

**Part 2A of Form ADV: Firm Brochure**

February 19, 2013

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**This brochure provides information about the qualifications and business practices of Chicago Fundamental Investment Partners, LLC. If you have any questions about the contents of this brochure, please contact us at (312) 416-4300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Chicago Fundamental Investment Partners, LLC is registered as an investment adviser with the SEC. Registration as an investment adviser with the SEC does not imply a certain level of skill or training.**

**Additional information about Chicago Fundamental Investment Partners, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2: Material Changes**

Our most recent brochure is dated March 23, 2012. This brochure represents an annual update to our most recent brochure and includes the following material changes from our most recent brochure:

- Item 4 of this brochure updates our firm-wide assets under management.
- This brochure generally has been updated where applicable throughout (1) to reflect our launch of additional private investment fund clients since March 23, 2012, including a collateralized loan obligation vehicle, and (2) to account for our current expectation of providing investment advisory (or sub-advisory) services to one or more investment companies registered under the Investment Company Act of 1940, as amended, in the first half of 2013.

A copy of this brochure may be requested by contacting us at (312) 416-4300. Additional information about Chicago Fundamental Investment Partners, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4:        Advisory Business**

Chicago Fundamental Investment Partners, LLC was formed on November 7, 2005, as a limited liability company under the laws of the State of Delaware. We are an investment manager for, and we provide discretionary investment advisory and administrative services to, private investment funds (generally structured as pooled investment vehicles), including collateralized loan obligation vehicles, and separately managed accounts. We also may provide discretionary investment advisory (or sub-advisory) services to investment companies registered under the Investment Company Act of 1940, as amended. Our principal owner is Bradford B. Couri. All of our business activities currently are conducted out of our principal office at 71 South Wacker Drive, Suite 3495, Chicago, Illinois 60606, United States.

We provide investment advisory services to clients based on the client's specific investment programs and objectives. In implementing client investment programs and seeking to attain client investment objectives, we employ a variety of opportunistic, principally credit-focused investment strategies generally based on our core fundamental research-driven approach. We may pursue a single investment strategy or multiple strategies (or sub-strategies), which may be the same or similar across clients. A private investment fund client's particular investment program, objective and strategy are described in the client's private offering memorandum or circular. We tailor our investment advisory services for a private investment fund client to its overall investment program, and not to the needs of any underlying investor in a fund client. For a separately managed account client, we tailor our advisory services to the specific terms of an investment advisory agreement between us and the client. Any investment advisory (or sub-advisory) services which we provide to a registered investment company will be governed by the terms of an investment advisory (or sub-advisory) contract and will be subject to the oversight of the registered investment company's governing body (and, in the case of a sub-advisory relationship, the supervision of the registered investment company's investment advisor), as well as the investment policies, objectives and restrictions applicable to the registered investment company. Our analytical methods and principal investment strategies are further described in Item 8 below.

As of February 15, 2013, we managed approximately \$845 million in assets on a discretionary basis across our clients, calculated by reference to the net assets of our clients (other than collateralized loan obligation vehicles) and the total assets of collateralized obligation vehicles. Our private investment fund clients currently consist of: (1) CFIP Master Fund, Ltd., a balanced long-short credit fund launched in July 2006; (2) CFIP SMF, Ltd., a short-focused credit fund launched in December 2010; (3) CFIP Ultra Master Fund, Ltd., a long-biased credit fund launched in July 2012; and (4) CFIP CLO 2013-1, Ltd., a collateralized loan obligation vehicle launched in January 2013. We also currently serve as investment manager for a separately managed account with a long-short credit focus which launched in January 2010. While we do not currently provide advisory (or sub-advisory) services to any registered investment company, we anticipate being engaged to do so in the first half of 2013.

We have full investment discretion in managing client portfolios and may invest in a wide range of securities, financial instruments, derivatives and other assets on behalf of our clients, subject, particularly in the case of a managed account client or a registered investment company client, to any specific limitations on our investment discretion imposed by the terms of our investment or

collateral management or advisory (or sub-advisory) agreement applicable to the client. In addition, we have discretion with respect to the selection of broker-dealers and other counterparties for client investment transactions, as well as the amount of commissions or other compensation to be paid.

As described elsewhere in this brochure, we are subject to various conflicts of interest, particularly as a result of our investment activities on behalf of multiple clients and the nature of our compensation arrangements with our clients. The existence of these conflicts of interest may influence or provide incentives to act contrary to our client's best interests. This brochure contains information about how we manage those conflicts.

A private investment fund client's private offering memorandum or circular and related governing documents, a separately managed account client's investment advisory agreement, or a registered investment company client's investment advisory (or sub-advisory) contract and related governing documents, as applicable, in addition to describing, among other things, our investment or collateral management or advisory (or sub-advisory) relationship, the client's investment program and objective, and the specific terms applicable to an underlying investment in the client (including as to fees and other compensation, costs and expenses, and liquidity), contain, as to such client, a discussion of or reference to various risk factors and considerations, as well as certain conflicts of interest, that generally is more extensive in scope and detail than those described in this brochure. Accordingly, as to any client, this brochure and the information set forth herein is qualified in its entirety by the disclosures in such other documents and agreements relating to the applicable client.

## **Item 5: Fees and Compensation**

### **Management Fees; Performance-Based Compensation**

We receive a management fee calculated as a fixed percentage of the value of the net assets or aggregate principal balance of assets, as the case may be, we manage or advise (or sub-advise) for a client. In addition, as further described in Item 6 below, for certain of our clients we or our affiliates are entitled to additional compensation in the form of an incentive allocation or fee based on the performance achieved for the applicable client over a specified measurement period, generally a fiscal year.

The rates at which our fees are charged, the basis on which such fees are calculated, and the timing of payment, vary across our clients and, as to a particular client, may also vary across investment options available to underlying investors in the client. Fees applicable to a private investment fund client are described in the fund client's private offering memorandum or circular and are not negotiable, although we are permitted under the terms of the governing documents in respect of certain of our private investment fund clients to reduce or waive, in our sole discretion, our fees for certain underlying investors in the private investment fund client. For example, where we have the ability to do so, we generally waive all fees applicable to any direct or indirect investment in a private investment fund client by our personnel. Moreover, we may reduce the fees applicable to investments in a private investment fund client by certain large or strategic investors or in connection with the launch of the particular fund client. For a separately managed account client, our fees are negotiated as part of the client's investment advisory agreement with us. In the event we are engaged to provide investment advisory (or sub-

advisory) services to a registered investment company, our fees will be as agreed upon in the applicable investment advisory (or sub-advisory) contract. Our fee schedule is omitted since this brochure is only delivered to clients who are qualified purchasers as defined in Section 2(a)(51)(A) of the United States Investment Company Act of 1940, as amended, or to registered investment company clients.

For certain of our private investment fund clients and for a separately managed account client, we deduct our fees from client assets, although for a managed account client we may agree to invoice our fees. For other private investment fund clients, such as collateralized loan obligation vehicles, and in respect of our investment advisory (or sub-advisory) services to any registered investment company, our fees are invoiced.

Management fees are generally payable monthly or quarterly, and may either be paid in advance or in arrears depending on the client. Management fees are prorated for any partial period and, if we are not acting as a client's investment manager or advisor (or sub-advisor) for an entire period for which management fees have been paid in advance, we will rebate a prorated portion of the pre-paid management fees. As further described in Item 6 below, any incentive allocation or fee applicable to a client is made or paid in arrears (typically within 30 days) after the end of applicable measurement period, generally a fiscal year.

We may launch or manage other funds or accounts with higher or lower fees and/or different compensation structures. Different client facts and circumstances, including the client's investment strategy, liquidity profile and prevailing market terms, will be considered in determining applicable fees.

The different management fee rates across our clients and the basis for calculating management fees create an incentive for us to favor those of our clients that are larger or are subject to higher management fee rates. For certain of our clients, we are responsible for determining the value of the assets on which the calculation of our management fee is based. The potential to earn higher management fees also provides an incentive to inflate the value of client assets. Our written policies and procedures, including our standards of business conduct set forth in our Code of Ethics as described in Item 11 below and our valuation policy, are designed to mitigate such conflicts.

### **Costs and Expenses**

In addition to our fees, our private investment fund clients are responsible for various costs and expenses, including all research and investment-related expenses, trading costs, costs of market data, administrative and custodial fees, financing charges and borrowing costs, legal, audit, and other professional fees, organizational costs, extraordinary costs (such as litigation), and, if applicable, the client's proportionate share of the direct costs and expenses of any other private investment fund client (e.g., a "master" fund, as described in Item 7 below) in which it invests its assets. A private investment fund client's private offering memorandum or circular details the costs and expenses which are the responsibility of the client, as well as certain overhead costs and expenses which generally are our responsibility. Costs and expenses borne by a fund client specifically include brokerage commissions and other transaction fees, costs and expenses arising from our trading and investment activities in managing the client's portfolio. Brokerage, including the factors we consider in selecting or recommending brokers for client transactions

and determining the reasonableness of their compensation (e.g., commissions), is further discussed in more detail in Item 12 below.

A managed account client bears costs and expenses specific to its separately managed account which are similar to those borne by our fund clients, including brokerage commissions and other transaction fees, costs and expenses arising from our trading and investment activities in managing the account, as may be modified by the terms of the investment advisory agreement between us and the client.

A registered investment company client similarly bears costs and expenses specific to the organization and operations of such client and the investment portfolio or sub-portfolio we advise (or sub-advise) for such client, which costs and expenses are described in our investment advisory (or sub-advisory) contract and related governing documents for such registered investment company client.

Client costs and expenses are the responsibility of, and may be paid directly by, the applicable client. However, where we have the ability to do so, such as for our private investment fund clients (other than collateralized loan obligation vehicles) or managed account clients, we may pay client costs and expenses directly out of our own account for and on behalf of the client, and in those cases we are entitled to reimbursement from the client. In such circumstances, we generally deduct reimbursed amounts from client accounts, although we may agree with the specific client to invoice those amounts.

Certain costs and expenses which may be borne by one client may not be borne by other clients. In addition, certain costs and expenses may be incurred for the benefit of, or be shared by, multiple clients, which may include clients which do not bear any responsibility for such costs and expenses. Such shared expenses generally will be allocated across the applicable clients pro rata or in such other manner as we deem appropriate. In certain circumstances, we may directly bear the responsibility for the portion of such shared costs and expenses otherwise allocable to clients which benefit from, but which are not responsible for, such shared costs and expenses. Different client responsibilities for costs and expenses may create an incentive for us to disproportionately allocate shared costs and expenses so as to reduce any direct exposure we may have to such costs and expenses. Moreover, different management fees across clients, as described in this Item 5, and the potential to earn performance-based compensation from certain clients, as described in Item 6 below, also provides an incentive to disproportionately allocate shared expenses to those clients from which we receive lower management fees or from which we do not receive any performance-based compensation. Our written policies and procedures, including our standards of business conduct set forth in our Code of Ethics as described in Item 11 below, are designed to mitigate such conflicts.

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

As referenced in Item 5 above, for certain of our clients, we or certain of our affiliates are entitled to receive performance-based compensation in the form of an incentive allocation or fee. The applicable incentive allocation or fee made or payable to us or one of our affiliates generally is calculated as a percentage of net profits (including realized and unrealized gains) generated over a specified measurement period (typically a fiscal year), subject, in certain cases, to (1) a specified performance threshold and/or (2) a "loss-carryforward" which provides that no

incentive allocation or fee is made or paid until any prior net loss has been offset by subsequent net profits. For certain of our private investment fund clients, the incentive allocation is made to an affiliate of ours, which is under common ownership and control with us, as further described in Item 10 below.

Any incentive allocation or fee generally is made or paid in arrears (typically within 30 days) after the end of the client's fiscal year. If an underlying investor in a client for which an incentive allocation or fee is applicable withdraws or redeems capital at any time other than at the end of a fiscal year, the withdrawal or redemption date generally is deemed the end of the fiscal year for purposes calculating any incentive allocation or fee applicable to the withdrawn or redeemed capital. In addition, upon any termination of our investment management or collateral agreement or of our investment advisory (or sub-advisory) agreement for a client for which an incentive allocation or fee is applicable, the applicable termination date generally is deemed the end of a fiscal year for purposes of calculating any incentive allocation or fee applicable to the client.

Our entitlement to performance-based compensation, and the rates at which such performance-based compensation is charged, vary across our clients. Moreover, we typically compensate our personnel, including our investment professionals, on a basis that includes a component related to the performance of our clients generally or one or a subset of our clients (or their underlying investment strategies or portfolio holdings). We also are responsible for determining the value of the assets against which client performance, and therefore the amount of our performance-based compensation, is measured. The different performance-based compensation rates across our clients creates an incentive for us to favor those of our clients that pay (or are most likely to pay) performance-based compensation or those of such clients subject to higher performance-based compensation rates. Our compensation structure creates an incentive for our personnel to disproportionately allocate time, services, resources, functions and/or investment opportunities to those clients or strategies whose performance may have a greater impact on their individual compensation. Moreover, the potential to earn performance-based compensation also provides an incentive to invest client assets in an aggressive or speculative manner, to inflate the value of client assets, and to disproportionately allocate trades among clients. Our written policies and procedures, including our standards of business conduct set forth in our Code of Ethics as described in Item 11 below and our valuation and trade allocation policies, are designed to mitigate such conflicts.

From time to time, we use our own capital to fund proprietary accounts in our name intended to incubate certain investment strategies or sub-strategies in order to determine the feasibility of such investment strategy or sub-strategy and/or to generate a marketable performance history. In general, any such incubation account would be small relative to the size of our clients and any incubated strategy or sub-strategy would not be a material strategy or sub-strategy applicable to any of our then-current clients. Moreover, as a proprietary account, an incubation account would not be subject to management fees or performance-based compensation. Although we expect there to be minimal, if any, overlap between transactions executed for an incubated portfolio and those of our other clients, our incubation activities may pose conflicts of interest as those of our personnel with an investment in, or otherwise involved in managing, such an incubated portfolio may have an incentive to favor the incubation strategy or sub-strategy over their responsibilities in respect of our other clients. Our written policies and procedures, including our personal



securities transaction policies and our trade allocation policies, extend to any incubation activities and serve to mitigate such conflicts. Among other things, our standards of business conduct in our Code of Ethics as described in Item 11 below require all personnel to put the interests of clients ahead of their own personal interests.

## **Item 7:           Types of Clients**

We are an investment manager for, and we provide discretionary investment advisory and administrative services to, private investment funds (including collateralized loan obligation vehicles) and separately managed accounts. We also may provide discretionary investment advisory (or sub-advisory) services to registered investment companies.

Our private investment fund clients (other than collateralized loan obligation vehicles) generally are structured as "master-feeder" funds whereby United States and foreign-organized pooled investment vehicles serve as "feeder" funds and invest substantially all of their respective assets in, and own a proportionate share of, a "master" fund which conducts substantially all investment activity. For our private investment fund clients with such a "master-feeder" structure, our advisory services are provided directly to the "master" and "feeder" fund clients, and not to the underlying investors in a "feeder" fund client. For our private investment fund clients that are collateralized loan obligation vehicles, our advisory services are provided in our capacity as collateral manager to the collateralized loan obligation vehicle.

Interests in a private investment fund client are offered pursuant to applicable exemptions from registration under the United States Securities Act of 1933, as amended. Underlying investors in a private investment fund client are subject to certain investor qualification standards and are required to make certain representations and warranties in the agreement required to purchase interests in the fund client. Investors in our private investment fund clients and our managed account clients include institutional investors (such as endowments, foundations, pension plans and sovereign wealth funds), funds of funds, and family offices, trusts and high-net worth individuals. Certain of our principal and employees also invest in our private investment fund clients. The minimum initial investment in our private investment fund clients (other than collateralized loan obligation vehicles) is generally \$5,000,000, which may be waived (subject to certain statutory minimums). Investments in a collateralized loan obligation vehicle typically are required to be made in minimum increments, generally \$250,000 or \$500,000, but also may be waived or reduced.

We generally require a minimum initial investment for a separately managed account, which minimum will vary depending on, among other factors, the account's investment strategy, terms and operational requirements. We only accept managed account clients that meet certain investor qualification standards. A managed account client also is required to make certain representations and warranties in its investment advisory agreement with us. The amount of investment capital we advise (or sub-advise) for a registered investment company client will vary from time to time at the discretion of the governing body of the registered investment company (and, in the case of a sub-advisory relationship, the registered investment company's investment advisor).

Our investment professionals participate in managing the portfolios of multiple clients, whose investment programs, objectives and strategies may overlap. As a result, they do not devote their

exclusive attention to any single client. Our investment advisory activities on behalf of multiple clients creates conflicts of interest in allocating time and activity among our clients, in allocating investments among our clients, as applicable, and in effecting transactions or making investment decisions for our clients, including in situations where we or one of our investment professionals may have a greater financial interest. These conflicts of interest may be particularly acute where aspects of the investment objectives, methods and strategies that we utilize in managing or advising our clients are similar to those utilized, now or in the future, for other clients, but our compensation structure, including our performance-based compensation as described in Item 6 above, is different across these clients.

There may be situations where investments of one or more of our clients are profitable while investments of other of our clients in the same issuer are unprofitable, or similarly where investment decisions made in respect of one of our clients could negatively impact another of our clients' investments. Moreover, where we act in a sub-advisory capacity with respect to a portion of the overall assets of a client, which may be the case in respect of a registered investment company client, our investment decisions made in respect of the assets we sub-advise for such client may be contrary to or inconsistent with the investment decisions of the client's other investment advisors or sub-advisors.

The performance of any client may be materially different from that of any other client, even if there is substantial overlap of investment program, objective and/or strategy. In addition, our investing activities on behalf of one or more of our clients may impact our investment activities and flexibility on behalf of other clients. As a result, a client could be disadvantaged because of our investment activities on behalf of other clients. For example, losses incurred by a client may adversely affect our ability to manage or advise other clients, particularly if counterparties limit or cease business with us as a result. We or a client could be exposed to certain liabilities or reputational risks related to our advisory activities which could impact our ability to act as investment adviser to other clients. Our investing activities on behalf of one or more of our clients also may result in legal or other restrictions affecting all our clients or reduced liquidity for other client transactions.

In addition to our current clients, we may in the future provide advisory services to other clients of the type (or, as to a private investment fund client, with underlying investors of the type) described in this Item 7.

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

### **Methods of Analysis**

In formulating investment advice and in managing assets on behalf of our clients, we primarily employ a fundamental research-driven approach. The core of our fundamental research process relies on in-depth "bottom-up" analysis of fundamental qualitative and quantitative data and information to develop a comprehensive fundamental view of issuers and industries. Through this approach, we seek to identify those issuers that we believe will outperform or underperform relative to the industry in which they operate, as well as those securities and instruments which we believe are overpriced or underpriced relative to our internally-generated view of their fair value. Our fundamental "bottom-up" view is supplemented by a "top-down" view of markets, United States and global fiscal and monetary policies, macroeconomic data, political and geo-

political conditions, general trends, and risk across asset classes, as well as by our portfolio and risk management techniques, to identify investment opportunities which we believe to be attractive in light of a client's specific investment program and objective.

Certain of our investment strategies (or sub-strategies), such as relative value/arbitrage strategies, or specific investments may rely more heavily on mathematical, theoretical, statistical or model-driven analytical methods, in most cases complemented and informed by our fundamental research-driven analytical approach. We anticipate that we will continue to refine our current analytical methods and will from time to time develop and implement new methods.

For each potential client investment, a specific investment thesis is developed and refined, as necessary. We typically seek to underwrite most client investments to a long-term investment horizon, although the actual holding period could be longer or shorter than initially contemplated depending on, among other factors, the specific investment strategy, ongoing validity of the underlying investment thesis, intervening events (whether anticipated or unexpected), client capital structure and activity, availability of financing, prevailing market conditions and the attractiveness of the investment relative to other uses of client capital.

As described in Item 13 below, our Investment Committee is responsible for general oversight of client portfolios and client investment decisions. The Investment Committee, among other things, evaluates and determines whether to approve an investment opportunity and, if so, the general parameters of the investment. Our portfolio managers are authorized, subject to appropriate constraints as may be established by the Investment Committee, to initiate and adjust approved investments.

### **Investment Strategies**

We implement a variety of opportunistic, primarily credit-focused investment strategies (and sub-strategies) in managing the investment portfolios of our fund clients and managed account clients. The strategies we employ on behalf of a particular client are intended to be consistent with the client's investment program and to attain the client's investment objective, although as with all investment programs, we may not be successful in achieving a client's investment objective.

For some of our clients, we employ a broad-based approach, utilizing a wide range of strategies (and/or sub-strategies) across a range of asset types and/or geographies, while other clients only focus on a single (or just a few) strategies (and/or sub-strategies), asset types and/or geographies. Our clients may have the same or similar investment strategies, or may have entirely different investment strategies. A fund client's investment program, including its investment objective and strategies, is described in its private offering memorandum. The investment program for a managed account client is specified in its investment advisory agreement. For those clients for which we pursue multiple investment strategies, our investment activities are intended to be flexible and we do not establish a fixed allocation of capital to any particular investment strategy (or sub-strategy). Accordingly, investments in a particular strategy may comprise, from time to time, a varying proportion of a client's portfolio and at any point in time we may emphasize or de-emphasize any particular strategy depending on our view of the market opportunity set. Moreover, over time, we expect our investment strategies to expand, evolve and change, perhaps

materially. For our single-strategy clients, investments consistent with that strategy may comprise all or substantially the entirety of the client's portfolio.

The principal strategies which we currently employ on behalf of our clients are summarized below, although we may not employ all of them for any particular client. Accordingly, the summary below is not intended to describe all investment strategies (or sub-strategies) we may utilize on behalf of our clients. Moreover, there are no clear dividing lines among certain of these categories and there are overlapping aspects of our strategies that may independently generate potential investment opportunities in other strategies.

- *Directional*: Directional strategies attempt to predict absolute movements in the price of underlying assets, either on a hedged or unhedged basis. Directional (long or short) investments generally seek to identify the mispricing of an asset relative its perceived fair value and assume a reversion to fair value over the anticipated investment horizon. Directional investments may also seek to predict the directional impact on asset price of the occurrence of certain corporate or other events.
- *Distressed*: Distressed strategies seek to identify investment opportunities in the securities of a stressed or distressed issuer, generally an issuer experiencing significant financial or business difficulties and/or involved in (or likely to be involved in) a bankruptcy, insolvency, work-out, liquidation or restructuring.
- *Relative Value/Arbitrage*: Relative value/arbitrage strategies seek to capture and take advantage of the relative mispricing of similar or related assets or sets of assets. For example, capital structure trades focus on the relative valuations of two or more securities in an issuer's capital structure and attempt to predict the movement of prices of those securities relative to each other, while paired trades rely on similar relationships and predictions across issuers, generally in the same or similar sectors. Relative value strategies typically involve taking offsetting (long and short) positions in highly correlated investment instruments (or metrics related to those instruments, such as volatility) that are believed to be overvalued/undervalued in relation to one another.

In most cases, there are no material limitations on the securities, instruments, asset types, markets or jurisdictions in which we may invest in implementing our investment strategies. For certain of our clients, we may take long and short positions in a broad range of domestic and foreign, public and private, listed and unlisted securities and instruments, including derivatives. For other clients, we may take primarily long (or long-leaning) or short (or short-leaning) positions. We advise our clients regarding all types of investment instruments, including, but not limited to, secured and unsecured debt securities (corporate or sovereign); secured and unsecured bank loans, whether syndicated or privately sourced; trade claims and other legal and/or contractual claims; distressed securities and instruments (whether debt or equity); convertible securities; debt and equity indices and other indexed assets; derivative instruments, including listed and over-the-counter fixed income and equity-related derivative instruments, credit default swaps and other swaps, options (purchased or written), futures contracts, forward contracts, repurchase and reverse repurchase agreements and swaptions; securities issued as part of

structured vehicles, including collateralized debt obligations and collateralized loan obligations; currencies; commodities; common and preferred equities and stock warrants and other rights.

For our fund clients, we generally have complete flexibility to create or organize or otherwise utilize special purpose investment vehicles (which may be managed by us), swaps or other derivatives or structured products to access or finance investments, particularly in instances where there is a potential legal, tax, regulatory, financial, confidentiality or other advantage in doing so. We typically use leverage in our investing activities on behalf of our fund clients and separately managed accounts.

### **Risk of Loss and Other Material Risks**

An underlying investment in any of our clients (including in a separately managed account) is highly speculative, is not intended as a complete investment program and is designed only for sophisticated and qualified investors. Investing in securities involves risk of loss, which may be substantial and which our clients and underlying investors in our clients should be prepared to bear. Our clients and underlying investors in our clients must be prepared to lose all or substantially all of their investment. Moreover, our past performance in any of our investment activities generally or the past investment performance of any client should not be construed as an indication of any future results.

We have broad discretion in making investments for our clients. We may not correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on those investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, may significantly affect client performance and the value of client investments or render our underlying investment thesis inaccurate. Our market judgment and discretion will be integral to the implementation and success of a client's investment objective and strategy. There can be no assurance that we will achieve the investment objective of any client or that any of the investment strategies that we employ will be successful.

There are other material risks involved in our significant investment strategies and analytical methods, as well as in our activities as an investment adviser generally, which are summarized below. For our fund clients, these and other applicable risks, including risks unique to investing in pooled investment vehicles and in master-feeder fund structures generally, are described in detail in the fund client's private offering memorandum. For a managed account client, we generally discuss with the client the risks applicable to its separately managed account prior to the onset of the advisory relationship, and those and other applicable risks also may be described in detail in its investment advisory agreement. Not all of the material risks summarized below will be equally relevant to each of our clients, nor will the exposure of any particular client to any risk be present at all times or be constant over time.

### **Analytical Risks**

- *Fundamental Analysis:* Fundamental research is based on the gathering, processing and analysis of data and information and the making of a variety of assumptions based on that data and information in order to predict a future course of events. Accordingly, it is inherently an uncertain exercise and is subject to the risk of inaccurate, unknown or incomplete information, as well as the misinterpretation of

information. We may fail to gather relevant information, improperly analyze or incorrectly interpret information we do gather, or make incorrect, incomplete or misguided assumptions. Investments relying on fundamental research also are subject to the risk that broader macro-economic trends, market psychology or sentiment, momentum, technical factors or other external factors or events may overwhelm fundamentally-driven determinations and expectations.

- *Use of Models:* Certain of our investment strategies or investments may be more reliant on the output of quantitative models than others. These models are based on limited information and a variety of assumptions and inputs, which could prove inaccurate. The predictive nature of any model is inherently limited and the outputs or forecasts generated by a model may differ significantly from actual results. External events or factors which could have a substantial impact on asset value may not be accounted for in our models.

### Principal Strategy Risks

- *Directional:* Investments in directional strategies are subject to adverse price movements contrary to expectations, often without a corresponding hedge position that could partially or wholly offset losses. Directional investments that anticipate the occurrence of certain events bear the additional risk of an adverse price movement if the event does not take place, takes considerably more time than anticipated or occurs in a different form.
- *Distressed:* Distressed investments are highly uncertain and subject to significant process and timing risk. There are considerable risks in stressed/distressed situations that information on an issuer's true condition will be difficult to obtain, any restructuring or work-out will fail, a bankruptcy will be of considerable length and cost, a liquidation or reorganization will not generate material value, or that the issuer's distress will be too great for it to survive as a going concern. Distressed investments also are subject to heightened legal risk, including potential exposure to additional liabilities or the possible recharacterization or subordination of claims or the claw-back of payments received. In addition, our involvement in a distressed investment could subject us or our clients to bankruptcy court or public scrutiny, litigation or require us to restrict trading in the issuer's securities across our clients.
- *Relative Value/Arbitrage:* Relative value/arbitrage strategies depend on identifying inefficiencies and pricing discrepancies between or among related assets and/or anticipating a convergence toward theoretical relationships and values. These strategies are subject to the risk that a perceived inefficiency or mispricing fails to materialize as expected, does not converge within an expected timeframe or diverges further from expectations. Moreover, market disruptions (including in the availability of credit), disruptions in historical price relationships or other unexpected events or price movements may intervene to thwart or delay the realization on a relative value/arbitrage investment. Relative value or arbitrage opportunities may be rapidly reduced or eliminated by the investment activities of other market participants.

### Portfolio-Level Risks

- *Use of Leverage:* We use leverage in managing client portfolios. Leverage may be achieved in numerous ways, including through margin borrowings, structured financings and the use of synthetic instruments and derivatives. While the use of leverage can enhance returns under certain circumstances, it also exposes clients to greater losses from investments than would otherwise have been the case had leverage not been used. The use of leverage also subjects clients to the risk of default and the potential material adverse consequences to the client of a default. A client also may be exposed to margin calls or collateral requirements which may force premature liquidations of investments at undesirable prices. In the event of a sudden, precipitous drop in value of client assets, for example, we may not be able to liquidate client assets quickly enough to repay client borrowings or post additional margin, further magnifying losses. The credit available to a client could be materially reduced for a significant period of time, including in situations that are outside of our or the client's control. A client's inability to access credit on reasonable terms could significantly impact its performance.
- *Competition:* We compete for attractive investment opportunities with other investment vehicles, the public markets and institutional and other investors, many of which may have greater financial resources. This competitive environment reduces the number and availability of investment opportunities and may cause potential opportunities to be short-lived. Moreover, increased competition for, or reduced supply of, attractive investments could result in less favorable terms or results for client investments.
- *Limited Diversification:* The diversification of a client's portfolio at any time generally will depend on the opportunity set in the markets and our view of the attractiveness of, and our ability to execute on, those opportunities. A client's portfolio could become significantly concentrated in any one or across a small number of issuers, industries, sectors, countries, geographic regions, or types of securities or financial instruments. This lack of diversification may expose a client to greater or more rapid adverse changes in value than those experienced by a diversified portfolio.
- *Interest Rate Risk:* The value of a client's portfolio may fluctuate as the general level of interest rates fluctuates. Generally, the value of debt instruments changes inversely with changes in interest rates, with the impact typically greater for long-term debt securities than for short-term debt securities. To the extent we seek to minimize a client's exposure to interest rate changes, we may not be successful in hedging or mitigating the impact of those changes.
- *Liquidity:* Certain client investments may by their nature be illiquid, may not be readily marketable or may trade in less active markets. Moreover, overall liquidity in the market or in certain asset types also can be negatively impacted by market-wide events, developments or sentiment. An investment's liquidity may change, at times rapidly and substantially. The purchase or sale of such investments at desired times,

at desired prices or in desired quantities may be difficult or impossible. Moreover, the sale of illiquid investments may be possible only at a substantial discount which may not represent fair value and often requires more time and results in higher costs than the sale of more liquid investments. A significant concentration of illiquid investments in a client's portfolio or stress on client capital in times of depressed market liquidity could expose a client to material risk.

- *Portfolio Turnover*: The implementation of a client's investment strategy, prevailing market opportunities or conditions and/or client capital needs, may result in our trading the client's portfolio more actively than anticipated or at undesirable or inopportune times. As a result, client brokerage commissions and costs may significantly exceed those of other investment entities of comparable size.
- *Short Selling*: Short selling involves the borrowing and subsequent sale of securities. Securities borrowed ultimately must be returned to the lender, typically on demand. There is a risk that we may be forced to prematurely close out short positions or that securities are not available for purchase at all or at favorable prices when they are required to be returned. Losses on securities sold short can increase rapidly and are theoretically unlimited. Short selling activities are frequently subject to legislative and regulatory scrutiny and various initiatives to regulate, require reporting of or, in some cases, temporarily or permanently prohibit short selling have been adopted or proposed in recent years. Limitations or additional requirements on short selling could materially impact our investing activities on behalf of our clients or the value of client portfolios.
- *Hedging*: We may attempt to hedge certain exposures in a client's portfolio, including through the use of derivatives and other hedging techniques such as short sales. However, we may not measure the relevant exposure properly or we may employ an ineffective hedging strategy. Moreover, our hedging activities may not serve to reduce risk and may generate significant losses, which could substantially offset or be in excess of any gains and result in poorer overall performance.
- *Valuation*: We value client investments in accordance with a written valuation policy. The value of interests held by underlying investors in a fund client and of a separately managed account, as well as the amount of management fees and any incentive allocation or fee to which we (or our affiliates) is entitled, are determined by reference to our valuations. In valuing client investments, we may rely on information from third party pricing sources, broker-dealers or other counterparties or internal pricing models, among other sources, which information may be inaccurate, incomplete, not current or otherwise unreliable, particularly for investments that are illiquid, thinly traded, privately-issued, over-the-counter or otherwise difficult to value. Accordingly, our valuations may not be accurate or representative of fair value, which may particularly be the case in times of market dislocation and volatility. The value at which client investment can be liquidated may differ, sometimes significantly, from the valuation established by us. In addition, we may have an incentive to inflate investment valuations in order to receive increased compensation, as described in Item 6 above.



## Investment Risks

- *Nature of Investments:* The general risks posed by client investments, which can be extremely complex, include: credit risk, market risk, legal risk, operations risk, documentation risk, liquidity risk, systemic risk, concentration risk, and counterparty/settlement risk.
- *Equity Investments:* Equity investments are sensitive to the issuer's performance, the performance of competitors of the issuer and entities with material business relationships with the issuer, and movements in the broader equity markets. A variety of economic factors, as well as market sentiment, global events and political and geopolitical developments, influence the value of equity (or equity-linked) investments. Investments in the equity of smaller-capitalization, high-growth or private issuers may involve higher risks as they are often more volatile and more illiquid than the equity of publicly-traded or larger-capitalization issuers.
- *Debt Investments:* Debt investments, including investments in corporate and sovereign bonds and corporate bank loans, are subject to the risk of the issuer's inability to meet principal and interest payments. Certain of our debt investments may be rated by one or more credit ratings agencies, and therefore may be sensitive to future actions taken (or not taken) by these agencies. Many of our debt investments are in "high-yield" securities and instruments which are lower-rated by credit rating agencies (or perhaps unrated) and in issuers which are experiencing financial or business stress or distress. These securities are generally considered to be subject to greater risk of loss than higher-rated securities. Certain lending activities may subject a foreign client to adverse tax consequences.
- *Synthetic Instruments and Derivatives:* Client portfolios may be exposed for investment or hedging purposes, sometimes substantially, to synthetic instruments and derivatives, including credit default swaps, options, futures, forwards, and swaptions. Synthetic instruments and derivatives typically involve highly-leveraged exposure to underlying reference assets from which their value, at least in part, is derived. Accordingly, these investments bear the risks inherent in the use of leverage generally, including the risk of default and collateral posting requirements, and are also exposed to the risks of the referenced asset or assets. Transactions in synthetic instruments and derivatives may be effected on established exchanges or over-the-counter pursuant to privately-negotiated and potentially highly-customized contracts. Exchange-traded instruments and derivatives involve a clearinghouse which reduces overall risk; by contrast, over-the-counter transactions bear the risk of default by the contractual counterparty. There also may be imperfect correlation between the synthetic instrument or derivative and the underlying asset or assets. Moreover, our ability to successfully use synthetic instruments and derivatives may be more dependent on our ability to predict pertinent market movements than other investments. Accordingly, the use of synthetic instruments and derivatives may result in losses greater than if they had not been used.

- *Credit Derivatives:* Credit derivatives, including credit default swaps, are contracts that transfer the price, spread and/or default risks of debt and other reference instruments issued by one or more underlying issuers from one party to another in exchange for the payment of a premium. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments underlying the derivatives as well as the risk of non-performance by the buyer in the payment of the periodic premium; buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay. There are also risks with respect to credit derivatives in contractual interpretation, including determining whether an event will trigger payment under the derivative and whether such payment will offset the loss or payment due under another instrument. The value of a credit derivative instrument depends largely upon price movements in the underlying reference asset. Therefore, many of the risks applicable to investing in the referenced asset are also applicable to a credit derivative referencing that asset.
- *Options:* We may invest in options for client portfolios on either a covered or an uncovered basis, primarily by purchasing and selling put and call options on underlying equities or equity indices. Purchasing a put option or a call option typically exposes a client to the potential loss of premium. Selling a put option on an underlying security generally exposes a client to losses if the value of the security decreases relative to the option's strike price; similarly, selling a call option on an underlying security generally exposes a client to losses, which may be unlimited, if the value of the security increases when compared to the option's strike price. The value of an option is highly sensitive to changes in price and volatility of the underlying security.
- *Structured Finance Securities:* Structured finance securities, such as equipment trust certificates, collateralized debt obligations, collateralized mortgage obligations, collateralized bond obligations, collateralized loan obligations or similar instruments, present risks unique to each structure and the nature of the underlying assets being securitized, which may include: prepayment risk, structural and legal risk, the risk of counterparty default, and the risk of default on the underlying assets. The performance of a structured finance security is affected by a variety of factors, including its priority, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying other assets being securitized, the 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.
- *Non-United States Investments:* Investments in securities and instruments issued by (or referencing) non-United States governments and issuers, which may be executed on foreign exchanges or with foreign counterparties, carry additional risks not typically associated with investments in the United States government and United States issuers. These considerations include changes in relevant exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, foreign government

restrictions, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing legal rights, lack of uniform accounting, financial reporting and auditing standards, greater price volatility, and lack of basic protections available under certain United States laws and regulations.

- *Foreign Currencies:* Client investments that are denominated in a foreign currency are subject to the risk that the value of that currency will change in relation to the benchmark currency for the client. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Although we may seek to hedge a client's currency exposure, a client may be exposed to currency risk in ways that cannot be hedged or our currency hedges may be insufficient to fully mitigate the underlying currency risk.

### Business and Operational Risks

- *Legal and Regulatory Risk:* The legal and regulatory environment in which we operate is continually evolving. Legislatures, regulators and self-regulatory organizations around the world have been enacting (or contemplating or proposing) measures which impose additional requirements or costs on investment advisers. Changes in laws or regulations may materially adversely affect the value of client investments or our ability to pursue a client's investment strategy, may make our investment strategies less profitable or unprofitable, may impose additional costs of compliance (which may be substantial), and/or may expose our client's to increased operational risk. The adoption and promulgation of such regulatory measures has at times in the past materially affected the prices, liquidity and volatility of many securities, including convertible securities, and financial instruments and future actions may have a similar material impact, often with very little warning. Moreover, many laws and regulations have yet to be fully implemented and the parameters and guidance around many recent measures may be uncertain. Legislative or regulatory actions in the future which relate to the securities or financial instruments in which we invest or the financial markets in which we operate, could significantly impact our activities and investment opportunities or alter the liquidity or functionality of the markets in which we operate. In those circumstances, we may not be capable of, or be successful at, preserving the value of our client's assets, generating attractive risk-adjusted investment returns or effectively managing risks. Various regulatory limits, such as position limits, may affect our ability to make, hold or liquidate investments on behalf of one or more of our clients or to forego or modify certain contemplated investments.
- *Increased Regulation of Derivatives:* A variety of global legislative and regulatory actions and proposals in recent years impose additional regulatory requirements or prohibitions on trading in certain synthetic instruments and derivatives. For example, the United States Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 includes provisions intended to overhaul and regulate the over-the-counter

derivatives market, including the market for credit default swaps, by, among other things, requiring a substantial portion of derivatives transactions to be executed on regulated exchanges through regulated clearinghouses. The overall impact of many of these initiatives on the derivatives markets and the timing (and degree of success) of their implementation is uncertain. These requirements could make it more difficult and costly for us to enter into derivatives transactions on behalf of our clients and also could reduce the liquidity and value of a client's existing over-the-counter derivatives transactions.

- *Counterparty Risk:* Our clients are exposed to the credit risk of brokerage firms, prime brokers, banks, custodians and other counterparties. A client could suffer losses if a counterparty were to become bankrupt or insolvent or were to default on a contract with or its obligations to the client, which losses could be material. In the event of a counterparty failure, we may not be able to access and trade client assets and losses may result from practical or timing problems associated with recovering or enforcing a client's rights to its assets. Current United States law permits certain client assets custodied by a prime broker to be pledged, transferred and rehypothecated, and we expect prime brokers to utilize this ability to the fullest extent permitted. Moreover, to the extent of any leverage extended to a client, all client assets custodied by the lender may collateralize those borrowings. The insolvency of or default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, whether or not a client counterparty, may cause a series of defaults by the other institutions, some of which may be client counterparties, and also may adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms and exchanges. Client losses also could result from actions by other third parties and service providers, including misconduct, misappropriation of assets, breach of contract or improper use or disclosure of client confidential information. A client's counterparty relationships may be concentrated in or across a small number of counterparties, and this lack of counterparty diversification could magnify the adverse impact of a default by any single counterparty. Counterparty risk may be heightened with foreign counterparties or in situations governed by laws outside the United States.
- *Contractual Default and Cross-Default:* A default by a client under a contract with any single counterparty (or the subsequent termination of such contract), in addition to triggering rights and remedies in favor of the counterparty, may result in or constitute a default by the client under other contracts with that counterparty (or any of its affiliates) and/or with other counterparties. Any default by a client under one of its contracts and any action taken by one or more counterparties following a client default could have a material adverse effect on the client and our investing activities generally on behalf of all our clients.
- *Systems and Operational Risk:* In our investing activities on behalf of our clients, we rely extensively on our technology infrastructure and operational and administrative capabilities. We employ computer programs and systems to trade, clear and settle securities transactions, to evaluate certain investments based on real-time trading information, to monitor client portfolios, and to generate portfolio accounting, risk

management and other reports. In addition, our business and operations functions and technology interface with and depend on systems operated by third parties, including client custodians, banks, prime brokers and market counterparties, and other service providers. We may not be in a position to verify the risks or reliability of the systems, processes and controls of third parties. All of these systems are subject to human error and certain defects, failures or interruptions and any error, defect or failure, even if temporary, could have a material adverse effect on our investing activities. There is a risk that systems and operational failures may cause financial loss, the disruption of business, liability to clients or third parties, regulatory intervention or reputational damage.

- *Personnel:* Our ability to effectively manage client portfolios depends on our ability to retain and motivate our existing team and to attract talented and qualified individuals, and to do so against the backdrop of a highly competitive financial services market. The loss or departure of a key person could adversely affect our clients to the extent of any resulting dislocation and its duration. Errors or misconduct by our personnel could cause significant losses to our clients. In addition, our personnel may violate legal or contractual obligations which could result in litigation or serious financial or reputational harm.

#### **Item 9: Disciplinary Information**

Item 9 is not applicable to us as we have no reportable material legal or disciplinary events.

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

There are no material limitations on our ability to conduct any other business, including any business within the financial or securities industry, whether or not that business is in competition with any client, or on the ability of our personnel to serve as officers, directors, consultants, partners or securityholders of one or more other investment funds, partnerships, securities firms or advisory firms.

Certain of our affiliates, which are under common ownership and control with us, serve as general partner for our private investment fund clients organized as United States limited partnerships for which we also serve as investment adviser. As general partner, these affiliates have general authority over the business and affairs of our limited partnership fund clients, including our engagement as investment manager, subject to the terms of the private investment fund's limited partnership agreement. These affiliates receive the incentive allocation described in Item 6 above in respect of the limited partnership for which they serve as general partner. In addition, certain of our private investment fund clients organized as foreign entities are structured such that the incentive allocation described in Item 6 above also is made to these affiliates. Although none of the compensation, liquidity, or other terms of these or our other private investment fund clients (other than collateralized loan obligation vehicles) are negotiated at arm's length, all terms are disclosed in detail in the related private offering memorandum. Given the commonality of our ownership with these affiliated entities, these relationships do not create material conflicts of interest which differ from the conflicts inherent in our management of multiple clients as described in Item 7 above and our compensation structure as described in Items 5 and 6 above.

One of our advisory affiliates, who is also an underlying investor in certain of our United States-organized fund clients, serves as a director, without compensation, on the board of directors of certain of our foreign-organized private investment fund clients. We expect at least one of our advisory affiliates to serve in a similar governance capacity for any foreign-organized private investment fund client which we may manage or advise in the future (other than a foreign-organized collateralized loan obligation vehicle, which typically have a fully independent board of directors or similar governing body).

As described in Item 11 below, we or one of our affiliates may serve as general partner, manager, investment manager, investment adviser, collateral manager or in a similar capacity for certain special purpose vehicles or other entities which are wholly-owned by a client.

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

##### **Code of Ethics**

We have adopted a written Code of Ethics as part of our overall compliance program and in furtherance of our commitment to compliance and to maintaining high ethical standards. Our Code of Ethics recognizes our fiduciary duty to our clients and is intended to ensure that we and our personnel adhere to the highest standards of care and diligence required of an investment adviser. Our Code of Ethics also addresses certain areas in which our interests or the interests of our personnel may conflict with the interests of our clients.

As baseline standards of business conduct, our Code of Ethics establishes our expectation that all of our personnel act at all times with integrity, competence, professionalism and in an ethical manner when dealing with our clients and prospective clients (and their underlying investors) and requires all of our personnel to put clients' interests before their own and to act honestly and fairly in dealing with clients. Among other provisions, our Code of Ethics incorporates our personal securities transaction policy and procedures (as further described in this Item 11) and includes limitations on the ability of our personnel to engage in certain activities that may present, or have the appearance of presenting, a conflict of interest or involve other ethical issues. Our Code of Ethics also expressly requires all personnel to strictly comply with United States federal securities laws, specifically including a prohibition on, and policy and procedures designed to prevent, insider trading.

We will provide a copy of our Code of Ethics to any client or prospective client, or investor or prospective investor in a private investment fund client, upon request.

##### **Participation or Interest in Client Transactions**

We do not anticipate engaging in any principal trades, which are trades in which a client buys securities from (or sells securities to) us, as principal, or agency trades, which are trades between a client and another entity for whom we act as broker for compensation, although we are not prohibited, in either case, from doing so. Principal and agency trades pose the potential for conflicts of interest between us and our clients since we have an incentive to act based on our own financial interests. To the extent we intend to engage in principal or agency trades in the

future, we will comply with applicable law, including disclosing the transaction to the client in writing and obtaining the client's written consent prior to completion of the transaction.

There may be circumstances where we determine to execute a cross trade between or among our clients, which cross trade does not constitute a principal or agency trade. Cross trades may present a conflict of interest to the extent our financial interest is greater in respect of one client to the cross trade than the other. To mitigate any conflict, cross trades between clients must be at fair market value for cash without any extraordinary brokerage commissions or other remuneration and otherwise be in compliance with applicable law. We would not receive any direct or indirect compensation (other than our fees described in Item 5 above) in connection with any cross trade.

We may have an interest in the securities in which a client invests, including through our investing activities on behalf of other clients and our investing activities in respect of any proprietary incubation account as described in Item 6 above. We may recommend to clients, or buy or sell for client portfolios, securities in which we or certain of our affiliates have a material financial interest. Our material financial interest, and the resulting conflicts of interest, principally arises from the fact that we receive a management fee as described in Item 5 above and we or certain of our affiliates under common ownership and control with us are entitled to an incentive allocation or fee in respect of certain clients, as described in Item 6 above. Our private investment fund clients that serve as "feeder" funds are not solicited to invest in our private investment fund clients that serve as "master" funds, but do so solely by virtue of the fund structure described in the fund client's private offering memorandum. We may solicit any separately managed account client and certain underlying investors in our private investment fund clients (or, in any such case, an affiliate thereof) to invest in our collateralized loan obligation clients.

We may invest the assets of certain of our private investment fund clients in special purpose vehicles or other entities wholly-owned by the client for which we or one of our affiliates serves as general partner, manager, investment manager, investment adviser, collateral manager or in a similar capacity. These private investment fund client subsidiaries may be formed and structured for legal, tax, financing, risk mitigation or other reasons. To the extent that any such subsidiary is required to pay fees or other compensation to us for our services, those fees are waived by us or otherwise rebated to the applicable private investment fund client if necessary to avoid a layering of fees and to mitigate any conflicts of interest.

Each of us, our affiliated general partners and our principals and certain of our employees and relatives of our principals and employees maintain direct investments, which may be substantial, in one or more of our private investment fund clients (including collateralized loan obligation vehicles) or in a proprietary incubation account as described in Item 6 above. As a result, we and our principals and employees may have an interest in the same securities as the private investment fund clients in which they invest. These investments could pose a conflict of interest with other underlying investors in a private investment fund client since those principals and employees may be motivated to allocate time, attention, and/or investment opportunities to the private investment fund clients in which they and/or their relatives are personally invested (or in which they are invested to the greatest degree) at the expense of other clients, including other private investment fund clients, managed account clients and registered investment company

clients. Moreover, we or our advisory affiliates may have other economic interests in, or relationships with, issuers in which we may invest on behalf of our clients. Our standards of business conduct in our Code of Ethics require all personnel to put the interests of clients ahead of their own personal interests.

### **Personal Securities Transactions**

Personal securities transactions by our personnel, particularly those that involve the same securities in which we invest on behalf of our clients, have the potential to implicate a variety of conflicts of interest and ethical issues, including front-running of client trades, diversion of business time and attention, use of our or the client's information and property for personal benefit, and illegal insider trading. We do not prohibit our personnel from engaging in securities transactions for their own accounts; however, to address the inherent conflicts and ethical issues and to ensure personal securities transactions are conducted in compliance with applicable law, we have adopted policies and procedures which require compliance with certain guidelines and restrictions. All personal securities transactions by our personnel must be conducted in accordance with these policies and procedures.

We require all personnel to report, both initially and annually, each personal account in which a personal securities transaction covered by our policies and procedures could be executed, and to timely report any changes to their accounts or any new accounts. In addition, all personnel are required to report on a quarterly basis all personal securities transactions executed in the prior calendar quarter. All contemplated securities transactions in or for the benefit of a personal account must be pre-approved by our chief compliance officer, with limited exceptions which we believe do not pose a potential conflict of interest. Personal securities transactions may be approved or disapproved for any reason in our chief compliance officer's sole discretion, although any proposed transaction in a security that is subject to a trading prohibition because we are in possession of material non-public information regarding the issuer of the security will be disapproved. In considering the pre-approval of any personal securities transaction, our chief compliance officer will consider, among other relevant facts and circumstances, whether the security is held by a client or we are in the process of buying or selling the security for a client or whether we are otherwise actively researching, analyzing or considering the security for a client, although those facts will not necessarily result in disapproval. Once approved, personal securities transactions are subject to a minimum holding period.

## **Item 12: Brokerage Practices**

### **Broker-Dealer Selection Process**

We are authorized, without limitation, to determine the broker-dealer to be used for each investment transaction for our private investment fund clients and, unless limited by the terms of the applicable investment advisory (or sub-advisory) agreement or applicable law, our managed account clients and registered investment company clients. In placing and executing transactions for our clients, it is our policy to obtain the best execution for each transaction. In assessing what constitutes best execution, the determinative factor is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution.



We only trade with or through broker-dealers we believe are qualified to provide brokerage services to our clients. In qualifying broker-dealers, we consider a number of general criteria, including the full range and quality of services provided by the broker-dealer, as well as, where relevant and among other factors:

- the financial stability, reputation and responsiveness of the broker-dealer;
- the broker-dealer's commission rates and other fees;
- the execution capability of the broker-dealer and its ability to promptly, reliably and efficiently effect client transactions generally;
- the value and quality of research and brokerage products and services provided by the broker-dealer;
- the availability of custodial and other services provided by the broker-dealer that enhance our general investment advisory capabilities; and
- the broker-dealer's trading infrastructure and operational capabilities.

In selecting broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions), we do not need to solicit competitive bids or seek the lowest available cost, rather we consider, in addition to the broker-dealer's compensation and its general qualifications, as described above, a variety of factors, including, among others:

- the nature and liquidity of the asset which is the subject of the transaction;
- the broker-dealer's expertise in the specific asset or asset type, its inventory and quoted market for the asset, including whether that market is one-sided or two-sided, the size of the bid-ask spread, and the actual execution price;
- the size and type of the transaction and, where size is large and/or execution is difficult or specialized, the ability of the broker-dealer to handle the transaction; and
- the execution capability of the broker-dealer and its ability to promptly, reliably and efficiently effect the specific transaction.

Although we make a good faith determination that the amount of compensation paid to a broker is reasonable in light of the products or services provided by a broker, broker compensation rates are generally negotiable and thus, selecting brokers on the basis of considerations that are not limited to the applicable rates may result in higher transaction costs than would otherwise be obtainable.

We may execute client transactions with broker-dealers affiliated with client prime brokers or custodians of client assets which may, as part of their overall service offering to our clients, pay or provide reimbursement for certain investment management-related expenses which would otherwise be incurred by us or may provide capital introduction services to us. Capital introduction services involve providing us with the opportunity to participate in events and industry conferences sponsored by the prime broker or custodian or otherwise connecting us with

or referring us to prospective investors which might have an interest in our fund clients or in establishing a managed account with us. We may consider these services when selecting or recommending client prime brokers and custodians. We also may have an incentive to select a broker-dealer affiliate of a prime broker or custodian for client transactions based on these services, rather than on our clients' interest in receiving the most favorable execution. For example, we would benefit by receiving additional fees and compensation if a prospective investor identified or referred to us as part of a prime broker's capital introduction services were to invest in a fund client or become a managed account client. However, we do not consider capital introduction services or client referrals in determining whether to qualify a broker-dealer or the manner in which we allocate client brokerage. In addition, an underlying investor in a private investment fund client or a managed account client or a registered investment company client may be affiliated with a broker-dealer, prime broker or custodian, but we do not take that into consideration in selecting broker-dealers or client prime brokers or custodians, except, in the case of a registered investment company client, where we are prohibited or limited in utilizing any such affiliated broker-dealer, prime broker or custodian by applicable law and/or the investment policies, objectives and restrictions applicable to the registered investment company.

We generally do not permit, or otherwise recommend, request or require, our clients to direct brokerage and currently do not have any directed brokerage arrangements with our clients. Direct brokerage arrangements may result in our being unable to obtain the most favorable execution of client transactions and may be more costly for the client.

#### **Research and Other Soft Dollar Benefits**

In addition to execution services, we receive research and brokerage products and services from broker-dealers with whom we execute client transactions. We do not put a specific value on these soft dollar benefits nor do we attempt to estimate and allocate the relative costs or benefits among our clients. As it is not our practice to negotiate "execution only" commission rates or to pay separately for these additional soft dollar products and services, our clients may be deemed to be "paying up" for them as part of the commission rate. As a result, commission rates may be higher than the lowest available commission rate charged by another broker-dealer for executing a client transaction.

The additional research and brokerage products and services obtained by the use of commissions arising from one client's investment transactions may be used in our other advisory activities on behalf of other clients. Moreover, a client may not necessarily, in any particular instance, be the direct or indirect beneficiary of these additional research or brokerage services, whether or not generated by the client's own commissions. We believe, however, that the additional research and brokerage products and services received generally assist us, in the aggregate, in our investment management business and in our investment decision-making process on behalf of all of our clients. As described in this Item 12, we may consider, among other factors, these additional products and services in qualifying broker-dealers and selecting broker-dealers for client transactions.

We limit our use of soft dollars as described above to research and brokerage services covered by the "safe harbor" provisions of Section 28(e) of the United States Securities Exchange Act of 1934, and services that would otherwise be a client expense (as described in Item 5 above) even

if outside the "safe harbor." Services within the "safe harbor" that we may receive from broker-dealers include: proprietary research and analytical reports concerning the markets generally; specific securities, companies, sovereigns or sectors; general market, financial and economic commentary, studies and forecasts; financial and trade publications; statistical and technical data; trading and investment advice and recommendations; discussions with research analysts and consultants; trading, valuation and market data or information; the arrangement of meetings with the management of issuers; and products and services related to the execution, clearing and settlement of client transactions and incidental functions (such as connectivity and order routing products and services). In some instances, we may receive a soft dollar product or service only a portion of which qualifies under the "safe harbor." With respect to these "mixed use" products or services, we will make a good faith effort to determine the relative proportion of the product or service covered and not covered by the "safe harbor." The proportion outside the "safe harbor" (and which would not otherwise be a client expense) will be paid for by us from our own resources.

We benefit from our use of soft dollars to obtain these additional research and brokerage services because we do not have to independently produce or pay for them. Accordingly, although we make a good faith determination that the amount of compensation to a broker-dealer for client transactions is reasonable in light of the products or services it provides, we may have an incentive to select or trade inappropriately with a broker-dealer for client transactions based on our interest in receiving or accumulating soft dollar benefits rather than on our clients' interest in receiving the most favorable execution. We have adopted policies and procedures that we believe are reasonably designed to ensure that our use of soft dollars is consistent with seeking best execution.

#### **Allocation of Investment Opportunities and Aggregation of Orders**

Our clients may have investment objectives or may implement investment strategies similar to or different from those of our other clients. Accordingly, we may invest in identical or similar securities for our clients. There may be circumstances where purchasing or selling an investment is suitable for more than one of our clients and, to the extent we determine it is practicable and advisable to do so in those circumstances, we may allocate investment transactions (including initial public offerings in equity securities and similar limited opportunity investments) across clients, as applicable, although it may not always be possible or consistent with the investment objectives of our clients for the same investment positions to be taken or liquidated at the same time or at the same price.

We allocate investment opportunities among our clients, where appropriate, on a basis that we deem fair and equitable to each client, generally pro rata referencing an appropriate metric or based on a pre-determined allocation methodology. However, we are not required to allocate on a pro rata basis if, in our discretion, we determine another manner would be fair and equitable on an overall basis to all applicable clients under the circumstances, taking into account relevant characteristics of each client, including, among other factors, size, the amount of available capital, investment strategy, risk profile, liquidity, overall portfolio composition, trading activity and tax and legal considerations. Moreover, we may be limited in our ability (or may be unable) to allocate certain investments, particularly with respect to private, unregistered or over-the-counter securities and financial instruments, due to a variety of factors, including legal,

regulatory, tax, trading, or counterparty-imposed or market-driven restrictions. As a result, a client may not participate in any particular investment opportunity on an equal or pro rata basis with other clients.

We are not required to ensure equality of treatment among any of our clients and, although investments may be held or proposed for investment by multiple clients, we are not required to act or make investment decisions in a consistent manner across those clients in respect of the common investment. Accordingly, we may provide investment advice or take action with respect to one client that differs from the advice given or action taken with respect to another client. There may be circumstances where we, on behalf of a client, (1) make a long or long-leaning investment at a time when another client holds a short or short-leaning position in the same investment (or vice-versa), (2) seek to hedge or offset exposures that we intentionally seek for other clients or that we do not similarly attempt to hedge or offset for other clients (or do so in a different manner, which could prove less effective), (3) execute the same or similar transactions for our clients in different markets or utilizing different asset types, and/or (4) enter into or exit a client investment whether or not the same or a similar investment is held, intended to be acquired or being liquidated by another client.

As described in Items 5 and 6 above, we may receive greater fees or compensation from some of our clients relative to other of our clients and may have an incentive to cause investments to be allocated to higher paying clients. However, we do not allocate client transactions based on client performance or fee structure.

We may seek to contemporaneously purchase or sell the same investment for multiple clients. In those circumstances, we may aggregate client trade orders for execution purposes where we believe aggregation is practical and in the best interest of all applicable clients. The aggregation of client trade orders does not ordinarily adversely affect commissions charged and execution prices, and in many cases results in reduced cost and more efficient and favorable execution. All clients participating in an aggregated transaction generally receive the average execution price and a proportionate share of any transaction costs. An aggregated order will be allocated among the relevant clients, even if only partially filled. Although the aggregation of trade orders is expected to benefit clients overall, aggregation may, in any circumstance, disadvantage a particular client. There may be circumstances where we determine not to aggregate client trade orders which otherwise could have been aggregated or where aggregation is not feasible.

### **Item 13:      Review of Accounts**

We provide continuous advisory services to our clients. Our Investment Committee is responsible for general oversight of client portfolios and investment decisions and ensuring that investments executed for a client's portfolio comply with the client's investment program. Each of our senior investment professionals is a member of our Investment Committee.

Client investment portfolios are monitored on an intraday and day-to-day basis by relevant portfolio management personnel, subject to the oversight of the Investment Committee. Portfolio managers are authorized to initiate and adjust client investments within the parameters established by the Investment Committee, taking into account market developments and other circumstances which may merit a change in a client's portfolio. Our operations group generally monitors and reconciles all client investment and trading activity on a daily basis to ensure the

proper posting and processing of transactions, although for certain of our clients, the primary responsibility for this daily operational process may be outsourced to a third party administrator, custodian or other service provider.

Each underlying investor in a private investment fund client receives written monthly statements from the client's third party administrator reporting the investor's capital account or net asset value per share, as the case may be, or in the case of collateralized loan obligation vehicles relevant data with respect to the underlying collateral, as of the end of the applicable month. Certain of our private investment fund clients also receive from us a written monthly report of certain exposures and risk metrics relative to the client's month-end investment portfolio. Underlying investors in a private investment fund client (other than collateralized loan obligation vehicles) also receive an annual reporting package, including annual audited financial statements and applicable tax information. Underlying investors in a collateralized loan obligation vehicle generally receive (or have access to) collateral reports and applicable tax information generated by the third party administrator. We generally issue quarterly letters to underlying investors in a private investment fund client (other than collateralized loan obligation vehicles) intended to provide a brief narrative summary of the client's performance over the prior calendar quarter, as well as other relevant updates on our business and operations. Certain underlying investors in a private investment fund client may request and receive additional or different information in connection with their investment due diligence and monitoring activities than that regularly provided to other (or all) investors in such private investment fund client (or any other of our clients).

A managed account client receives the specific reporting required to be provided by us in accordance with its investment advisory agreement with us, which generally includes a monthly statement from us reporting the net asset value of the account as of the end of the applicable month. A registered investment company client is subject to the provisions of the United States Investment Company Act of 1940, as amended, including as to reporting, which reports are the responsibility of the governing body of the registered investment company and are not generated or provided by us.

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

As described in Item 12 above, we receive certain soft dollar benefits from broker-dealers through which we execute client transactions. The use of soft dollars creates incentives that result in the conflicts of interest described in Item 12 above.

We do not currently have any agreement or arrangement under which we or any related person compensates another person or entity for referring underlying investors in our private investment fund clients (which are not collateralized loan obligation vehicles) or separately managed account clients to us. However, as disclosed in the applicable private offering memorandum in respect of each such private investment fund client, we may engage and compensate persons or entities (whether or not affiliated with us) that are instrumental in the sale of interests in a private investment fund client, so long as no amounts are payable by or chargeable to the private investment fund client or any of its underlying investors (unless accompanied by an offsetting credit). For separately managed account clients, any referral agreement or arrangement and the related compensation will be disclosed to the client.

For our private investment fund clients that are collateralized loan obligation vehicles, one or more third parties are engaged to provide, structuring advice and assistance, as well as distribution and placement services, in respect of the applicable collateralized loan obligation vehicle. Such arrangements generally are negotiated by us with the third party at the outset of the collateralized loan obligation vehicle transaction. Typically, each such third party entitled to a fee at the closing of the applicable collateralized loan obligation vehicle transaction based on a fixed percentage of the aggregate debt and equity capital commitments placed by such third party, which fee is paid out of the assets of the collateralized loan obligation vehicle. The private offering memorandum or circular in respect of the collateralized loan obligation vehicle discloses any such relationship. While we do not receive any portion of the compensation to such third party, we benefit from the successful distribution of interests in, and closing of, each collateralized loan obligation vehicle which we advise.

A registered investment company client may engage one or more persons or entities, which may be affiliated with the registered investment company or any of its sponsors or advisors (or sub-advisors), other than us, to market or distribute interests in such registered investment company. We do not participate in, are not a party to, and do not pay or receive any direct compensation in respect of such marketing or distribution efforts, although we may benefit from such efforts through the potential allocation of additional registered investment company assets subject to our investment advisory (or sub-advisory) services (and related fees).

#### **Item 15: Custody**

We utilize the services of unaffiliated banks, broker-dealers and financial institutions or other qualified custodians selected by us to hold private investment fund client cash and securities, with the exception of certain uncertificated privately-offered securities. Each of our private investment fund clients (other than certain collateralized loan obligation vehicles) is subject to an annual audit performed in accordance with generally accepted accounting principles by an independent auditing firm, and those audited financial statements are distributed to the applicable private investment fund client (and each of its underlying investors) within 120 days of the end of the fund client's fiscal year. As described in Item 13 above, each underlying investor in a private investment fund client receives a monthly statement from the private investment fund client's third party fund administrator reporting the investor's capital account or net asset value per share, as the case may be, as of the end of the applicable month.

Private investment fund clients which are collateralized loan obligation vehicles and registered investment company clients utilize the services of a third party custodian and/or administrator, which reports directly to the client. In our role as collateral manager for any such collateralized loan obligation vehicles or as investment advisor (or sub-advisor) to any such registered investment company client, we do not, and are not authorized to, hold, obtain possession of, access or transfer client cash or assets nor are we authorized to open or establish custodial (as opposed to brokerage) accounts in the client's name.

A managed account client is responsible for selecting and engaging one or more unaffiliated custodians of the account's assets. Since the managed account client is the owner of the account, the client directly receives or is granted independent access to all statements generated by each custodian related to its account. The investment advisory agreement we enter into for a managed

account generally does not authorize us to open or establish custodial (as opposed to brokerage) accounts in the managed account client's name and limits our authority to transfer account cash or other assets to accounts not established by the managed account client (and in its name).

We urge all of our clients and underlying investors to carefully review the reports, financial statements and/or account statements that they receive and, where relevant, to compare them to statements or information that we may provide.

#### **Item 16: Investment Discretion**

For our private investment fund clients, we are granted full discretionary authority to manage client assets and make investment decisions, including the authority to select and determine the identity and amount of securities and other assets to buy or sell, in each case consistent with the client's investment program, objective and strategies. An investment management or collateral management agreement is executed between us and such private investment fund clients to document our discretionary authority. Our authority on behalf of our private investment fund clients generally is subject to the oversight of the private investment fund client's governing body (which may be a general partner or a board of directors), however, for certain of our private investment fund clients (generally those other than collateralized loan obligation vehicles), the governing body typically will be an affiliated entity (in the case of a general partner) or will have at least one of our advisory affiliates as a member (in the case of a board of directors).

For a managed account client, the client's investment advisory agreement with us may limit our discretionary authority over the account's investment and trading activity.

For a registered investment company, our investment advisory (or sub-advisory) contract may limit our discretionary authority to a portion of the assets of the registered investment company, as may from time to time be allocated to us as investment advisor (or sub-advisor) by the registered investment company's governing body (or, in the case of a sub-advisory relationship, by the registered investment company's investment advisor). Moreover, our discretionary authority in respect of our investment advisory (or sub-advisory) services to any registered investment company will be subject to the oversight of the registered investment company's governing body (and, in the case of a sub-advisory relationship, to the supervision of the registered investment company's investment advisor), as well as the investment policies, objectives and restrictions applicable to the registered investment company.

#### **Item 17: Voting Client Securities**

We generally have discretionary authority to vote client securities. For a managed account client or with respect to our investment advisory (or sub-advisory) services to a registered investment company, our discretion to vote account securities may be limited by the terms of the related investment management or advisory (or sub-advisory) agreement. We have adopted and implemented written proxy voting policies and procedures reasonably designed to ensure that we seek to diligently exercise proxy voting rights on behalf of our clients where we exercise discretionary voting authority and that, in such circumstances, we vote proxies in the best interest of the client.

In furtherance of our goal of diligently exercising proxy voting rights on behalf of our clients, we utilize the services of an independent third party proxy voting service provider to assist in coordinating, administering (including the maintenance of required records), processing and voting of certain proxies. These services also include proxy voting recommendations and research.

In seeking to vote proxies in the best interest of our clients (including determining whether it is in the best interest of a client to abstain from voting), we generally are guided, among other factors, by the principle of voting a client proxy in a manner which we believes will maximize value to the client taking into account the nature of the client's position in the security and underlying investment strategy and thesis. We may, in any given proxy voting circumstance, consider the recommendations of an issuer's governing body, an issuer's management, special interest groups, other company stakeholders, and/or an independent third party (such as the independent third party proxy voting service provider, as referenced above, or other independent research/analysis firms). There may be times when voting proxies in the best interest of each of our clients may result in different voting results among clients for the same proxy or circumstances where we determine that abstaining or otherwise refraining from voting a proxy is in a client's best interest. Moreover, there may be circumstances where we agree (or otherwise align ourselves) with other security holders to vote (or not to vote) a proxy in a certain manner if we believe that doing so could result in increased value to the client.

In furtherance of our voting proxies in the best interest of a client, we seek to identify and address material conflicts of interest, if any, between us and the applicable client with respect to the voting of any proxy on behalf of that client. If a material conflict of interest exists, we will determine whether voting in accordance our proxy voting policies and procedures is in the best interest of the client or whether an alternative voting method should be implemented, such as relying solely on (and voting in accordance with) the recommendations of the independent third party proxy voting service provider, as referenced above, or another independent third party. We will maintain a written record of the method used to resolve any material conflict of interest in the voting of any proxy.

We maintain records relating to the voting of proxies as required by applicable law and regulations. For certain proxy voting records, we rely on the record-keeping of the independent proxy voting service provider, which has agreed to provide copies of those records which it maintains at our request.

Any of our clients, or any underlying investor in any of our clients, may request a copy of our proxy voting policy and procedures, as well as relevant information concerning how we voted client securities, by contacting us at:

Chicago Fundamental Investment Partners, LLC  
Attention: Proxy Voting  
71 South Wacker Drive, Suite 3495  
Chicago, Illinois 60606

**Item 18: Financial Information**

Item 18 is not applicable to us.