

**Item 1: Cover Page****FORT HILL INVESTMENT ADVISORS, L.P.**

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**April 1, 2013**

This brochure ("Brochure") provides information about the qualifications and business practices of Fort Hill Investment Advisors, L.P. ("FHIA I"), Fort Hill Investment Advisors II, L.P. ("FHIA II" and together with FHIA I, "FHIA") and their affiliates. If you have any questions about the contents of the Brochure, please contact FHIA at the telephone number above or email Victor Russo at [vrusso@forthillpartners.com](mailto:vrusso@forthillpartners.com). The information in the Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or any state securities authorities.

FHIA is registered as an investment adviser with the SEC. Registration of an investment adviser does not imply any level of skill or training.

Additional information about FHIA is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or from FHIA's Chief Compliance Officer, Simmon Saraf, at 212-867-8983 or via e-mail at [ssaraf@forthillpartners.com](mailto:ssaraf@forthillpartners.com).

**Item 2: Material Changes**

The following material change has been incorporated into the Brochure since it was previously filed on March 31, 2012.

FHIA I has appointed a new Chief Compliance Officer effective as of April 1, 2013, and has moved its principal place of business from Stamford, Connecticut to New York, New York. The private investment funds advised by FHIA I have each reached the end of their respective investment periods and will be liquidated in a manner consistent with prevailing market conditions and opportunities over a period of time not exceeding their respective harvest or run-off periods as set forth in each Fund's relevant governing agreement.

FHIA II was established in December 2012 by Luke Gosselin and Victor Russo, the founding principals of FHIA I, and will share the services of such principals and certain members of FHIA I's deal team. FHIA I and FHIA II share the same Chief Compliance Officer and principal place of business. FHIA II currently does not yet have any clients or assets under management.

Our Brochure may be requested by contacting Simmon Saraf, FHIA's Compliance Officer, at 212-867-8983.

Clients and prospective clients should review the entire Brochure carefully.

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## Item 4: Advisory Business

FHIA I, a Delaware limited partnership based in New York, New York, commenced operations in 2009. FHIA I is owned by (i) Victor Russo and Luke Gosselin, each of whom serves as a "Managing Member" of FHIA I's general partner, Fort Hill Investment Holdings, LLC, and (ii) MC Asset Management Holdings, LLC ("MC Asset"), an indirect subsidiary of Mitsubishi Corporation of Japan. FHIA I was previously named Aladdin Credit Advisors, L.P., and changed its name following Mitsubishi Corporation's acquisition on December 30, 2011 of certain assets of Aladdin Credit Holdings LLC ("ACH"), which was previously an owner of FHIA I. The Managing Members each have a 25% equity interest, and MC Asset holds a 50% equity interest, in FHIA I through direct and indirect interests in the company and its general partner. Each of the Managing Members also serves as a managing member of FHIA I's affiliate, Fort Hill Investment Partners, LLC, the general partner (the "Fund I General Partner") of each Fund (as defined below) advised by FHIA I that is structured as a limited partnership. Each of the Managing Members holds a 25% interest and MC Asset holds a 50% interest in the Fund I General Partner.

FHIA II, a Delaware limited partnership based in New York, New York, was formed in December 2012. FHIA II is owned by the Managing Members, each of whom also serves as a managing member of FHIA II's general partner, Fort Hill Investment Holdings II, LLC. The Managing Members each hold a 50% equity interest in FHIA II through direct and indirect interests in the company and its general partner. Each of the Managing Members also serves as a managing member of FHIA II's affiliate, Fort Hill Investment Partners II, LLC, the general partner (the "Fund II General Partner") of each fund to be formed in the future and advised by FHIA II that will be structured as a limited partnership. As of the date of this Brochure, FHIA II does not yet have any clients nor any assets under management.

FHIA I manages domestic and offshore private investment vehicle clients (collectively, the "Funds") structured as funds and intended for institutional investors (e.g., pensions, endowments, trusts, funds of funds) and high net-worth individuals, with a focus on investments in debtor-in-possession financings to debtors in Chapter 11 bankruptcy ("DIP Financings") and/or event-driven purchases in the secondary market of distressed senior secured bank debt in anticipation of an imminent and highly probable bankruptcy financing ("Pre-Petition Financings"). Certain portfolios may also invest in financing for companies emerging from bankruptcy pursuant to a court approved plan of reorganization ("Exit Financings"). In addition, certain portfolios may deploy leverage through the use of total return swaps. FHIA I serves as the investment manager to the Funds and its investment authority is set forth in the applicable governing documents for the Funds, as well as in investment management agreements with each Fund. FHIA I is granted full discretion and authority to make investment decisions on behalf of each Fund under the relevant investment management agreement, subject to any restrictions contained in such agreements or otherwise agreed to with the Funds and set forth in each Fund's operating documents. Please see Item 16 below for a more detailed description of how advisory services may be tailored for a Fund. In its capacity of investment manager, FHIA I has (i) originated, recommended, structured, and identified sources of capital for investment opportunities to the Funds; (ii) arranged sources of financing for certain investments; (iii) monitored, evaluated and made recommendations regarding the timing and manner of disposition of portfolio investments;

and (iv) provided such other services related thereto as the Funds may reasonably request. The investment period for each of the Funds has terminated. Accordingly, no further investments may be made on behalf of the Funds except under the limited circumstances set forth in each Fund's governing documents. Each of the Funds will be fully liquidated on or prior to March 31, 2015.

As used herein, the term "client" generally refers to each Fund. Investment advice is provided directly to each Fund and not individually to the investors (the "Investors") in a Fund. FHIA I's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, in accordance with the terms of each Fund's confidential offering or private placement memorandum, and/or individual limited partnership or shareholder agreement, and other relevant governing documents of such Fund (the "Governing Documents"). All substantive terms of investment were generally established at the time of the formation of each Fund and will terminate generally once the applicable Fund is dissolved, wound up and terminated, unless otherwise amended during the life of a Fund, with the consent of Investors, where required.

Limited partnership interests or units in the Funds were not registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and the Funds are not registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"). Accordingly, interests or units in the Funds were offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements in private transactions within the United States or in offshore transactions meeting exemption criteria under the Securities Act.

FHIA I has been providing investment advisory services since August 2009. As of the date of this Brochure, FHIA has regulatory assets under management of approximately \$768,118,000. As stated above, FHIA II was established in December 2012 and does not yet have any clients or regulatory assets under management.

## Item 5: Fees and Compensation

FHIA I has received or will receive compensation from the Funds based on committed capital of Investors or on a percentage of capital committed by FHIA I on behalf of a Fund (called or uncalled) to current investments or contingent obligations of a Fund. Performance compensation, to the extent earned under the terms of relevant Governing Documents, is or will be paid by each Fund from the capital account of Investors directly to the General Partner in the form of a “carried interest” in such Fund. The Funds also reimbursed FHIA I and its affiliates for certain fees and expenses incurred by them in organizing each Fund and carrying out the investment strategy of a Fund. The Funds may have separate classes of interests or units which are subject to different management fee rates. Details concerning such terms are set forth in each Funds’ Governing Documents. A brief summary of such fees is provided below.

FHIA II does not yet have any clients or regulatory assets under management and therefore does not yet receive fees or compensation. Any fees or compensation it may receive once it advises Funds will be detailed in the governing documents of each client.

### Management Fee

As noted above, FHIA I typically receives a management fee from each Fund based upon committed or invested capital of Investors in such Fund. The management fee collected on this basis from each Fund ranges from 1.0% to 1.75% per annum (the “Management Fee Percentage”) of such capital values and is payable quarterly in arrears. Specifically, the management fee charged to each Fund with respect to its Investors will equal in the aggregate (i) the Management Fee Percentage per annum of each Investor's capital commitment during the Fund’s investment period (i.e., the period of time extending from the first closing of the Fund through a fixed date after the final closing of such Fund); and (ii) after the investment period, the Management Fee Percentage per annum of the amount of drawn and undrawn commitments of the Funds with respect to investments of the Fund that remain outstanding or stand as contingent obligations of the Fund, multiplied by such Investor's aggregate percentage interest in the Funds’ underlying portfolio investments. Management fees may be paid from capital contributions of Investors, thereby reducing an Investor’s unpaid capital commitment, or from investment proceeds.

Management fees will be reduced dollar for dollar by Other Fees (hereinafter defined) received by FHIA I and its affiliates in connection with the Fund’s portfolio investments or unconsummated transactions. “Other Fees” mean any fees earned by FHIA I or its affiliates in connection with portfolio investments structured by FHIA I or its affiliates, including break-up and topping fees, monitoring and directors’ fees, set-up fees, investment banking fees, closing and transaction fees and other similar fees. FHIA I reserves the right to waive or reduce management fees for certain Investors, including employees, a limited number of strategic partners, advisers, consultants and others as may be determined in the discretion of the Managing Members in consultation with MC Asset.

As the investment period for each Fund has terminated, each Fund is assessed management fees at this time only on the basis of invested and/or committed capital of such Fund.

Management fees are used in part by FHIA I to compensate sales consultants and placement agents who placed interests or units with Investors, for a period of four years from the date on which management fees commenced for such Fund. FHIA I also compensates an offshore registered adviser to an Investor who monitors and will monitor the Investor's investment in a Fund through liquidation of such Fund.

#### Performance Compensation

Distributions of investment proceeds of the Funds are made from each Fund in the following order: Investors will first receive an amount equal to their total capital contributions to the Fund plus a 'hurdle rate' (which is typically a rate equal to 5% to 8%, compounded annually on the cumulative distributions made on Investor's capital contributions) to ensure that a minimum level of return is paid to Investors prior to performance compensation being paid to the Fund I General Partner. Once the hurdle rate is achieved, the Funds allocate cash flows to the Fund I General Partner disproportionately, typically 80% to the general partner and 20% to Investors, in the form of a General Partner "Catch Up", until the Fund I General Partner has received the percentage interest in the overall profits of the Fund to which it is contractually entitled under the Governing Documents. The percentage is typically 15% to 17.5% of the sum of (A) the aggregate amounts distributed to Investors as described above and (B) the amount distributed to the Fund I General Partner pursuant to the Catch Up provisions. Thereafter, from 82.5% to 85% of the profit distributions are allocated to Investors and the remainder are allocated to the Fund I General Partner. As with the Management fees, FHIA I reserves the right to waive or reduce the Fund I General Partner's performance compensation for certain Investors, including employees, a limited number of strategic partners, advisors, consultants and others as may be determined at the discretion of the Managing Members in consultation with MC Asset.

#### Other Expenses

In addition to the fees described above, the Funds are responsible for and do incur other expenses separate and apart from FHIA I's Management fees and performance compensation. These expenses typically include, but are not limited to, investment-related expenses whether relating to investments that are consummated or unconsummated (*e.g.*, brokerage commissions, due diligence costs, investment banking fees, sourcing or finder's fees (which may include a management fee component and/or a performance component), consultants' fees, interest and fees on short-term credit facilities, custodial fees, clearing and settlement charges and investment-related travel and lodging expenses); research-related expenses, including, without limitation, news and quotation equipment and services; legal expenses; professional fees (including, without limitation, expenses of consultants, valuation firms and other experts); the costs and expenses incurred in connection with any indebtedness of the Funds and their subsidiaries, including, without limitation, the costs of establishing such indebtedness; costs relating to swaps (and similar agreements) entered into by the Funds; auditing and tax compliance expenses; accounting expenses; market data costs; costs of any third-party administrators; costs of printing and mailing reports and notices; organizational expenses; liability insurance and related insurance; indemnification expenses; corporate licensing fees and

other professional fees; bank service fees; withholding and transfer fees; trademarks; entity-level taxes; other expenses related to the purchase, monitoring, sale, settlement, custody or transmittal of Funds' assets; loan administration costs; extraordinary expenses and other expenses related to the Funds. Two Funds also pay a service fee to MC Asset for the provision of separately managed account transparency and risk reporting services and one Fund has retained (together with related master funds) and compensates an unaffiliated manager to perform certain services for the Fund and related master funds. In the case of those Funds which are organized in a master-feeder structure, the feeder funds bear a pro-rata share of the expenses associated with the related master fund(s).

### Side Letters

FHIA I and/or the Fund I General Partner may enter and have entered into confidential "side letter" agreements with certain Investors, including Investors affiliated with FHIA I. These side letter agreements may grant certain Investors additional privileges or provide certain undertakings or assurances requested by Investors, including, among other things, greater transparency through additional rights to reports and/or other information, an excuse from certain Investor prohibited investments, certain arrangements with respect to in-kind distributions, fee waivers or adjustments and fee sharing privileges, or other rights and/or undertakings. As a result of such agreements, certain Investors may receive information not generally available to other Investors.

As FHIA II does not yet have any clients, and therefore no Investors, neither FHIA II nor the Fund II General Partner has entered into any "side letter" agreements. FHIA II and/or the Fund II General Partner reserves the right to enter into confidential "side letter" agreements with certain Investors in the future, including Investors affiliated with FHIA II.

A complete description of the fees charged to the Funds is set forth in each Fund's Governing Documents. Investors should review all fees charged by FHIA, its advisory and other affiliates, and others to fully understand the total amount of fees to be paid by the Funds.



**Item 6: Performance-Based Compensation and Side-by-Side Management**

Generally, FHIA I manages the Funds substantially on a side-by-side basis, subject to certain variations in the investment strategy or investment techniques as set forth in the Governing Documents for each Fund.

The Funds pay performance compensation to the Fund I General Partner, in its capacity as the general partner in the case of limited partnerships or in its capacity as a holder of a special class of units in the case of funds organized as a trusts, in the manner described in Item 5. FHIA I does not manage any Funds that do not pay performance compensation, although compensation rates and calculations may vary among Funds. Performance compensation may create an incentive for FHIA I to make investments that are riskier or more speculative than would be the case in the absence of such performance compensation; however, as previously stated, since the Fund I General Partner collects performance compensation from all of the Funds, and only after all capital and the preferred returns are paid to Investors, FHIA I and the Fund I General Partner do not face certain conflicts of interest that may otherwise arise when an investment adviser (or its affiliate) accepts performance compensation from certain funds or accounts but not from other funds or accounts or receives performance compensation on a different basis or priority.

FHIA II does not yet manage any Funds and therefore does not yet receive performance-based compensation.

**Item 7: Types of Clients**

The Funds are closed to any further Investor commitments.

The Funds and related master funds are organized as limited partnerships, limited companies or trusts. Investment management services are provided by FHIA I directly to each Fund and not to its Investors. Each Fund is a private investment vehicle which is not registered under US federal securities laws and typically utilizes sophisticated investment strategies and proprietary investment research. We required all U.S. persons investing in the Funds to be “accredited investors” (as defined in Regulation D of the Securities Act, as amended) and “qualified purchasers” (as defined in the Investment Company Act of 1940, as amended). We also required Investors to make representations indicating that they are acquiring their interests for their own account, that they have received access to all information that they deem relevant to evaluate the merits and risks of the prospective investment, and that they have the ability to bear the economic risk of an investment in a private fund. Details concerning applicable investor suitability requirements are included in the Governing Documents, including subscription agreements for each Fund, which were furnished to and must be completed by all Investors.

We required that Investors meet certain minimum initial investment thresholds for the Funds, however, FHIA I or the Fund I General Partner were entitled to accept subscription amounts below such minimum. The Fund I General Partner, through the Managing Members, was generally free to reject subscriptions for any or no reason without the obligation to disclose the basis for rejection. As noted above, the Funds are closed end funds and no longer offer interests or units. Accordingly, no new Investors will be admitted to a Fund except through a transfer from or substitution of a current Investor to the extent approved by the Fund I General Partner.

FHIA II does not yet have any clients.

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

The investment periods of each of the clients of FHIA I has ended. The following descriptions include the investment strategies pursued and the investments made by FHIA I on behalf of the Funds during each Fund's investment period. FHIA I may have also engaged in other investment strategies and made other investments, including any not described in this Brochure, that it deemed appropriate, subject to each Fund's investment objectives and guidelines. The investment strategies FHIA I pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurances that the investment objects of any client will be achieved.

FHIA II does not yet have any clients.

### Methods of Analysis

The strategy deployed by FHIA I (the "FHIA Strategy") involves portfolio construction which may take the form of interests commonly referred to as securities and other financial instruments of United States and foreign entities, including but not limited to: partnership interests and similar financial instruments; bonds, notes, bills, debentures (whether subordinated, convertible or otherwise); loans (whether originated by the Funds, an affiliate of the Funds or by any third party, and whether directly or through participations or sub-participations) including without limitation bridge loans (funded or unfunded); accounts and notes receivable and payable held by trade or other creditors; trade acceptances; contract and other claims; executory contracts; participations therein; mutual funds; money market funds; obligations of the United States, any state thereof, foreign governments and instrumentalities of any of them; commercial paper; certificates of deposit; bankers' acceptances; trust receipts; any type of financial claim; and other obligations and instruments or evidences of indebtedness of whatever kind or nature of any person, corporation, government or entity whatsoever, whether or not publicly traded or readily marketable.

The Managing Members are charged with taking, and have taken, an active role in directing all portfolio investments made by the Funds. The general investment approach is to perform in-depth fundamental analysis and due diligence in order to determine profitable investment opportunities within a given industry or market sector. The due diligence process will often include either extensive direct discussions with an issuer's management team or an in-depth review of the situation with the lead administrative agent on a particular investment or financing.

Depending on the situation, the due diligence process may include, but not be limited to, the following:

- Asset Valuation Analysis
- Enterprise Valuation Analysis
- Market Position Analysis
- Financial Statement Analysis

- Capital Structure Analysis
- Legal & Tax Analysis

### Investment Strategies

The specific strategies and corresponding method of analysis undertaken by FHIA I for each of the Funds is specified in the Governing Documents for such Fund, as the same may have been amended with the consent of Investors. Generally, the investment objective pursued by each of the Funds involved a focus on investments in debtor-in-possession financings to debtors in Chapter 11 bankruptcy (“DIP Financings”) and/or event-driven purchases in the secondary market of distressed senior secured bank debt in anticipation of an imminent and highly probable bankruptcy financing (“Pre-Petition Financings”). Certain portfolios were also permitted to invest in financing for companies emerging from bankruptcy pursuant to a court approved plan of reorganization (“Exit Financings”).

The Funds’ investment strategies revolve around a disciplined credit research process and are based on the belief that a thorough top-to-bottom understanding of a company and its industry is essential to generating positive absolute returns. The Funds’ portfolio managers and other investment personnel employed by FHIA I will apply their experience in analyzing and assessing a company’s valuation, capital structure (including experience in capital structure arbitrage), financial performance and underlying industry dynamics. The Fund I General Partner or FHIA I will at times contract outside consultants, attorneys, accountants, advisors, appraisers and other valuation experts to supplement the work of FHIA I’s in-house investment team. The Funds may engage in any investment strategy, including strategies not described herein, that FHIA I considers appropriate to achieve the Funds’ investment objective.

### Associated Risks

There can be no assurance that the investment objective of the Funds will be achieved. An investment in the Funds involves a high degree of risk, including the risk of loss of the entire amount invested. Investments in illiquid securities and other instruments and the use of leverage and derivative instruments may create special risks and substantially increase the impact of adverse price movements on the Funds’ portfolios. The performance compensation paid from the Funds, as described above in Sections 5 and 6, may have created an incentive for FHIA I to cause the Funds to make investments that are riskier than those that FHIA I would have otherwise directed in the absence of such compensation. Moreover, an investment in the Funds provides no or limited liquidity since interests are not freely transferable and Investors have no withdrawal rights.

The following is a brief overview of certain risks related to the specific investments and investment strategies currently utilized in pursuing the investment strategy for the Funds; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operation of the Funds. These risk factors include only those risks FHIA I believes to be material, significant or unusual and relate to particular significant strategies or methods of analysis employed by FHIA I.

Investors should refer to the Governing Documents of the Funds for a more comprehensive discussion of the risks involved in an investment in such Funds.

1. Distressed Securities

The Funds may have invested directly or indirectly in "below investment grade" loans and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These investments are likely to be particularly risky investments, although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Funds' investment in any instrument, and a significant portion of the obligations and securities in which the Funds have invested may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that we will correctly evaluate the value of the assets underlying the Fund's investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Funds invested, the Funds may lose its entire investment, may be required to accept cash or securities with a value less than the Funds' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Funds' investments may not compensate the Investors adequately for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Funds of the security in respect to which such distribution was made.

In certain transactions, the Funds may not be "hedged" against market fluctuations or, in liquidation situations, valuations of holdings may not accurately reflect the value of the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

2. Developments in the Credit Market

Declines in the market value of asset-backed loans and securities, especially securities backed by subprime mortgages, have been concomitant with significant market events. Increasing credit and valuation problems in the subprime mortgage market have generated extreme volatility and illiquidity in the markets for securities directly or indirectly exposed to subprime mortgage loans. This volatility and illiquidity has extended to the global credit and equity markets generally, and, in particular, to the high-yield bond and loan markets, exacerbated by, among other things, growing uncertainty regarding the extent of the problems in the mortgage industry and the degree of exposure of financial institutions and others, decreased risk tolerance by investors and significantly tightened availability of credit. The duration and ultimate effect of current market conditions cannot be predicted, nor is it known whether or the degree to which such conditions may worsen. However, the continuation of current market conditions, uncertainty or further deterioration could result in further declines in the market values of Funds' investments. Such declines could prevent the Funds from successfully executing their investment strategies or require the Funds to dispose of investments at a loss while such adverse market conditions prevail.

### 3. Risks Associated with Bankruptcy Cases

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Funds.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Funds; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Funds' influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where the Funds, by virtue of such action, are found to exercise "domination and control" of a debtor, the Funds may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by the Funds.

FHIA I or an affiliate, on behalf of the Funds, may elect to serve on creditors' committees (in an official or unofficial capacity), equity holders' committees or other groups to ensure preservation or enhancement of the Funds' position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the

committee represents. If FHIA I or an affiliate concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Funds, it will resign from that committee or group, and the Funds may not realize the benefits, if any, of participation on the committee or group. In addition, if the Funds are represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

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

#### 4. Debtor-in-Possession ("DIP") Loans

The Funds may have directly or indirectly invested in or extended loans to companies that have filed for protection under Chapter 11 of the United States Bankruptcy Code. These debtor-in-possession or "DIP" loans are most often working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

#### 5. Bank Loans

The Funds' investment program includes direct or indirect investments in significant amounts of DIP, Pre-Petition and Exit Financings and/or participations therein. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Funds to directly enforce its rights with respect to participations. Although FHIA I may have invested in certain senior secured Pre-petition Financing, and only when it believed the probability of the company filing for Chapter 11 in the short term was high, there is no assurance that each such company will do so. In analyzing each DIP, Pre-petition or Exit Financing or participation, FHIA I compared the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Funds.

#### 6. Equitable Subordination

Under common law principles that in some cases form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, or (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors, a court may elect to subordinate the



claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). The Funds do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

#### 7. Vulnerability to Interest Rate Changes

Because the value of real estate and certain other assets often decline when interest rates rise, the value of some of the collateral underlying the financings in which the Funds invested may decline at the same time as the investment declines. Therefore, rising interest rates could substantially reduce the value of the Funds' investments and the price the Funds would receive if it tried to dispose of them.

#### 8. Litigation

Some of FHIA I's investment tactics may involve litigation. The Funds will likely be a party to lawsuits either initiated by it, by a company that has issued portfolio investments or by U.S. state and/or federal governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the Funds. Any such litigation could be prolonged and expensive. In addition, it is by no means unusual for participants in reorganizations to use the threat of, as well as actual, litigation as a negotiating technique. During the term of the Funds, FHIA I and/or its affiliates, including the Funds, may be named as defendants in civil proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Funds and would reduce net assets or potentially require Investors to return to the Funds distributed capital and earnings.

#### 9. Fraud

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

#### 10. Non-Performing Nature of Debt

It is anticipated that certain debt instruments indirectly purchased by FHIA I for the Funds will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

#### 11. Secured Loans



All loans held indirectly by the Funds will be secured. While secured loans originated or purchased indirectly by the Funds will generally be structured to be fully-collateralized, the Funds may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Funds cannot guarantee the adequacy of the protection of the Funds' interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Funds cannot assure that claims may not be asserted that might interfere with enforcement of the Funds' rights. In the event of a foreclosure, the Funds may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Funds. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

#### 12. Lower Credit Quality Loans

There are no restrictions on the credit quality of the loans that may be held in the Funds' portfolio. Loans arranged or purchased indirectly by the Funds may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which the Funds may indirectly have acquired may have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than higher quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

#### 13. Illiquid Investments/Illiquid Structure

The Funds may have indirectly invested in bank debt, which is subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and the Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid investments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or investment traded in the over-the-counter markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

As a result of these factors, the Funds have been structured in such a way that Investors do not have the right to redeem from the Funds (unless otherwise determined by FHIA I) but will instead recoup their investment by way of distributions over the life of the Funds. The Funds will run for a fixed term of two years from the end of the investment period, subject to the discretion of FHIA I to extend the term for a further year or to shorten the term in certain circumstances.

An investment in the Funds is suitable only for certain sophisticated investors who do not require liquidity for their investments for a period of years.

#### 14. Valuation

Investments which FHIA I or its affiliates believe are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and/or within the time frame they anticipate. In particular, purchasing investments at prices which FHIA I or its affiliates believe to be distressed or below fair value is no guarantee that the price of such securities will not decline even further. Any such valuations will generally be conducted in accordance with the International Financial Reporting Standards.

#### 15. Uncertain Exit Strategies

Due to the illiquid nature of many of the positions which the Funds may have acquired, as well as the uncertainties of the reorganization and active management process, FHIA I and its affiliates are unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

#### 16. Dependence on Key Individuals

Investors have no authority to make decisions on behalf of the Funds. The success of the Funds depends upon the ability of the Managing Managers and other key employees to develop and implement investment strategies that achieve the Funds' investment objective. If the Funds were to lose the services of the Managing Managers, the consequence to the Funds could be material and adverse and could lead to the premature termination of the Funds.

#### 17. Absence of Regulatory Oversight

While the Funds may be considered similar to a registered investment company, they are not required and do not intend to register as such under the United States Investment Company Act of 1940, as amended (the "1940 Act"). Accordingly, the provisions of the 1940 Act (which require, among other things, investment companies to have a majority of disinterested directors, that securities be held in custody and individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company) are not applicable to Investors in the Funds.

#### 18. Portfolio Concentration

During the initial stages of the investment period of the Funds, the Fund I General Partner may have acquired portfolio positions in quantities based on the anticipated Funds' assets under management in the future. Consequently, the Funds may hold more concentrated positions than they otherwise would if and when the Funds reach their target level of assets under management and the Funds' returns may be magnified upwards or downwards accordingly.

#### 19. Carried Interest

The carried interest payable to the Fund I General Partner on investment gains may have created an incentive for the Fund I General Partner to cause the Funds to make investments that are riskier or more speculative than would be the case if such allocation were not made.

#### 20. Reinvestment

During the investment period of the Funds, proceeds (whether in cash or in-kind) from wholly or partially realized investments may have been reinvested or distributed and recalled, at the election of the Fund I General Partner. Accordingly, such retained or recalled amounts will have remained subject to investment and other risks of the Funds.

#### 21. Failure to Make Capital Contributions

If an Investor fails to pay when due installments of its capital commitment to a Fund, and the capital contributions made by non-defaulting Investors and borrowings by the Funds are inadequate to cover the defaulted capital contribution, the Funds may be unable to pay their obligations when due. As a result, the Funds may be subjected to significant penalties that could materially adversely affect the returns to the Investors (including non-defaulting Investors). If an Investor defaults, it may be subject to various remedies as provided in a Fund's limited partnership agreement, including without limitation, reductions in its capital account balance.

#### 22. Business and Regulatory Risks of Alternative Investment Funds

Legal, tax and regulatory developments that may adversely affect the Funds could occur during the term of the Funds. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self regulatory organizations and exchanges authorized to take extraordinary actions in the event of market emergencies. The regulatory environment for private funds is evolving, and changes in the regulation of private funds and their trading activities may adversely affect the ability of the Funds to pursue their investment strategies, ability to obtain leverage and financing and the value of investments held by the Funds. There has been an increase in governmental, as well as self regulatory, scrutiny of the alternative investment industry in general. It is impossible to predict what, if any, changes in regulations may occur, but any regulations which restrict the ability of the Funds to trade in securities or the ability of the Funds to employ, or brokers and other counterparties to extend, credit in its trading (as well as other regulatory changes that result) could have a material adverse impact on the Funds' portfolio.

#### 23. Increased Regulatory Oversight

The financial services industry generally, and the activities of hedge funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Funds and/or FHIA I's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight can also impose administrative burdens on FHIA I, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert FHIA I's time, attention and resources from portfolio management activities.

In addition, it is anticipated that, in the normal course of business, FHIA I's officers will have contact with governmental authorities, and/or be subjected to responding to questionnaires or examinations. For example, this is typical in connection with the examination of a registered investment adviser.

#### 24. In-Kind Distributions

The Funds expect to distribute cash to Investors. However, in certain instances as described in the each Funds' limited partnership agreements, the Funds can distribute assets in-kind. Under those circumstances, an Investor may receive in-kind distributions from the Funds. The investments so distributed may not be readily marketable or salable and may have to be held by such Investor for an indefinite period of time. The Funds may make distributions in-kind, including without limitation, due to the winding up of the Funds. In certain circumstances, the Funds may implement a structure (such as a liquidating trust or a special purpose vehicle) that would equitably apportion ownership of illiquid instruments held by the Funds among partners, and distribute interests to the partners in such liquidating trust or special purpose vehicle in-kind.

#### 25. Investment in Other Ventures

The Funds may have pursued certain of its strategies by investing in ventures such as syndicates or "club" deals that are not controlled by MC Asset or its affiliates. As a result, the Funds will have had to bear the expenses, management fees and performance-based compensation associated with such investments. The combination of the management fee and performance compensation with the expenses, fees and performance-based compensation relating to such investments may result in higher expenses for Investors than are associated with comparable investment entities.

#### 26. General Economic and Market Conditions

The success of the Funds' activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Funds' investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of prices and the liquidity of the Funds' Portfolio Investments. Volatility or illiquidity could impair the Funds' profitability or result in losses other than with respect to Funds' Portfolio Investments that are held through maturity or refinancing. The Funds may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets — the larger the positions, the greater the potential for loss.

#### 27. Current Market Conditions and Governmental Actions

Since October 2008, the global financial markets have experienced extraordinary market conditions, including, among other things, extreme losses and volatility in securities markets and the failure of credit markets to function. In reaction to these events, regulators in the U.S. and several other countries undertook unprecedented regulatory actions and continue to consider and implement other measures to stabilize U.S. and global financial markets.

The General Partner believes that the Funds may be materially adversely affected by the foregoing events, or by similar or other events in the future. There may be significant new regulations that could limit the Funds' activities and investment opportunities or change the functioning of capital markets, and there is the possibility of a severe worldwide economic downturn. Consequently, the Funds may not be capable of, or successful at, preserving the value of its assets, generating positive investment returns or effectively managing its risks.

28. U.S. Withholding on Certain Ten Percent (10%) Owners

To the extent an Investor is treated as a 10% owner of a master fund in the Funds' structure as a result of its pro rata interest of such a master fund held through the Funds, any interest allocable to such Investor on debt issued by the master fund to the Funds would generally be subject to a 30% withholding tax unless reduced by an applicable treaty. For this purpose, a 10% owner is any person who owns 10% or more directly or through a pass-thru entity of the total combined voting power of all classes of stock of a company (such as a master fund) entitled to vote.

**Item 9: Disciplinary Information**

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

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

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

FHIA I and FHIA II and their respective management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

FHIA I and FHIA II and their respective management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

FHIA I's affiliated investment advisers include MC Asset, a number of advisory entities that are subsidiaries of Mitsubishi Corporation, the ultimate parent of MC Asset, and FHIA II. FHIA II's sponsored funds, once established, will be managed by the management persons of FHIA I concurrently with the Funds. A list of these affiliated entities is specifically disclosed on Schedule D of Form ADV, Part 1 at Item 7.A. – Financial Industry Affiliations. (Part 1 of our Form ADV can be accessed by following the directions provided on the Cover Page of this Brochure.) MC Asset is responsible under a services arrangement for providing operational and infrastructure support, internal controls, and human resources, legal and other non-advisory support services. All individuals must adhere to a Code of Ethics which is described in Item 11.

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

FHIA I and FHIA II are subject to a code of ethics (the “Code”) established by FHIA for itself. The Code imposes on each employee and supervised person within FHIA a duty to place the interests of the Funds and other clients of the Fhia first. The Code requires all officers, members and employees to, among other things, report to the Chief Compliance Officer of FHIA, any actual or potential conflict of interest relating to any assets of the Funds managed by FHIA.

The Code requires every officer, member and employee (each a deemed “Access Person”) to report quarterly and annually their and their immediate family members’ (who share the same household with such Access Person) trading accounts, securities holdings and transactions to the Chief Compliance Officer. Each Access Person must pre-clear each trade through an automated system maintained by FHIA. The Code also imposes restrictions and safeguards on the use of material, non-public information. All Investors may obtain a copy of the Code by contacting the Chief Compliance Officer, Simmon Saraf, at (212) 867-8983 or by email at: [ssaraf@forthillpartners.com](mailto:ssaraf@forthillpartners.com).

The Managing Members have invested directly as limited partners in a certain Fund, and an individual shareholder and former senior executive of MC Asset and other advisory personnel of FHIA I have invested directly or indirectly, through membership interests in the Fund I General Partner, in the Funds, by agreeing to commit a certain percentage of assets for investment or through the grant of profits interests in the Fund I General Partner. Therefore, members, partners and employees, as the case may be, of FHIA I or the General Partner will participate indirectly in transactions effected for the Funds that FHIA I manages. The foregoing relationships may be deemed to align the interests of such persons with those of the Funds and their respective Investors but conflicts of interest may also arise from such relationships. These and any other actual or potential conflicts of interest arising in connection with the provision of investment management services to the Funds are disclosed in each Fund’s Governing Documents.

Neither FHIA I nor its affiliated advisors will purchase securities for their own accounts that are also purchased by FHIA I for its Funds. However, affiliated advisors may purchase the same securities or sell the same securities, or purchase or sell different securities of the same issuer on behalf of their clients that are also purchased by FHIA I for the Funds. Such affiliates may take different positions in respect of the same securities or issuers on behalf of their clients. They may also hold securities for longer or shorter periods of time than FHIA I will direct for the Funds with respect to the same securities or issuers. Generally, these differences would arise as a result of different investment objectives for the Funds than for the clients of FHIA I’s affiliated advisors. FHIA I may also employ investment strategies for the Funds that differ from the investment strategies employed by its affiliated advisor. FHIA II will also be subject to these same restrictions once its fund(s) are established.



**Item 12: Brokerage Practices**

As noted previously, FHIA I has full discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. FHIA I's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

Portfolio transactions for each client will be allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. Brokers and dealers may provide other services that are beneficial to FHIA I and/or certain clients, but not beneficial to all clients. Subject to best execution, in selecting brokers and dealers (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, FHIA I may consider, among other things, the following:

- the ability of the brokers and dealers to effect the transaction;
- the brokers' or dealers' facilities, reliability and financial responsibility; and
- the provision by the brokers of capital introduction, talent introduction, marketing assistance, consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow.

Accordingly, the commission rates (or dealer markups and markdowns) charged to the Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. FHIA I need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Generally, neither the FHIA I nor the Funds separately compensate any broker or dealer for any of these other services. Additionally, FHIA I does not use affiliated broker-dealers to execute investment transactions for the Funds.

FHIA I maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

FHIA I does not maintain soft dollar arrangements with any broker-dealer.

Neither FHIA I nor any related person receives client referrals from any broker-dealer or third party. Additionally, FHIA I does not recommend, request or require that a client direct FHIA I to execute transactions through a specified broker-dealer.

In order to accomplish trades across multiple Funds, orders are aggregated (bunched) and allocated pro-rata to the nearest round lot. In addition to considerations of equity, bunching avoids placing competing positive orders, improves order management, and may, due to a larger

order size, permit some degree of price improvement relative to a series of individually placed orders.

FHIA I will allocate each trade amongst the trading Funds based on a number of criteria, including, but not limited to, individual investment strategy of a Fund, available cash and the size of the trade. FHIA I is permitted to cross trade solely for the purpose of rebalancing Fund trading accounts so long as such trades are appropriately documented and Effected for the sole purpose of achieving pro rata allocations between accounts in the same investment strategy. All other cross trades may be executed only with the prior written approval of the Chief Compliance Officer of FHIA and must be in the best interests of all Funds involved. All cross trades shall be executed through a third-party agent at existing market prices. None of FHIA I nor any affiliate of FHIA I may act as broker or dealer for such transactions nor may compensation be assessed. Any third-party transaction costs shall be divided equally between or among the Fund participants.

FHIA I does not utilize a prime broker for engaging in investment and investment-related transactions on behalf of the Funds.

FHIA II will be subject to the foregoing Brokerage Practices with respect to its future clients.

**Item 13: Review of Accounts**

FHIA I performs various daily, weekly, monthly, quarterly and period reviews of each client's portfolio. All proposed investments for the account of a Fund, and dispositions thereof, were and are carefully reviewed by investment personnel and approved by the Managing Members of FHIA I. FHIA personnel meet regularly to discuss investment ideas, strategy, economic and market developments, industry outlooks, and other issues related to current portfolio holdings and potential investment disposition opportunities for the Funds.

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

FHIA I generally provides annual audited financial statements to its clients within 120 days of the applicable client's fiscal year end.

Investors in the Funds receive the following reports from FHIA I or an agent of the Funds in accordance with the terms of the applicable Fund's Governing Documents: (1) annual audited financial statements for each Fund, issued within 120 days after the end of the Fund's fiscal year; (2) monthly and quarterly investor letters with a commentary by the Managing Members, and (3) annual tax information necessary to complete any applicable tax returns. In addition, Investors in certain Funds have received or will receive written commentary from the Managing Members when a capital call or trade occurs. All Investors receive monthly statements directly from the Funds' administrator.

While all Investors generally receive similar information, to the extent an Investor receives additional information (that other investors have not received), which is in addition to information provided in a Fund's regular reports to Investors, such information may provide such Investor with greater insight into the Fund's activities.

FHIA II expects that it will be subject to a substantially similar review of its accounts and provide substantially similar reports to its clients and the investors in its funds, once it has begun its advising clients.

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

Neither FHIA I nor FHIA II receives economic benefits from non-clients for providing investment advice and other advisory services.

Neither FHIA I, FHIA II nor any of their respective related persons directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.

**Item 15: Custody**

The assets of each Fund are held in accounts established for and in the name of the Funds by a “qualified custodian”, as defined under SEC rules and regulations. However, FHIA I and the Fund I General Partner are each deemed to have custody of certain of the Funds assets because each of FHIA I and the Fund I General Partner has the authority to obtain the funds or securities in Fund accounts. Account statements related to each Fund are sent by the qualified custodians to FHIA I.

FHIA I is subject to Rule 206(4)-2 under the Advisers Act (the “Custody Rule”). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called “Pooled Vehicle Annual Audit Exception”, which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all Investors within 120 days of the end of its fiscal year.

FHIA II will also be subject to the Custody Rule and, like FHIA I, expects to comply with the provisions of the “Pooled Vehicle Annual Audit Exception”.

**Item 16: Investment Discretion**

In accordance with the terms and conditions of each Fund's Governing Documents, and subject to any proper direction or control of the Fund I General Partner, FHIA I generally has full discretionary authority, without obtaining specific consent from the Funds, to determine the investments to be bought and sold on behalf of the Funds and the timing thereof, and to perform or supervise all day-to-day investment operations on behalf of the Funds. FHIA I entered into an investment advisory agreement or similar agreement with each Fund, pursuant to which FHIA I or an affiliate of FHIA I was granted discretionary trading authority.

**Item 17: Voting Client Securities**

FHIA I specializes in the management of loan portfolios, principally in DIP, Pre-Petition and Exit Financings. FHIA I does not manage equity portfolios, so the likelihood of a proxy vote with regard to any security, loan or other instrument that FHIA I may purchase or deal in on behalf of a Funds is remote. From time to time companies in which FHIA I invests may submit certain matters to a vote of its security holders. The right to vote is usually available to equity holders and not to holders of company debt.

In the event a voting right exists or is exercisable, all proxies shall be voted in accordance with FHIA I's established Proxy Voting Policies and Procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions in a prudent and diligent manner that will serve the applicable client's best interests and is in line with each client's investment objectives. FHIA I may take into account all relevant factors, as determined by it in its discretion. In limited circumstances, FHIA I may refrain from voting where it believes that voting would be inappropriate, taking into consideration the cost of voting the proxy and the anticipated benefit to its clients. Generally, clients may not direct FHIA I's vote in a particular solicitation.

If a material conflict exists with respect to a proxy vote, the Managing Members will convene a meeting with the Chief Compliance Officer to discuss the nature of the conflict and attempt to form a solution that furthers the best interests of the affected Fund(s). Alternatively, FHIA I may, at its expense, engage the services of an outside proxy voting service or consultant who will provide an independent recommendation. In such instances the independent determination will be binding on FHIA I.

FHIA II will be subject to FHIA I's Proxy Voting Policies and Procedures.

Investors may obtain a copy of FHIA I's Proxy Voting Policies and Procedures as well as a record of proxy votes by contacting the Chief Compliance Officer, Simmon Saraf, at (212) 867-8983 or by writing to FHIA I at the address listed on the cover page of this Brochure.

**Item 18: Financial Information**

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

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