, and restrictions as provided in (i) the then-current prospectus and statement of additional information, which are part of the registration statements on Form N-1 filed by each of the Managed Account Clients with the SEC (the "**Registration Statements**"), and (ii) any written guidelines provided to us by the Managed Account Clients.

Certain investors may invest on terms that differ from the terms generally applicable to other investors. Further, in certain cases, classes of ownership interests may be established with terms that differ from those described in the relevant Offering Documents. We may also manage Client accounts that have similar investment programs, but different investment terms. Such differing terms may include, but are not limited to, terms relating to the ability to withdraw or redeem capital, access to information, management and performance fees and allocations, and special rights to make future investments. Such modifications may in some cases be based upon, among other things, the size of an investor's investment, an agreement by an investor to maintain such investment for a specified period of time, or other commitments by an investor. Additionally, our officers and employees may invest on terms that differ from those of Clients (or underlying investors).

D. Wrap Fee Programs

We do not participate in any wrap fee programs.

E. Assets Under Management

As of December 31, 2011, we had \$47,057,347 assets under management on a discretionary basis and no assets under management on a non-discretionary basis.

ITEM 5 FEES AND COMPENSATION

A. General

As noted above, a written IMA governs the terms of compensation and the manner in which we charge fees to each of our Clients. The following discussion provides an overview of our current fee and compensation arrangements.

We or our affiliates receive base management and performance-based incentive fees or allocations (each, a “**Fee**” and collectively, “**Fees**”) for the investment advisory services we provide to our Clients in accordance with the terms set forth in the relevant Offering Documents.

Subject to the terms of the applicable IMA or other Offering Documents, Clients may elect to be billed directly for Fees, or may arrange to have such Fees debited directly from the Client’s account. Our base management fees are paid quarterly or monthly, in advance or arrears, depending on the Client, based on net assets at the beginning or end of the applicable period. Incentive fees or allocations are typically paid to us or our affiliate annually in arrears. Fees are generally prorated for partial periods.

Clients may incur certain charges imposed by custodians, administrators, brokers, and other third parties, including custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Our management fees are exclusive of such brokerage commissions, custody fees, fund expenses, transaction fees, and other related costs and expenses. We do not receive any portion of these commissions, fees, and costs and will not receive a brokerage commission or other compensation attributable to the sale of securities or other investment products.

For a detailed discussion of the factors that we consider in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of commissions and compensation for such broker-dealers, please see Item 12, “Brokerage Practices.”

B. Investment Management Agreement with the Funds

We provide our investment advisory services to the Funds pursuant to an IMA (the “**MCS IMA**”). In exchange for our investment advisory services, the Master Fund pays us a base management fee (the “**MCS Base Management Fee**”) calculated at a quarterly rate of 0.5% of the net asset value of (i) each limited partner’s capital account in the Onshore Fund, calculated as of the first day of each quarter and (ii) each series of shares of the Offshore Fund. The MCS Base Management Fee is payable quarterly in advance. The Onshore Fund and Offshore Fund do not directly pay us a base management fee. Rather, the Master Fund charges a pro-rata management fee to investors in the Onshore Fund and Offshore Fund. Subject to certain restrictions found in the Offering Documents, we may be permitted to change such arrangements and pay or allocate the MCS Base Management Fee at the Onshore Fund and Offshore Fund level. In addition, the MCS IMA provides specific formulae for calculating the Fees with respect to side pockets, and in the case of withdrawals and redemptions. Pro-rata Fees will be charged to investors in the Funds with respect to any Fund interests purchased during a quarter.

Pursuant to the Amended and Restated Exempted Limited Partnership Agreement of the Master Fund, the Master Fund pays our affiliate an annual performance allocation (the “**MCS Performance Allocation**”) equal to (i) 20% of the Onshore Fund’s net income (as described in the Offering Documents) attributable to each investor, subject to a high-water mark, and (ii) 20% of the Offshore Fund’s net profits (as described in the Offering Documents) attributable to each series of shares, subject to a high-water mark. The MCS Performance Allocation is payable annually in arrears.

The MCS IMA may be terminated by either the Funds or by us at any time upon 30 days’ written notice. Investors in the Funds may withdraw or redeem ownership interests quarterly upon at least 75 days’ written notice without penalty; and at other times, investors in the Fund may be subject to a penalty fee payable to the Fund. Interests will be redeemed at the net asset value less deduction for Fund expenses, including applicable Fees accrued through the redemption date. Any withdrawal or redemption within 12 months from the date of the investment shall be subject to an early redemption fee. If an investor is permitted to redeem other than on a regularly scheduled redemption date, the Fund may impose additional administrative fees to cover the legal, accounting, administrative, brokerage, and any other costs and expenses associated with such redemption. No part of the Fees will be refunded in the event that an investor withdraws all or any of its investment, whether voluntarily or involuntarily, during any quarter.

We may, in our sole discretion, waive or reduce the Fees with respect to one or more investors in the Funds for any period of time, or agree to apply a different management fee for any investor (including in the form of a rebate or otherwise). For example, an early stage strategic investor (the “**Strategic Investor**”) in the Funds is subject to lower Fees than other investors in the Funds, and is entitled to share in certain of the Fees.

Pursuant to the terms of the MCS IMA, we are responsible for our own general operating and overhead expenses, including but not limited to, the cost of providing relevant support and administrative services (e.g., employee compensation and benefits, rent, office equipment, insurance, utilities, telephone secretarial, clerical, and bookkeeping services, etc.). The Funds may pay or reimburse us or our affiliates for all expenses related to the organization and initial offering expenses of each Fund.

The Funds are responsible for their operating expenses, including, without limitation, those relating to:

- expenses incurred in connection with the ongoing offer and sale of securities, including, but not limited to, printing of the confidential offering memoranda and exhibits and documentation of performance and the admission of investors;
- tax preparation fees, governmental fees and taxes, administrator fees, director fees and expenses (as applicable), and costs of communications with investors;
- ongoing legal, accounting, auditing, bookkeeping, consulting, and other professional fees and expenses;
- research, trading, and investment costs and expenses (e.g., brokerage commissions, margin interests, expenses related to short sales, custodial fees, clearing and

settlement charges, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, consultations, general reports, newswire and data processing charges, quotation equipment, and services (e.g., Reuters, Bloomberg, Bridge, First Call, etc.));

- all expenses incurred in connection with investigating and researching investments including issuers of securities and other instruments (including but not limited to attending conferences, conference fees and related expenses, and meeting with management or industry consultants); and
- all fees and other expenses incurred in connection with the investigation, prosecution, or defense of any claims, assertion of rights, or pursuit of remedies, by or against the applicable Fund, including, without limitation, professional and other advisory and consulting expenses and travel expenses, and whether or not pursuant to bankruptcy or other legal proceedings, or participation in informal committees of creditors or other security holders of an issuer.

The MCS IMA provides that we shall not be liable to the Funds or any investors for any action or inaction in connection with the business of the Funds unless such actions or inaction is found to constitute gross negligence or willful misconduct. Further, it shall be conclusively presumed and established that we are entitled to exculpation pursuant to the MCS IMA if any action is taken or not taken on the advice of legal counsel or other independent outside consultants. In addition, unless we act with gross negligence or willful misconduct in performing our duties we are entitled to indemnification by the Funds against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our service as an investment adviser to the Funds.

C. Investment Management Agreement with the Managed Account Clients

We provide our investment advisory services to the Managed Account Clients pursuant to two Sub-Investment Advisory Agreements (the “**Managed Account IMAs**”). In exchange for our investment advisory services, the Managed Account Clients pay us a management fee (the “**Managed Account Management Fee**”) at the annual rate of 1.00% of the average daily net assets allocated to us by the Managed Account Clients. The Managed Account Management Fee is payable monthly in arrears. The Managed Account Clients do not pay us a performance fee.

The Managed Account IMAs may be terminated at any time, without payment of any penalty, by the Managed Account Clients or by us with 60 days’ written notice. In addition, the Managed Account IMAs shall automatically and immediately terminate in the event of an assignment, as defined in the 1940 Act.

We are responsible for paying our own costs and expenses related to providing investment advisory services to the Managed Account Clients and the Managed Account Clients shall be responsible for their own expenses. The Managed Account Clients (or their affiliates) will reimburse us for actual transaction costs such as brokerage commissions and for preparation of reports for the Managed Account Clients.

Pursuant to the Managed Account IMAs, we will not be liable for any error of judgment or law, or for any loss suffered by the Managed Account Clients or their shareholders in

connection with the Managed Account IMAs, unless we act with willful malfeasance, bad faith, or gross negligence in the performance of our duties or with reckless disregard of our obligations and duties under the Managed Account IMAs. Further, the adviser to the Managed Account Clients will indemnify us (in our role as sub-adviser to the Managed Account Clients) against any and all losses, claims, damages, liabilities, or litigation expenses arising out of the adviser's responsibilities to the Managed Account Clients, except to the extent that such liability arises by reason of our willful misfeasance or gross negligence in the discharge of our obligations and performance of our duty under the Managed Account IMAs.

D. Additional Compensation and Conflicts of Interest

We do not receive a brokerage commission or any other compensation attributable to the sale of securities or investment products and our personnel do not receive such compensation.

ITEM 6

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

While the specific terms may vary by Client, we typically receive management and performance-based incentive fees from our Clients in consideration of our provision of investment advisory services. We do not charge Clients any other type of fee, such as an hourly or flat fee. The terms and conditions of our Fee arrangements are subject to individualized negotiations with each Client. Further, we structure any Fee arrangement in accordance with Section 205(a)(1) of the Advisers Act and the rules and regulations thereunder, including the exemption set forth in Rule 205-3 permitting performance fee or allocation arrangements with “qualified clients.”

Conflicts Relating to Performance Fees

Performance-based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those that we may otherwise recommend under a different fee arrangement. In the allocation of investment opportunities, performance-based fee arrangements may also create an incentive for us to favor Clients with performance or incentive fee arrangements over Clients that are not charged a performance fee. We and our affiliated advisors have adopted an order aggregation and trade allocation policy (the “**Aggregation and Allocation Policy**”), which is designed to ensure that all of our respective Clients are treated fairly and equally and to prevent this form of conflict from influencing the allocation of investment opportunities among Clients.

Generally, under our Aggregation and Allocation Policy, a fixed percentage of each investment opportunity will be offered to each Client for which such investment opportunity is suitable. Allocations among Clients will generally be made pro-rata based on, among other things, each Client account’s capital available for investment. It is our policy to base determinations as to the amount of capital available for investment on such factors as: the amount of cash on-hand, existing capital commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements, and other investment policies and restrictions set by our Clients or imposed by applicable laws, rules, regulations or interpretations. We seek to treat all Clients reasonably; however, in some instances, especially in cases of limited liquidity or limited availability of a particular investment opportunity, there may be investments in which one or more Clients may not participate.

Conflicts Relating to our Fees and Valuation of Investments

The Funds’ administrator will calculate the net asset value of the investments held by the Funds in reliance on portfolio valuations provided by us in accordance with GAAP and the Offering Documents. Any securities, commodities, options and other financial instruments that have no public market, and investments in other asset classes, including those in side pocket accounts, and all other assets of the Funds for which a valuation methodology is not specified, will be valued by us in a manner determined in good faith to reflect their fair market value (which may be above or below cost).

In addition, pursuant to the Managed Account IMAs, we, or our agent, will assist the custodian and recordkeeping agent of the Managed Account Clients in determining or confirming, consistent with the procedures and policies stated in the Registration Statements, the value of any portfolio securities or other assets for which the custodian and recordkeeping agent seeks our assistance or review. We will assist the Managed Account Clients in determining the fair value of such securities or assets for which market quotations are not readily available.

Because we will receive higher Fees if the assets are given a favorable valuation, there may be a conflict of interest when we participate in the valuation of assets. To mitigate these potential conflicts, we have adopted a valuation policy to ensure that valuations are properly and consistently determined.

ITEM 7

TYPES OF CLIENTS

We currently provide investment advisory services to the Funds, investments in which are offered to high net worth, financially sophisticated individual and institutional investors. In addition, we provide investment advisory services to the Managed Account Clients.

The minimum account size necessary to open and maintain an account with us varies by the type of Client. The Funds for which we act as investment adviser typically requires an initial minimum investment of \$500,000. For Clients which are managed accounts, the minimum target account size is generally \$5,000,000.

Investors in the Funds generally must be “accredited investors” as defined in Rule 501(a) of Regulation D of the Securities Act of 1933, as amended, and may also need to be “qualified purchasers” within the meaning of the 1940 Act. Investors in the Offshore Fund must be non-U.S. citizens or U.S. tax-exempt entities.

Depending on the circumstances (including fund size, investment strategy, and level of required portfolio servicing), we may impose or waive minimum investment requirements that might otherwise apply to the particular Fund or Client account.

ITEM 8
METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

We, on behalf of our Clients, seek to achieve attractive risk-adjusted returns through a focus on both long and short credit opportunities. We employ investment strategies including long/short high yield, stressed and distressed, event driven, capital structure arbitrage, and long/short equities and options. We seek to construct a diversified portfolio of investments using an approach that prioritizes capital preservation while allowing for the creation of consistent risk adjusted returns. For a description of the strategy employed on behalf of each Client, please also see, Item 4B, “Advisory Business – Description of Advisory Services.”

We combine a top-down industry review with a bottom-up credit-intensive fundamental analysis, to identify potential investment opportunities. An in-depth review of the financial statements of a company in which the Funds are considering an investment will generally be conducted to develop an enterprise value based on credit models, financial models, and sensitivity analysis. This review is generally followed by a detailed analysis and understanding of the covenants, collateral, and security situated at various levels of the company’s capitalization, including its debt and equity. We will often supplement this analysis by meeting with management teams and industry experts, performing due diligence with key customers and suppliers, reviewing regulatory filings, attending investor presentations, and/or obtaining input from outside research analysts. We then determine, in our opinion, an intrinsic value of a particular level of the company’s capitalization that will be compared to its market value to determine the appropriate position within the company’s capital structure in which to invest. We will also generally evaluate the technical trading aspects of a potential investment, seeking what we believe to be the optimal market entry and exit points for the position. The technical trading analysis generally includes consideration of a number of trading catalysts, including, among others, company-specific credit news, activity of ratings agencies, any related structured transactions, market sentiment and buying/selling dynamics of the investment grade, high yield and distressed markets, including the capital flow of the applicable market.

We manage our Clients’ portfolios by monitoring, on an ongoing basis, their positions and investment concentration by credit and by industry. There will be no minimum or maximum holding period for any of the securities in the portfolios. Each position within our Clients’ portfolios will be re-evaluated on an ongoing basis to determine if any changes in the original investment thesis have occurred that would warrant adjusting the position. The overall long/short balancing of the portfolios will vary according to our outlook of the market, as well as opportunities based on estimated fundamental changes in a credit. We believe that a key tenet to managing risk within the portfolios will be consistently challenging and re-evaluating the investment thesis that drives the overall portfolio.

Because our primary strategy involves the frequent trading of securities, investment performance may be adversely affected as a result of increased brokerage and other transaction costs and taxes.

B. Risk of Loss

Investing with us involves significant risks and is suitable only for those investors who can bear the economic risk of the loss of their entire investment and who have limited need for liquidity in their investment. There can be no assurance that Clients will achieve their investment objective. An investment with us carries with it the inherent risks associated with investments in credit opportunities and special situations, including capital structure arbitrage, distressed and event driven investments, as detailed above, including the following material risks:

Accuracy of Public Information. We select investments for our Clients, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to us by the issuers or through sources other than the issuers. Although we evaluate all such information and data and sometimes seek independent corroboration when the Investment Manager considers it is appropriate and when it is reasonably available, the Investment Manager is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available. Investments may not perform as expected if information is inaccurate.

Investments in Securities and Other Assets Believed to be Undervalued. Our investment program contemplates that a portion of our Clients portfolio may be invested in securities and other assets that the Investment Manager believes to be undervalued. The identification of such investment opportunities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While such investments offer the opportunities for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses. Returns generated from our Clients' investments may not adequately compensate for the business and financial risks assumed. It is likely that a major economic recession could severely disrupt the market for such investments and severely impact on their value. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such obligations to repay principal and pay interest thereon and increase the incidence of default for such securities. Additionally, there can be no assurance that other investors will ever come to realize the value of some of these investments, and that they will ever increase in price. Furthermore, our Clients may be forced to hold such investments for a substantial period of time before realizing their anticipated value. During this period, a portion of our Clients' funds would be committed to the investments made, thus possibly preventing our Clients from investing in other opportunities.

Investments in Small Capitalization and Unseasoned Companies. Our investment program contemplates that a portion of our Clients' portfolio may be invested in small and/or unseasoned companies with small market capitalization. While these companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification and/or competitive strength of larger and/or more established companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject

to wider price fluctuations. Due to the lower trading volume of smaller company securities, our Clients may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time when making large sales.

Investing in Restricted Securities and Private Equity. Our Clients may invest a portion of its assets in non-marketable securities and non-public companies. Any such securities or other interests acquired by our Clients will generally have restrictions on resale and, even in the absence of such restrictions, may not be marketable. Even in the case of PIPE transactions where registration of the purchased securities is often agreed upon, registrations as promised may not occur. In addition, the ability of our Clients to profit from many of its investments will be highly dependent upon the ability of portfolio companies to progress in their development to the point where they can become an attractive merger or acquisition candidate or effect a public offering. Numerous factors may impede or prevent a company from reaching this point, including inadequate capital, unfavorable competitive developments, inadequate management or loss of key persons, technology obsolescence, and lack of market acceptance. Companies may face significant capital shortfalls for a wide variety of reasons. Product development, modernization of technology or acquisition and integration of a new unit or subsidiary may prove more expensive or take more time than anticipated and the growth in revenues may be slower than expected. In any such event, our Clients may be asked to provide additional capital. If our Clients are unable or refuses to provide the additional capital, the portfolio company may obtain the needed funds from another source, diluting the earlier investment by our Clients. Alternatively, the inability of the company to obtain the needed financing may result in the failure of the company and a loss of the investment by our Clients. While our Clients may have an advisory role in the companies in which it makes private equity investments and expects to have certain contractual rights to protect its investment, including shareholder agreements, our Clients will not have control over such companies, and will be dependent upon the management of such companies to manage such companies in a manner that allows our Clients to realize upon its investment. In addition, shareholders with controlling interests in such investments may be able to take actions, which adversely affect the value of the investment or the interest therein of our Clients.

Investment in Reorganizations and Restructurings. Our Clients may make investments in restructurings which involve companies that are experiencing or are expected to experience severe financial difficulties. These severe financial difficulties may never be overcome and may cause such companies to become subject to bankruptcy proceedings. In such situations, our Clients' investment is subject to the risk that a bankruptcy filing may adversely and permanently impact the value of a company and that high administrative costs may impair the value of the company. In addition, such investments could subject our Clients to certain additional potential liabilities that may exceed the value of our Clients' original investment therein. For instance, under certain circumstances, payments to our Clients and distributions by our Clients to Limited Partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in distressed companies and restructurings may be adversely affected by statutes relating to, among

other things, fraudulent conveyances, voidable preferences, lender liability and the court's discretionary power to disallow, subordinate or disenfranchise particular claims.

Having an influence or "blocking position" in a security which is subject to a plan of reorganization or a restructuring entails significant risks if our Clients' evaluation of the anticipated outcome of the investment situation should prove incorrect. In addition, an investment in a company involved in a reorganization proceeding or restructuring entails significant risks if our Clients' evaluation of the anticipated outcome of the investment situation should prove incorrect. Furthermore, an investment in a company involved in a reorganization proceeding or restructuring may be adversely impacted if our Clients' evaluation of the timing of such outcome should prove incorrect. Some of the investments our Clients will make may require active monitoring and representation on official and unofficial creditors' committees for a company involved in a reorganization proceeding or restructuring. Accordingly, our Clients may seek representation on such committees from time to time if the Investment Manager in its discretion determines that such representation is necessary or advisable to protect or further our Clients' interests. Serving on an official or unofficial committee increases the possibility that our Clients will be deemed an "insider" or a "fiduciary" of the company it has so assisted and may restrict our Clients' trading of its investments in such company. Should such assistance be provided before a company enters bankruptcy proceedings, the Bankruptcy Court, under certain conditions such as a finding of fraud or inequitable conduct, may invoke the doctrine of "equitable subordination" with respect to any claim or equity interest held by our Clients in such company and subordinate any such claim or equity interest in whole or in part to other claims or equity interests in such company. Claims of equitable subordination may also arise outside of the context of our Clients' committee activities. In addition, if representation of a creditors' committee of a company causes our Clients, the General Partner or the Investment Manager to be deemed an affiliate of the company, the securities of such company held by our Clients may become restricted securities, which are not freely tradable. As our Clients will indemnify the General Partner, the Investment Manager or any other person serving on a committee on their behalf for claims arising from the breaches of those obligations, indemnification payments could adversely affect the return on our Clients' investment in a portfolio company.

Bank Loans and Participations. Our Clients may invest a portion of its assets in bank loans and participations. The special risks associated with these obligations include, among others, (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) environmental liabilities that may arise with respect to collateral securing the obligations, (iii) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality and (iv) limitations on the ability of our Clients to directly enforce its rights with respect to participations. We intend to balance the magnitude of these risks against the potential investment gain prior to entering into each such investment. Successful claims by third parties arising from these and other risks, absent bad faith, may be borne by our Clients.

A number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed “**Lender Liability**”). Generally, Lender Liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of our Clients’ investments, our Clients could be subject to allegations of Lender Liability.

Non-Control Oriented Investments. Our Clients may make initial investments in companies, with the intent to subsequently acquire a larger, and potentially “blocking” or controlling, position. Unless and until such a position is acquired, our Clients will have a very limited ability to protect its position in such companies. Even if such a position is acquired, our Clients may still have significant limits on its ability to protect its position in such companies.

Investment in Highly Leveraged Companies. Our Clients’ investments are expected to include investments in companies whose capital structures may have significant leverage (including substantial leverage senior to our Clients’ investments), a considerable portion of which may be at floating interest rates. The leveraged capital structure of such companies will increase their exposure to adverse economic factors such as rising interest rates, downturns in the economy or further deteriorations in the financial condition of the company or its industry. Our Clients’ investments may be among the most junior financing in a company’s capital structure. In the event such company cannot generate adequate cash flow to meet debt service, our Clients, particularly in light of what under certain circumstances may be the subordinated position of our Clients’ investments, may suffer a partial or total loss of capital invested in the company, which, dependent upon the size of our Clients’ investments, could adversely affect the return of our Clients.

Investments in Distressed Securities and Assets. Our Clients may invest a portion of their assets in unrated debt securities and distressed debt. Distressed debt may be private or public securities, including senior and subordinated bonds and other debt instruments, of companies that are in, have been in or are about to enter bankruptcy or are otherwise experiencing severe financial or operational difficulties. Unrated debt securities and distressed debt generally are considered to have more risk than other debt securities. Companies issuing such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to changes in the economy than better capitalized companies. Although distressed debt may already be trading at substantial discounts to prior market values, there is significant risk that the financial, legal or other status of the issuer may deteriorate even further.

Our Clients may also invest a portion of its assets in stocks of, or real property previously held by, companies that are in, have been in or are about to enter bankruptcy or are otherwise experiencing severe financial or operational difficulties. The prices of these securities (or parcels of real property) fall in anticipation of the financial distress when their holders choose to sell, rather than remain invested in a financially troubled

company. This investment strategy seeks to capitalize on the knowledge, flexibility and long-term investment horizon of our Clients. These securities, however, have little stock market dependence or correlation to the performance of the stock market, succeeding or failing based upon our effectiveness and knowledge in uncovering all of the variables specific to a distressed company.

Special Situation Investments. Our Clients may invest in companies involved in (or that are the targets of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which will be less than the purchase price to our Clients of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur our Clients may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of the transactions involving financially troubled companies in which our Clients may invest, there is a potential risk of loss by our Clients of its entire investment in such companies.

High Yield Fixed Income Securities. Our Clients may invest in “high yield” bonds that are rated in the investment grade and sub-investment rating categories by various credit rating agencies. High yield securities and/or comparable non-rated securities are subject to greater risk of loss of principal and interest than higher rated securities and are generally considered to be more speculative with respect to the issuer’s capacity to pay interest and repay principal. Because investors generally perceive that there are greater risks associated with such securities, the yields and prices of such securities may be more volatile than those for higher rated securities. The market is thinner, often less liquid, and less active than for higher rated securities, which can adversely affect the prices at which these securities can be sold and may even make it impractical to sell such securities.

Market or Interest Rate Risk. The price of most fixed income securities move in the opposite direction of the change in interest rates. For example, as interest rates rise, the prices of fixed income securities fall. If our Clients hold a fixed income security to maturity, the change in its price before maturity may have little impact on our Clients’ performance; however, if our Clients have to sell the fixed income security before the maturity date, an increase in interest rates could result in a loss to our Clients.

Call Option Risk. Many bonds, including agency, corporate and municipal bonds, and all mortgage-backed securities, contain a provision that allows the issuer to “call” all or part of the issue before the bond’s maturity date. The issuer usually retains this right to refinance the bond in the future if market interest rates decline below the coupon rate. There are three disadvantages to the call provision. First, the cash flow pattern of a callable bond is not known with certainty. Second, because the issuer will call the bonds when interest rates have dropped, our Clients are exposed to reinvestment rate risk – our Clients will have to reinvest the proceeds received when the bond is called at lower

interest rates. Finally, the capital appreciation potential of a bond will be reduced because the price of a callable bond may not rise much above the price at which the issuer may call the bond.

Maturity Risk. In certain situations, our Clients may purchase a bond of a given maturity as an alternative to another bond of a different maturity. Ordinarily, under these circumstances, our Clients will make an adjustment to account for the interest rate risk differential in the two bonds. This adjustment, however, makes an assumption about how the interest rates at different maturities will move. To the extent that the yield movements deviate from this assumption, there is a yield-curve or maturity risk. Another situation where yield-curve risk should be considered is in the analysis of bond swap transactions where the potential incremental returns are dependent entirely on the parallel shift assumption for the yield curve.

Inflation Risk. Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if our Clients purchase a 5-year bond in which it can realize a coupon rate of 5%, but the rate of inflation is 6%, then the purchasing power of the cash flow has declined. For all but inflation linked bonds, adjustable bonds or floating rate bonds, our Clients are exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

Synthetic Securities. In addition to credit risks associated with holding non-investment grade loans and high yield debt securities, with respect to synthetic securities, our Clients will usually have a contractual relationship only with the counterparty of such synthetic securities, and not the Reference Obligor (as defined below) on the Reference Obligation (as defined below). Our Clients generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of set-off against the Reference Obligor, nor have any voting rights with respect to the Reference Obligation. Our Clients will not benefit directly from the collateral supporting the Reference Obligation or have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of insolvency of the counterparty, our Clients will be treated as a general creditor of such counterparty, and will not have any claim with respect to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of synthetic securities in any one counterparty subject the notes to an additional degree of risk with respect to defaults by such counterparty as well as by the Reference Obligor. A “**Reference Obligor**” is the obligor on a Reference Obligation. A “**Reference Obligation**” is the debt security or other obligation upon which the synthetic security is based.

Structured Finance Securities. Our Clients may invest in structured finance securities such as, for example, equipment trust certificates, secured leases, collateralized mortgage obligations, collateralized bond obligations, collateralized loan obligations or similar instruments. Structured finance securities may present risks similar to those of the other

types of investments in which our Clients may invest and, in fact, such risks may be of greater significance in the case of structured finance securities. Moreover, investing in structured finance securities may entail a variety of unique risks. Among other risks, structured finance securities may be subject to prepayment risk. In addition, the performance of a structured finance security will be affected by a variety of factors, including its priority in the capital structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

Leverage. When deemed appropriate by the us and subject to applicable regulations, our Clients may incur leverage in its investment program, whether directly through the use of borrowed funds, or indirectly through investment in certain types of financial instruments with inherent leverage, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent our Clients purchases securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of our Clients. If the interest expense on this leverage were to exceed the net return on the investments made with borrowed funds, our Clients' use of leverage would result in a lower rate of return than if our Clients were not leveraged.

If the amount of leverage which our Clients may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of our Clients' portfolios will have disproportionately large effects in relation to our Clients' capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional leverage will generally cause the Net Asset Value of our Clients to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the leveraged capital fails to cover their cost to our Clients, the Net Asset Value of our Clients will generally decline faster than would otherwise be the case.

Certain of our Clients' trading and investment activities may be subject to FRB margin requirements, which are computed each day. At present, the FRB's Regulation T permits a broker to lend no more than 50% of the purchase price of "margin stock" bought by a customer. When the market value of a particular open position changes to a point where the margin on deposit does not satisfy maintenance margin requirements, a "margin call" on the customer is made. If the customer does not deposit additional funds with the broker to meet the margin call within a reasonable time, the customer's position may be closed out. In the event of a precipitous drop in the value of the assets managed by our Clients, our Clients might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low

prices, incurring substantial losses. With respect to our Clients' trading activities, our Clients, and not the Limited Partners personally, will be subject to margin calls.

Overall, the use of leverage, while providing the opportunity for a higher return on investments, also increases the volatility of such investments and the risk of loss. Investors should be aware that an investment program utilizing leverage is inherently more speculative, with a greater potential for losses, than a program that does not utilize leverage.

Short Sales. When deemed appropriate by us, our Clients may sell securities short. Short selling involves the sale of a security that our Clients does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery to its purchaser, our Clients must borrow securities from a third party lender. Our Clients subsequently returns the borrowed securities to the lender by delivering to the lender the securities it receives in the transaction or by purchasing securities in the open market. Our Clients must generally pledge cash with the lender equal to the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains his right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities, the lender generally pays our Clients a fee for the use of our Clients' cash. This fee is based on prevailing interest rates, the availability of the particular security for borrowing and other market factors.

Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. Our Clients may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

Options and Other Derivative Instruments. We may invest, from time to time, in options and derivative instruments, including buying and writing puts and calls on some of the securities held by our Clients in an attempt to supplement income derived from those securities. The prices of many derivative instruments, including many options and swaps, are highly volatile. The value of options and swap agreements depend primarily upon the price of the securities, indexes, commodities, currencies or other instruments underlying them. Price movements of options contracts and payments pursuant to swap agreements are also 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. Our Clients are also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses or of counterparties. The cost of options is related, in part, to the degree of volatility of the underlying securities, currencies or other assets. Accordingly, options on highly volatile securities, currencies or other assets may be more expensive than options on other investments.

Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument or asset on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument or asset at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price.

If a put or call option purchased by our Clients were permitted to expire without being sold or exercised, our Clients would lose the entire premium it paid for the option. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying instrument or asset caused by rising interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold to our Clients at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying instrument or asset caused by declining interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold by our Clients at a lower price than its current market value.

Purchasing and writing put and call options and, in particular, writing “uncovered” options are highly specialized activities and entail greater than ordinary investment risks. In particular, the writer of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying instrument or asset above the exercise price of the option. This risk is enhanced if the instrument or asset being sold short is highly volatile and there is a significant outstanding short interest. These conditions exist in the stocks of many companies. The instrument or asset necessary to satisfy the exercise of the call option may be unavailable for purchase except at much higher prices. Purchasing instruments or assets to satisfy the exercise of the call option can itself cause the price of the instruments or assets to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, the sale of an uncovered call option could result in a loss by our Clients of all or a substantial portion of its assets.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

Hedging Transactions. Investments in financial instruments such as forward contracts, options, commodities and interest rate swaps, caps and floors, and other derivatives are commonly utilized by investment funds to hedge against fluctuations in the relative values of its portfolio positions as a result of changes in currency exchange rates, interest rates and/or the equity markets or sectors thereof. Any hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions’ value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for

our Clients to hedge against a fluctuation at a price sufficient to protect our Clients' assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. For example, the cost of options is related, in part, to the degree of volatility of the underlying instruments or assets. Accordingly, options on highly volatile instruments or assets may be more expensive than options on other instruments or assets and of limited utility in hedging against fluctuations in their prices.

We are not obligated to establish hedges for portfolio positions and may not do so. To the extent that hedging transactions are effected, their success is dependent on our ability to correctly predict movements in the direction of currency and interest rates and the equity markets or sectors thereof.

Risk of Operations/Liquidity Risks. Although many of the securities that our Clients may acquire will be traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it difficult or impossible for our Clients to liquidate its positions and would thereby expose it to losses. In addition, some of the securities in which our Clients may invest may be thinly traded, restricted, or not traded in a public market, potentially making it difficult for our Clients to dispose of a position at the time or price desired. Moreover, in periods of extreme market volatility, the bid/ask spreads for some securities that ordinarily are liquid may widen, making it difficult or undesirable to sell the securities. Moreover, there is a possibility that the institutions, including brokerage firms and banks, with which our Clients will do business or with which securities may be entrusted for custodial purposes, will encounter financial difficulties that may impair the operational capabilities or the capital position of our Clients. We will seek to mitigate this risk by selecting financially responsible broker-dealers, clearing firms, and counterparties with which to do business. Furthermore, if Partners elected to withdraw a substantial amount of capital from their capital accounts as of the end of a given monthly period, our Clients might be forced to close out existing positions at a time when it was disadvantageous to do so. There can be no assurance that the trading markets will remain liquid enough for management to close out existing positions at any time there is a need to do so.

Investments in Non-U.S. Investments. Our Clients may invest and trade, from time to time, a portion of its assets in non-U.S. securities and other assets (through ADRs and otherwise), which will give rise to risks relating to political, social and economic developments abroad, as well as risks resulting from the differences between the regulations to which U.S. and non-U.S. issuers and markets are subject.

Risk of Default or Bankruptcy of Third Parties. Our Clients may engage in transactions in securities, commodities, other financial instruments and other assets that involve counterparties. Under certain conditions, our Clients could suffer losses if a counterparty to a transaction were to default or if the market for certain securities, commodities, other financial instruments and/or other assets were to become illiquid. In addition, our Clients could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which our Clients does business, or to which securities, commodities, other financial instruments and/or other

assets have been entrusted for custodial purposes. For example, if our Clients' prime broker and custodian were to become insolvent or file for bankruptcy, our Clients could suffer significant losses with respect to any securities held by such firm.

For a more complete discussion of the risks associated with investing with us, potential investors should refer to each Fund's Offering Documents and the Registration Statements of the Managed Account Clients.

C. Recommendation of a Particular Type of Security

While we have broad discretion in making investments for our Clients, our Clients' investments will generally consist of securities and financial instruments related to credit opportunities and special situations.

ITEM 9
DISCIPLINARY INFORMATION

To the best of our knowledge, there are no legal or disciplinary events that are material to our Clients' evaluation of our advisory business or the integrity of our management.

ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration

Neither we nor our management personnel (i) are registered as broker-dealers; or (ii) have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

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

Neither we nor our management personnel (i) are registered as a futures commission merchant, commodity pool operator, commodity trading advisor or an associated person of the foregoing; or (ii) have any application pending to register with respect to any of the foregoing.

C. Material Relationships and Conflicts of Interests with Industry Participants

Our relationships and arrangements with our various affiliates, including Medley Capital Holdings, LLC and its advisory affiliates (“**Medley Capital Advisory Affiliates**”), Clients and other industry participants are material to our advisory business. Prospective investors should carefully consider the risks involved in an investment with us, including, but not limited to, those discussed below. Prospective investors should consult their own legal, tax and financial advisers as to all of these risks and as to an investment with us generally. For the purposes of this section 10.C, the terms “we,” “us,” and “our” include our Medley Capital Advisory Affiliates.

Conflicts Relating to Multiple Clients.

We provide investment advisory services to multiple Clients including the Funds and the Managed Account Clients. In addition, we expect to act as the investment manager to other investment vehicles and accounts in the future. There is no limit on the number of investment vehicles or accounts that we may manage or advise. Further, we and our personnel may have investments in certain of our Clients. As a result of the foregoing, we may have conflicts of interest in (i) allocating the time and resources of our personnel between and among our various Clients, (ii) allocating investment opportunities between and among Clients, and (iii) effecting transactions between Clients, including Clients in which we or our personnel may have different financial interests.

To address actual and potential conflicts of interest and to fulfill our fiduciary duties to each of our Clients, we, have adopted the Code of Ethics and the Conflicts Procedures (defined below), as well as our Aggregation and Allocation Policy, which provides for the allocation of investment opportunities in a manner that is fair and equitable over time so that no Client is disadvantaged in relation to any other Client. In certain cases, an investment opportunity that is suitable for multiple Clients may not be capable of being shared among some or all of such Clients due to the limited availability of the opportunity or other factors. In situations where co-investment among multiple Clients is not feasible, permitted or appropriate, we will need to decide which Client(s) will proceed with the investment. We will make these determinations

based on our Aggregation and Allocation Policy, which generally required that such opportunities be offered to eligible Clients on a basis that will be fair and equitable over time.

In addition, the Managed Account IMAs include provisions regarding our ability to aggregate trades and allocate orders, which are generally consistent with our policies and procedures described above.

For a description of our Aggregation and Allocation Policy, please see Item 6, “Performance-Based Fees and Side-by-Side Management.”

Conflicts Relating to Material Non-Public Information

Our principals and employees may serve as directors of, or in a similar capacity with, companies in which we invest or in which we are considering making an investment. Through these and other relationships with a company, these individuals may obtain material non-public information that might restrict our ability to buy or sell the securities of such company or take other actions, under our policies, the policies of the relevant company, or applicable law. To mitigate and limit the instances in which we will be subject to these restrictions, we have adopted a Confidentiality Policy that establishes and maintains controls with respect to the acceptance, use, and handling of confidential information by our personnel.

Conflicts Relating to Time and Resources of Investment Professionals

As noted above, we provide investment advisory services to multiple Clients and are not restricted from forming new investment vehicles, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with us and/or may involve a commitment of substantial time and resources of our personnel, including our investment professionals. These activities could be viewed as creating a conflict of interest in that our time and effort, and the time and effort of our personnel, will not be devoted exclusively to our business, but will be allocated between our business and other business activities, including the performance of investment advisory services for other Clients.

Conflicts Relating to Our Financial Interests in Our Clients

We may have investments in our Clients, the size of which may differ by Client. Further, as noted above, the type and amount of Fees paid to us also differs among Clients. In addition, our principals and employees may invest in the Clients that we advise, and consequently have differing ownership interests in different Clients. These differences in the financial interests in our Clients may result in conflicts of interest when allocating investment opportunities among Clients. We have adopted our Aggregation and Allocation Policy to address such conflicts. For a description of our Aggregation and Allocation Policy, please see Item 6, “Performance-Based Fees and Side-by-Side Management.”

Conflicts Relating to Investments in Different Parts of the Capital Structure

We may invest in different classes of securities of companies on behalf of different Clients based upon the particular investment objectives and strategies of such Clients. If such Clients hold different classes of securities of a company and that company encounters financial

problems, decisions over the terms of any workout or reorganization may raise conflicts of interest. For example, a senior debt holder may be better served by a liquidation of the company in which it will be paid in full, whereas a junior debt holder might prefer a reorganization that could create value for the junior debt holder. We have adopted the Code of Ethics and Conflicts Procedures to address these types of conflicts.

Conflicts Relating to Service by Our Personnel or Affiliates to Portfolio Companies

Pursuant to the Code of Ethics, with the permission of our Chief Compliance Officer (the “CCO”), our employees may serve as directors of, and receive compensation such as shares of common stock, warrants, etc. from, various portfolio companies that we may purchase or sell on behalf of Clients, which may give rise to potential conflicts. We have adopted the Code of Ethics and Conflicts Procedures to address these types of conflicts.

Conflicts Relating to Ancillary Fees

We reserve the right to receive fees for providing services for origination and advisory services in connection with purchase, origination, ownership, evaluation and sale of certain investments on behalf of our Clients. The foregoing fees, collectively referred to as “**Ancillary Fees**,” will be paid to us in addition to the Fees we receive pursuant to the IMAs. The receipt of Ancillary Fees will not reduce the Fees allocable to us, nor will such Ancillary Fees offset our Clients’ operating expenses, although we reserve the right to credit a portion, including the entire portion, of the Ancillary Fees to our Clients in our sole discretion, as we deem appropriate. We have adopted the Code of Ethics and Conflicts Procedures to address these types of conflicts.

Conflicts Relating to the Selection of Broker-Dealers and Other Service Providers.

While we select our broker-dealers, prime brokers, counterparties, and service providers in accordance with our fiduciary obligations to our Clients, from time to time, such parties may also invest in Funds or Client accounts managed by us. We have adopted the Code of Ethics and the Conflicts Procedures to address these types of conflicts. For a discussion of our best execution policy, please see Item 12 “Brokerage Practices – Selection of Broker-Dealers and Reasonableness of Compensation.”

Conflicts Relating to the Engagement of Placement Agents.

Placement agents that we may engage to solicit investors are subject to a conflict of interest because they will be compensated in connection with their solicitation activities. For a more detailed discussion of our engagement of placement agents, please see Item 14, “Client Referrals and Other Compensation.”

Conflicts Procedures

We have adopted a Code of Ethics, and various policies and procedures (collectively, the “**Conflicts Procedures**”), to address actual and apparent conflicts involving us and our Clients. The Code of Ethics and the Conflict Procedures, which may be modified from time to time at our sole discretion, may require prior review or approval of certain transactions by the CCO or members of senior management. Relevant policies and procedures for addressing conflicts with

respect to a particular Client may be described in greater detail in the Offering Documents for that Client. With respect to affiliate transactions or other matters giving rise to conflicts of interest, the relevant Offering Documents may provide for consultation regarding, or approval of, such transactions by a person or body such as a trustee, a board of directors, an advisory committee comprised of certain of the underlying investors in a pooled investment vehicle. Our Conflicts Procedures, together with the provisions of relevant Offering Documents concerning such potential conflicts, may limit our ability to buy or sell a security for a Client or otherwise participate in an investment opportunity for a Client, or to take other actions that we might consider in the best interests of a Client or the underlying investors.

D. Material Conflicts of Interest Relating to Other Investment Advisers

We do not recommend or select other investment advisers for our Clients.

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

A. Code of Ethics

We demand the highest standards of ethical conduct and care from all of our employees, officers, and directors. Our officers, directors, and employees, whom we collectively refer to as our “personnel,” must abide by this basic business standard and must not take inappropriate advantage of their position. Our personnel are under a duty to exercise their authority and responsibility for the benefit of our Clients, and may not have outside interests that inappropriately conflict with our Clients’ interests. Our personnel must avoid circumstances or conduct that adversely affect, or that appear to adversely affect, our Clients.

Pursuant to Rule 204A-1 of the Advisers Act, we and our Medley Capital Advisory Affiliates have adopted the Code of Ethics to establish applicable policies, guidelines, and procedures that promote ethical practices and conduct by all of our personnel and to prevent violations of the Advisers Act. The Code of Ethics is predicated on the principle that we owe a fiduciary duty to our Clients. It consists of several policies primarily designed to address potential conflicts of interest, including a Personal Investment Policy, an Inside Information Policy, and a Gifts, Entertainment, Political Contributions and Outside Activities Policy.

Our personnel must observe the applicable standards of care set forth in the Code of Ethics and may not seek to evade the policies and procedures set forth therein in any way, including through indirect acts by family members or other associates. The obligations set forth in the Code of Ethics are in addition to, and not in lieu of, any other policies and procedures we adopt in respect of the conduct of our business. Our personnel must certify at least annually that they have read, understand, are subject to, and have complied with the Code of Ethics and the Regulatory Compliance Manual. Our personnel must comply with applicable securities laws and must report violations of our Code Ethics to the CCO.

Upon request, we will provide a copy of the Code of Ethics, free of charge, to any Client or underlying investor or any prospective Client or prospective investor. The Code of Ethics may be requested by contacting our CCO, Richard T. Allorto, at 212-759-0777 or rallorto@medleycapital.com.

B. Recommending, Buying, or Selling Securities in which we Have a Material Financial Interest

Conflicts of interest may occur when we, our affiliates, or our personnel invest in the same securities, trade in the same securities at or about the same time, or have a material financial interest in the same securities that we recommend to our Clients. For example, we or our personnel may invest in the Funds, and, therefore, such persons may hold an indirect interest in the same securities as other investors in the Funds. In addition, our personnel may own securities in their personal accounts that we also have recommended to our Clients. The Code of Ethics and the policies and procedures set forth therein have been designed to limit conflicts of

interest in cases where we or any of our personnel, buy, sell, or otherwise have an interest in, securities we have recommended to our Clients.

C. Cross Trades

Cross-trades are transactions between two clients of the same investment adviser, regardless of whether a broker-dealer is engaged to effect the transaction. Consistent with our Clients' Offering Documents and applicable law, we may utilize cross-trades to address account funding issues, save brokerage commissions or mark-ups/mark-downs, or for other bona fide portfolio management reasons. Under our policies and procedures, any proposed cross-trade must be advantageous to each of the Clients involved in the transaction. The portfolio manager must seek the approval of the CCO in advance of the trade and must provide information such as the size of the trade, confirmation that the positions are freely tradable, documentation regarding the price of the transaction, and an assertion that the transaction is advantageous to each Client involved.

D. Principal Transactions

In a principal transaction, an adviser, acting for its own account, buys a security from, or sells a security to, a client. In limited instances, we may buy securities from, or sell securities to, our Clients. Section 206(3) of the Advisers Act requires an investment adviser to provide written disclosure to a client and obtain the client's consent prior to settlement of any principal transaction. Under our policies and procedures, prior to execution of a principal transaction, the portfolio manager recommending the trade must prepare a brief memorandum setting forth the reasons that the transaction is in the best interests of the Client involved, explaining how the transaction will be priced and demonstrating compliance with the relevant provisions of the Advisers Act relating to such type of transaction, including the client consent requirement of Section 206(3). The Offering Documents of Clients that are pooled investment vehicles, such as the Funds, may also require the approval of an advisory committee comprised of underlying investors or a board of directors to consent to a principal transaction.

E. Personal Trading Policy

As discussed above, our personnel must abide by the Code of Ethics. As a general matter, our personnel owe an undivided duty of loyalty to our Clients. Our personnel may not use their knowledge concerning a trade, pending trade, or contemplated securities transaction by our Clients to profit personally as a result of such transaction, including by purchasing or selling such securities.

As required by Rule 204A-1 of the Advisers Act, the Code of Ethics mandates that our personnel provide our Chief Compliance Officer with (i) their personal securities holdings at the commencement of employment and annually thereafter, (ii) monthly or quarterly personal brokerage statements, and (iii) quarterly reports of any personal securities transactions involving a "Reportable Security" as defined in the Code of Ethics.

Further, our personnel are generally prohibited from purchasing or selling, for any personal accounts, any securities that at that time are listed on our "Restricted List," which contains a list of companies about which we have determined that it is prudent to restrict trading

because, among other reasons, (i) we may possess material non-public information, (ii) we may owe a fiduciary obligation, or (iii) our Clients own or intend to purchase an interest. Further, our personnel may not invest in an initial public offering or a private placement without the prior, express written approval of the CCO.

The Code of Ethics also contains policies and procedures to prevent the misuse of material non-public information by our personnel, including the misuse of material non-public information about our securities recommendations and Client securities and transactions. The Code of Ethics describes what constitutes “material” and “non-public” information, and outlines the penalties to which our personnel are subject if they trade on such information.

The Code of Ethics also provides that our personnel may not engage in “front running,” an illegal practice in which an investment professional takes a position in a security in advance of an action he or she knows will predictably affect the price of the security. The Restricted List and the prohibition on “front running” are intended to prevent us and our personnel from buying or selling securities contemporaneously with our Clients.

ITEM 12 BROKERAGE PRACTICES

A. Selection of Broker-Dealers and Reasonableness of Compensation

Generally, we invest in liquid securities for our Clients through the open market and effect transactions through agents and broker-dealers. We have adopted a best execution policy and corresponding procedures in respect of our duty to obtain “best execution” for our Clients’ securities transactions.

Our objective in selecting broker-dealers and executing transactions is to seek to obtain the best combination of price and execution. We consider the full range and quality of a broker-dealer’s service in selecting broker-dealers to meet our best execution obligations. The determinative factor is whether the transaction represents the best overall qualitative execution for our Clients. As a starting point, we consider the trade price and imputed mark-up/markdown. These things being equal or fairly equal among broker-dealers, the following qualitative factors, among others, may be considered: (i) liquidity of the securities traded and current market conditions; (ii) ability to maintain the confidentiality of trading intentions; (iii) ability to place trades in difficult market environments; (iv) quality and value of the research services provided; (v) execution facilitation services provided; (vi) timeliness of execution and trade confirmations; (vii) allocation of limited investment opportunities; (viii) custody services provided; (ix) frequency and correction of trading errors and fairness in resolving disputes; (x) ability to access a variety of market venues; (xi) expertise as it relates to specific securities; (xii) intermediary compensation (dealer spreads); (xiii) financial condition and business reputation; and (xiv) gross compensation paid to each broker-dealer.

In addition, the Managed Account IMAs include provisions regarding our use of broker-dealers, which are generally consistent with our policies and procedures described above, as well as our policies regarding “soft dollar” arrangements that are described below.

1. Research and Other Soft Dollar Arrangements

Currently, we do not have any “soft dollar” arrangements with any broker-dealers. Nevertheless, subject to applicable legal requirements and consistent with Section 28(e) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), we may in the future select a broker-dealer based upon brokerage or research services provided to us or our Clients. Such research services may include both proprietary research created or developed by the broker-dealer and research created or developed by a third party. In return for soft dollar and other benefits and services, our Clients may pay a higher commission (or markup/markdown) than other brokers would charge. We may nevertheless choose to engage a broker-dealer charging a higher commission – a practice referred to as “paying-up” – if we determine in good faith that such commission is reasonable in relation to the services provided.

If we use Client brokerage commissions (or markups/markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products, or services. The receipt of research and other soft dollar benefits from broker-dealers provides an incentive for us to select or recommend a broker-dealer based on our

interest in receiving the research or other products or services, rather than on our Clients' interest in receiving the most favorable execution. We would only use soft dollars to service the account of the Client that paid for those benefits. Similarly, we would seek to allocate soft dollars to Client accounts proportionately to the soft dollar credits generated by each account.

In the last fiscal year, we have not directed Client transactions to a particular broker-dealer in return for soft dollar and other benefits, nor have we acquired any products or services with Client brokerage commissions (or markups/markdowns).

2. Brokerage for Client Referrals

In selecting or recommending broker-dealers, we do not consider whether we, or any of our affiliates, receive Client or investor referrals from a broker-dealer or other third party.

3. Directed Brokerage

We do not require or request that our Clients direct us to execute transactions through a specified broker-dealer. Should a current or future Client desire to direct us to execute transactions through a specified broker-dealer, we may accommodate this request and direct the Client's brokerage transactions to the specified broker-dealer pursuant to such Client's written instructions. By directing transactions to certain broker-dealers, we may be unable to achieve the most favorable execution of Client transactions and this practice may cost our Clients more money. For example, in a directed brokerage account, we may not be able to aggregate orders to reduce transaction costs and our Clients may receive less favorable prices.

B. Aggregating Orders for Various Client Accounts

We have adopted an Aggregation and Allocation Policy to ensure that our Clients are afforded fair and equitable treatment when aggregating and allocating Client trade orders. As a general principle, we will only aggregate transactions when we believe that such an aggregation is lawful and consistent with our duty to seek best execution for our Clients, and is consistent with the pertinent Offering Documents. In such cases, individual investment advice and treatment will be accorded to each Client and we will not receive any additional compensation or remuneration of any kind as a result of the proposed aggregation.

For a description of our Aggregation and Allocation Policy, please see Item 6, "Performance-Based Fees and Side-by-Side Management."

ITEM 13

REVIEW OF ACCOUNTS

A. Periodic Review of Client Accounts

In connection with the review of our Clients' accounts, we have adopted a Portfolio Management Review Policy and a Suitability Policy. As part of these policies, our Portfolio Manager, evaluates, approves, and monitors investments (and dispositions of investments) by each of our Clients. The Portfolio Manager, in consultation with our CCO, periodically reviews our Clients' portfolios, performance and prospects in order to identify irregularities and/or inappropriate positions. For a further discussion of the nature of the review of Client Accounts, please also see Item 8A, "Methods of Analysis, Investment Strategies and Risk of Loss – Methods of Analysis and Investment Strategies."

B. Additional Review of Client Accounts

In addition to the Portfolio Manager, our investment professionals may meet and review Client accounts periodically as the Portfolio Manager or the CCO may deem to be prudent or appropriate. During these reviews, the Portfolio Manager, or his designee, monitors our Clients' portfolios in light of trading activity, significant corporate developments, and other activities that may dictate a change in portfolio positions.

Pursuant to the Managed Account IMAs, we monitor on a daily basis the valuation of portfolio securities and other investments for the Managed Account Clients, as determined by the custodian and recordkeeping agent.

C. Contents and Frequency of Account Reports to Clients

We will provide the underlying investors in the Funds with (i) annual financial statements audited by an independent certified public accounting firm, (ii) periodic unaudited performance information, (iii) annual tax information necessary for completion of United States federal income tax returns, and (iv) any other reports as determined by us with respect to the Funds. In addition, we may agree to provide the Strategic Investor with additional information regarding the underlying investments of the Funds and our firm.

Pursuant to the MCS IMA, we submit periodic reports regarding our activities as the Board of Directors of the Offshore Fund may reasonably request. Pursuant to the Managed Account IMAs, we will furnish the Managed Account Clients with such periodic and special reports as the Managed Account Clients may reasonably request from time to time.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients

We generally do not receive economic benefits from third parties for providing investment advice or other advisory services to our Clients, except as specifically described below. Currently, our only Clients are the Funds and the Managed Account Clients.

B. Compensation to Non-Supervised Persons for Client Referrals

We have entered into in the past, and may enter into in the future, placement agent agreements with third parties. We may make cash payments or may share a portion of our management or incentive fees with these solicitors. Our CCO reviews such arrangements to confirm compliance with: (i) Rule 206(4)-3 under the Advisers Act, also known as the Cash Solicitation Rule; and (ii) other applicable laws, rules, and regulations, including laws and regulations requiring the registration of broker-dealers. We have adopted a Solicitors and Placement Agents Policy to govern the engagement of solicitors and placement agents.

ITEM 15 CUSTODY

Rule 206(4)-2 of 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).

Investment 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, broker-dealers, futures commission merchants and certain foreign financial institutions.

Rule 206(4)-2 generally requires that, upon opening an account with a qualified custodian on a client’s behalf, advisers promptly notify the client in writing of the name and address of the qualified custodian and the manner in which the funds or securities are maintained. Generally, advisers also must verify that the custodian sends quarterly account statements to the client. By rule, account statements must be sent directly to investors in a pooled investment vehicle if the adviser to the pool also acts as its general partner, managing member, or in a similar capacity (or, in some cases, if an affiliate of the adviser acts as general partner, managing member, or in a similar capacity). These account statements may be sent to the investors’ independent representative. Under certain circumstances, at least once each calendar year, an independent public accountant must verify the funds and securities of a client by surprise examination.

As noted above, Rule 206(4)-2 generally imposes on advisers with custody of clients’ funds or securities certain requirements concerning reports to such clients (including underlying investors in certain circumstances) and surprise examinations relating to such clients’ funds or securities. However, advisers need not comply with such requirements with respect to pooled investment vehicles if the 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 the client, or in certain circumstances, to all limited partners, members, or other beneficial owners, within 120 days (180 days in the case of a fund of fund adviser) of its fiscal year end.

We are deemed to have custody of the funds and securities of the Funds and must, therefore, comply with the requirements of the Custody Rule. The Funds intend to distribute audited financial statements to investors within the 120-day time period and therefore will be exempt from the Rule 206(4)-2 reporting and examination requirements.

We do not have custody of the funds and securities of the Managed Account Clients. Pursuant to the Managed Account IMAs, we are required to arrange for the transmission to the Managed Account Clients’ custodian on a daily basis such documents and information as may be reasonably necessary to enable the custodian to perform its responsibilities.

ITEM 16

INVESTMENT DISCRETION

At the outset of an advisory relationship, we typically receive discretionary authority from Clients to select the securities to be purchased and sold by the Client. In all cases, we exercise this investment discretion in a manner consistent with the stated investment objectives and Offering Documents of the particular Client.

When selecting and determining the amount of an investment, we observe the investment policies, limitations, and restrictions of the Clients we advise. Our Clients may place limitations on our investment authority in their IMA or other Offering Documents, including, without limitation, restrictions on transactions in securities issued by companies in a specific industry or direction as to the specific brokers and dealers that must be used to execute transactions. Our Clients must provide us with investment guidelines and restrictions in writing. Additionally, we require that Clients exercise a power of attorney in our favor.

For a complete discussion of our advisory business and the services we provide to our Clients, please see Item 4, “Advisory Business.”

ITEM 17

VOTING CLIENT SECURITIES

We have accepted, and in the future will continue to accept, the discretionary authority to vote our Clients' securities. As such, we have adopted a Proxy Voting, Waivers and Amendments Policy (the "**Proxy Voting Policy**") and corresponding procedures to comply with Rule 206(4)-6 of the Advisers Act and with our fiduciary obligations. The Proxy Voting Policy applies to voting securities held by our Clients and has been designed to ensure that we vote proxies in the best interest of our Clients. Additionally, because we may invest in a variety of loan instruments, the Proxy Voting Policy applies to requests for waivers and amendments to various loan transaction documents. For purposes of the Proxy Voting Policy, we treat requests for waivers or amendments as proxies.

When voting proxies our primary objective is to make decisions in the best interest of our Clients. In fulfilling our obligations to our Clients, we will act in a manner deemed to be prudent and diligent to enhance the economic value of the underlying securities held by each of our Clients. In acting upon these matters on behalf of our Clients, we will seek to avoid material conflicts of interest between our interests and the interests of our Clients.

Our Portfolio Manager will be responsible for making voting decisions with regard to all of our Clients' proxies. When voting proxies, some, but not all, of our considerations include:

- the view and opinion of management of the portfolio companies in which our Client holds a position and the effect of management's position on the value of our Client's investment;
- with regard to corporate governance matters, the purpose underlying the Client's investment position, including the investment horizon and the current or planned ownership position and degree of our involvement, on behalf of our Client, in management;
- with regard to proposals related to stock option plans and other management compensation issues, the portfolio company's need to recruit and retain highly qualified individuals in competitive labor markets and the relevant industry standards and practices;
- the purpose of proposed changes to the capital structure of a portfolio company and the likely effect of the change on the Client's investment; and
- with regard to proposals related to social and corporate responsibility, we will generally defer to company management, but will not support any proposals that may conflict with the portfolio company's ability to maximize long-term profits or may have an adverse effect on our Client's investment.

The Funds may not direct how we vote on a particular solicitation. Unless the Managed Account Clients provide written instructions to the contrary, we may use our good-faith judgment and vote or abstain from voting, all proxies solicited by or with respect to the issuers of

securities in which the assets of the Managed Account Clients are invested in a manner that we reasonably believe best serves the Managed Account Clients.

When deciding how to vote proxies certain conflicts of interest may arise. For example, portfolio companies in which different Clients are invested may be competing for or involved in similar transactions, investments, lines of business, or types of research. Voting a proxy, waiver or amendment with regard to one Client's portfolio company may adversely affect the prospects or business of another Client's portfolio company. Further, our Clients may co-invest together and instances may arise in which, a proxy vote in one manner may benefit one Client, and a proxy vote in the same manner might adversely affect another Client. In acting upon these matters on behalf of our Clients, we will seek to avoid material conflicts between and among our Clients and ourselves. In addition to the Proxy Voting Policy, we have adopted the Code of Ethics and Conflict Procedures for addressing such conflicts of interest. For a detailed discussion of these procedures, please see Item 10, "Other Financial Industry Activities and Affiliations." In addition, each Client's Offering Documents include provisions for the identification and mitigation of conflicts of interest. In certain cases, the Offering Documents for a particular Client may provide for an advisory committee comprised of a small group of investors who are convened at our request to address conflicts. In these cases, conflict resolution will be addressed with the advisory committee as contemplated in the Offering Documents.

We will maintain proper records in connection with our Proxy Voting Policy and as required under the Advisers Act. Our Clients can obtain a copy of our Proxy Voting Policy and voting procedures and information on how we have voted proxies or made determinations with respect to requests for waivers or amendments by contacting our CCO, Richard T. Allorto, at 212-759-0777 or rallorto@medleycapital.com.

ITEM 18
FINANCIAL INFORMATION

A. Balance Sheet

We are not required to attach a balance sheet because we will not be requiring or soliciting the payment of fees six months or more in advance.

B. Contractual Commitments to Our Clients

We have no financial condition that is reasonably likely to impair our ability to meet contractual and fiduciary commitments to our Clients.

C. Bankruptcy Petitions

We have never been the subject of a bankruptcy petition.