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**PART 2A OF FORM ADV: FIRM BROCHURE**

**CENTERBRIDGE PARTNERS, L.P.**

**May 3, 2013**

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*This brochure (this “Brochure”) provides information about the qualifications and business practices of Centerbridge Partners, L.P. If you have any questions about the contents of this Brochure, please contact Elizabeth Uhl, Chief Compliance Officer, at (212) 672-5000. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.*

*Centerbridge Partners, L.P. is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

*Additional information about Centerbridge Partners, L.P. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*



## **ITEM 2 MATERIAL CHANGES**

Centerbridge Partners, L.P. is required to identify and discuss any material changes made to its brochure since its last annual update, dated April 1, 2013. There are no material changes to report. However, investors and prospective investors should review the entire brochure carefully. If Centerbridge Partners, L.P. makes any material changes to this Brochure, this section will be revised to include a summary of such changes.



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## **ITEM 4 ADVISORY BUSINESS**

### **A. General Description of Advisory Firm.**

Centerbridge Partners, L.P., a Delaware limited partnership, commenced operations in 2006 with an office in New York, New York. Jeffrey H. Aronson and Mark T. Gallogly, through their control of Centerbridge Partners Holdings, LLC, the general partner of Centerbridge Partners, L.P., ultimately control Centerbridge.

### **B. Description of Advisory Services.**

#### **1. Advisory Services.**

Centerbridge, through affiliated investment advisory entities, serves as the management company with discretionary trading authority to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a "Fund" and collectively, the "Funds"). In addition, Centerbridge, through its affiliate, Centerbridge Partners Europe, LLP, a U.K. limited liability partnership that is authorized and regulated by the Financial Conduct Authority, formerly known prior to April 1, 2013 as the Financial Services Authority, of the United Kingdom (the "Sub-Advisor"), serves as sub-advisor to the Funds. The Funds include:

#### **(a) Credit Partners Funds**

The "Credit Partners Funds" comprise Centerbridge Credit Partners, L.P., a Delaware limited partnership (the "Domestic Fund"), Centerbridge Credit Partners TE, L.P., a Delaware limited partnership for investment by U.S. tax exempt investors (the "TE Fund"), Centerbridge Credit Partners Offshore, Ltd., a Cayman Islands exempted company (the "Offshore Fund"), and Centerbridge Credit Partners Master, L.P., a Cayman Islands exempted limited partnership (the "Credit Partners Master Fund"). The TE Fund and the Offshore Fund may invest a portion of their assets in the Credit Partners Master Fund or through one or more additional master funds (each, a "Master Fund" and, together with the Credit Partners Master Fund, the "Master Funds"). Centerbridge Credit Partners General Partner, L.P., a Delaware limited partnership, serves as the general partner of the Domestic Fund and the TE Fund and may serve as the general partner of one or more of the Master Funds. Centerbridge Credit Partners Offshore General Partner, L.P., a Delaware limited partnership, may serve as the general partner of one or more Master Funds. An affiliate of Centerbridge, Centerbridge Credit Advisors, L.L.C., a Delaware limited liability company (the "Credit Advisor"), provides investment advisory services to the Credit Partners Funds.

#### **(b) Special Credit Funds**

The "Special Credit Funds" comprise Centerbridge Special Credit Partners, L.P., a Delaware limited partnership ("Special Credit I"), and Centerbridge Special Credit Partners II, L.P., a Delaware limited partnership ("Special Credit II"). Centerbridge Special Credit Partners General Partner, L.P., a Delaware limited partnership, serves as the general partner of Special Credit I. Centerbridge Special Credit Partners General Partner II, L.P., a Delaware limited partnership, serves as the general partner of Special Credit II. Centerbridge Special Credit Advisors, L.L.C., a Delaware limited liability company, and Centerbridge



Special Credit Advisors II, L.L.C., a Delaware limited liability company (together, the “Special Credit Advisors”), each an affiliate of Centerbridge, provide investment advisory services to Special Credit I and Special Credit II, respectively.

#### **(c) Capital Partners Funds**

The “Capital Partners Funds” comprise Centerbridge Capital Partners, L.P., a Delaware limited partnership (“CCP I”), Centerbridge Capital Partners II, L.P., a Delaware limited partnership (“CCP II”), and their related funds, including Centerbridge Capital Partners SBS, L.P. (“SBS I”) and Centerbridge Capital Partners SBS II, L.P. (“SBS II”), respectively. Centerbridge Associates, L.P., a Delaware limited partnership, serves as the general partner of CCP I and SBS I. Centerbridge Associates II, L.P., a Delaware limited partnership, serves as the general partner of CCP II and SBS II. Centerbridge Advisors, LLC, a Delaware limited liability company, and Centerbridge Advisors II, LLC, a Delaware limited liability company (together, the “Capital Partners Advisors” and, together with the Credit Advisor and the Special Credit Advisors, the “Advisors”), each an affiliate of Centerbridge, provide investment advisory services to CCP I and CCP II, respectively.

#### **(d) Co-Invest Vehicles**

From time to time, Centerbridge may offer co-investment opportunities, typically alongside the Capital Partners Funds. In light of the nature of the Credit Funds’ (as defined below) investment programs, the Credit Funds’ investments do not, for the most part, lend themselves to offering investors the opportunity to co-invest alongside the Credit Funds; however, occasional co-investment opportunities may arise. In certain circumstances, service providers to the Funds or their affiliates may be offered the opportunity to co-invest. Centerbridge applies its discretion when allocating such opportunities to Centerbridge's investors (including investors in the Funds), company management and others, taking into account facts and circumstances which may include the nature of the transaction, speed of execution required, tax considerations, familiarity with and history of investing in the relevant industry, ability to provide strategic insights and other factors believed relevant. Centerbridge endeavors to keep itself informed regarding investor interest in co-investment by maintaining records of those investors who have expressed interest in co-investments.

#### **(e) General**

References herein to “Centerbridge” include the Advisors, the Sub-Advisor and the general partners of the Funds where applicable.

As used herein, the term “client” generally refers to each of the Funds and their related investment vehicles.

*This Brochure generally includes information about Centerbridge and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.*

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and other exemptions of similar import under U.S. state laws and the laws of*



*other jurisdictions where any offering may be made. Investors in the Funds generally must be both “accredited investors,” as defined in Regulation D promulgated under the Securities Act, and “qualified purchasers,” as defined in the Investment Company Act of 1940, as amended, or, with respect to the Offshore Fund, must otherwise be non-U.S. persons. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of the applicable Fund’s confidential private placement memorandum.*

## **2. Investment Strategies and Types of Investments.**

Centerbridge’s investment strategy with respect to the Credit Partners Funds and the Special Credit Funds (together, the “Credit Funds”) focuses on non-control distressed investments.

Centerbridge’s investment strategy with respect to the Capital Partners Funds focuses on private equity and distressed-for-control investments.

Please see Item 8 for a more detailed description of the investment strategies pursued and types of investments made by the Funds.

*The descriptions set forth in this Brochure of specific advisory services that Centerbridge offers to clients, and investment strategies pursued and investments made by Centerbridge on behalf of its clients, should not be understood to limit in any way Centerbridge’s investment activities. Centerbridge may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Centerbridge considers appropriate, subject to each client’s investment objectives and guidelines. The investment strategies Centerbridge pursues are speculative and entail substantial risks. Investors should be prepared to bear an entire loss of capital. There can be no assurance that the investment objectives of any client will be achieved.*

### **C. Availability of Customized Services for Individual Clients.**

Centerbridge’s investment decisions and advice with respect to each Fund are subject to each Fund’s investment objectives and guidelines, as described in its offering documents and/or its governing documents. The investment decision and advisory services are specific to each Fund, and are not customized to any investor. Centerbridge currently does not advise any managed accounts.

### **D. Assets Under Management.**

Centerbridge manages approximately \$19.9 billion of capital as of December 31, 2012 on a discretionary basis.



## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Fees and Compensation.**

The fees applicable to each Fund are set forth in detail in each Fund's offering documents.<sup>1</sup> A brief summary of such fees is provided below.

#### **1. Credit Partners Funds**

##### **Management Fee**

Generally, the Credit Partners Funds pay Centerbridge a Management Fee for investment management services for each fiscal quarter equal to 0.4375% (1.75% per annum) of the beginning net asset value of each capital account or each series of shares for such fiscal quarter. The Management Fees paid by the Credit Partners Funds are borne by investors in the Fund (other than certain friends and family investors and other investors affiliated with Centerbridge as noted in footnote 1 below).

##### **Incentive Allocation**

Generally, at the end of each fiscal year, Centerbridge is entitled to an incentive allocation (the "Incentive Allocation") in an amount equal to 20% of the net capital appreciation (which includes both realized gains and losses and unrealized appreciation and depreciation of securities held in the Credit Partners Funds' portfolios and takes into account gains and losses with respect to realized or deemed realized Special Investments (*i.e.*, side pockets) and other income from Special Investments) allocated to an investor's capital account for such fiscal year (other than the net capital appreciation and net capital depreciation with respect to that portion of a capital account attributable to certain segregated assets, with respect to which Centerbridge is entitled to receive 20% of the profits pursuant to a distribution waterfall described in the offering documents of the Credit Partners Funds) after deducting the Management Fee attributable to such investor's capital account for such fiscal year, subject to a loss carryforward mechanism.

In the event that a Credit Partners Fund is terminated or an investor withdraws other than at the end of a fiscal year, then for purposes of determining the Incentive Allocation allocable at such time to Centerbridge, the net capital appreciation or net capital depreciation, as the case may be, will be determined as if such dates were the end of the fiscal year, subject to certain adjustments.

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<sup>1</sup> Generally, Centerbridge has the authority to waive, reduce or calculate differently any of the fees described herein, and, to date, Centerbridge has waived or reduced the management fee payable and incentive allocation / carried interest allocable with respect to certain friends and family investors that are invested in the Credit Partners Funds and in the Capital Partners Funds. In addition, Centerbridge has waived the management fee payable and incentive allocation / carried interest allocable with respect to investments made by partners, members, officers and employees of Centerbridge.



## **2. Special Credit Funds**

### Management Fee

The Special Credit Funds pay Centerbridge a Management Fee quarterly in arrears. The Management Fees paid by the Special Credit Funds are borne by investors in the Fund (other than certain friends and family investors and other investors affiliated with Centerbridge as noted above).

The Management Fee will equal (i) until the termination of the investment period and for so long as a successor fund for which management fees begin to accrue is not launched, 1.50% per annum of aggregate capital commitments of the investors and (ii) after the earlier of the termination of the investment period and the launch of a successor fund for which management fees begin to accrue, 1.25% per annum of the cost basis of the portfolio investments then held by the relevant Special Credit Fund.

As more fully set forth in each of the Special Credit Funds' governing documents, a formulaic portion of the Management Fee payable will instead be invested on behalf of Centerbridge in investments made by such Special Credit Fund, although distributions to Centerbridge with respect to such amounts are limited such that Centerbridge has a profits interest with respect thereto.

### Carried Interest

In addition, Centerbridge is generally entitled to receive 20% of the profits from the Special Credit Funds pursuant to a distribution waterfall described in the offering documents of the Special Credit Funds.

## **3. Capital Partners Funds**

### Management Fee

The Capital Partners Funds pay Centerbridge a Management Fee quarterly in advance. The Management Fees paid by the Capital Partners Funds are borne by investors in the Fund (other than certain friends and family investors and other investors affiliated with Centerbridge as noted above).

The Management Fee paid by CCP I to Centerbridge will equal a blended rate determined as follows: (i) 1.50% per annum of capital contributions with respect to portfolio investments that have not been disposed of (such amounts for all investors, the "Capital Under Management"), and (ii) 1.25% per annum of the amount by which Capital Under Management exceeds \$2 billion.

The Management Fee paid by CCP II to Centerbridge will equal (i) 1.75% of the aggregate capital commitments of the investors until the earlier of the date when management fees begin to accrue with respect to a successor fund and the termination of the investment period, and (ii) thereafter, 1.50% per annum of Capital Under Management.

As more fully set forth in each of the Capital Partners Funds' governing documents, a formulaic portion of the Management Fee payable will instead be invested on behalf of Centerbridge in investments made by such Capital Partners Fund, although



distributions to Centerbridge with respect to such amounts are limited such that Centerbridge has a profits interest with respect thereto.

#### Carried Interest

In addition, Centerbridge is generally entitled to receive 20% of the profits from the Capital Partners Funds pursuant to a distribution waterfall described in the offering documents of the Capital Partners Funds.

#### B. Additional Fees and Expenses.

The following sets forth the types of expenses that a Fund may bear, subject to the terms of such Fund's governing documents: Each Fund will bear its own expenses, including, without limitation, 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 fee component), consultants, interest on margin accounts and other indebtedness, interest and fees on short-term credit facilities, borrowing charges on securities sold short, custodial fees, clearing and settlement charges, interest expense 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 of organizing and maintaining any financing subsidiaries and trading subsidiaries; the costs and expenses incurred in connection with the borrowing arrangements and other indebtedness of such Fund and its subsidiaries, including, without limitation, the costs of establishing the borrowing arrangements and such other indebtedness; costs relating to swaps (and similar agreements) entered into by such Fund; auditing and tax preparation expenses; accounting expenses; market data costs; costs of any third-party administrators and in-house administration costs (except in the case of the Capital Partners Funds) including personnel and related overhead; costs of printing and mailing reports and notices; organizational expenses, including, without limitation, out-of-pocket expenses incurred in connection with the relevant Fund's legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law and regulation; liability insurance and related insurance; Management Fees; board of directors' fees; 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 such Fund's assets (directly or through trading subsidiaries); loan administration costs; and extraordinary expenses and other similar expenses related to such Fund.

From time to time, Centerbridge and/or multiple funds managed by Centerbridge may receive products or services from third parties, the costs and expenses of which are allocable (in whole or in part) between or among Centerbridge and/or such funds. Centerbridge allocates such expenses among those parties in the manner prescribed by the applicable governing agreements for such funds, and in cases where costs and expenses are properly allocable between or among multiple parties, the allocation would be done in a manner that Centerbridge considers to be fair and reasonable, taking into account factors such as the actual or estimated relative benefits to each applicable party of the expense-generating item (which may include consideration of the funds' relative positions sizes in an expense-generating investment). From time to time, it is possible that subsequent review of allocations could result in an identification of expenses that should have been allocated in a



different manner, in which case measures would be undertaken to correct such circumstance, which might include a reversal of the original expense allocations, if possible, or such other equitable adjustment believed by Centerbridge to be the most appropriate corrective measure.

In the event break-up or topping fees are paid to Centerbridge in connection with a transaction that is not ultimately consummated, co-investment vehicles that invest alongside the Capital Partners Funds or other Funds will generally not be allocated any share of such break-up or topping fees; similarly, such co-investment vehicles generally do not bear their share of broken deal expenses for unconsummated transactions.

Centerbridge endeavors to accrue for all estimated fees and/or expenses in accordance with U.S. GAAP; however, receipt of actual invoices from vendors or service providers for fees and/or expenses may lag the period in which services were performed for the Funds and actual amounts may differ from estimates.

C. Other Fees; Impact on Management Fee.

From time to time, Centerbridge or its affiliates may receive compensation in connection with financial transactions structured by Centerbridge or its affiliates (which does not include fees received by portfolio companies), which may reduce all or a portion of the Management Fees paid by the Funds. Compensation that may result in a reduction in the Management Fee may include, for example, break-up and topping fees, monitoring and directors' fees, organization fees, set-up fees, consulting fees, management fees, closing and transaction fees and other similar fees. The extent of the offset (whether full or partial), the timing of offsets and the types of compensation resulting in such an offset, is specified in the governing documents of the applicable Fund. Centerbridge endeavors to apply offsets in the same accounting period in which such offset amount was received; however, such offset may occur in an accounting period subsequent to the period in which such fee was paid or earned.



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

Centerbridge accepts performance-based compensation from every client, and as described in Item 5, the percentage amounts upon which such compensation is calculated, the timing of the calculation of such compensation and the use of unrealized gains in such calculation, differ among clients. As a result, Centerbridge may have an incentive to allocate limited investment opportunities to the clients from whom the greatest performance-based compensation may be earned. In addition, certain Centerbridge personnel participate in Centerbridge's performance-based compensation with respect to one or more Funds and accordingly may have an incentive to make allocation decisions based on such participation. Centerbridge has an allocation policy that addresses these conflicts of interest and it is described in Item 11.



**ITEM 7**  
**TYPES OF CLIENTS**

Centerbridge provides investment advice to pooled investment vehicles, such as the Funds, as described above.



## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

*Centerbridge has excerpted information from each of the confidential private placement memoranda for the Funds and the reader is strongly encouraged to read the entire confidential private placement memorandum of the applicable Fund or Funds, a copy of which, in the case of a specific Fund or Funds being offered, has been provided with this Brochure.*

#### A. Methods of Analysis and Investment Strategies.

*The descriptions set forth in this Brochure of specific advisory services that Centerbridge offers to clients, and investment strategies pursued and investments made by Centerbridge on behalf of its clients, should not be understood to limit in any way Centerbridge's investment activities. Centerbridge may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Centerbridge considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies Centerbridge pursues are speculative and entail substantial risks. Investors should be prepared to bear an entire loss of capital. There can be no assurance that the investment objectives of any client will be achieved.*

#### 1. **Credit Funds**

The Credit Funds employ a two-pronged analytical approach to distressed investing which combines elements of traditional value investing (assessing the long-term intrinsic value of an investment in relation to its market price and focusing on those situations where value and price materially diverge) together with event and legal analysis (such as analysis of out-of-court restructuring transactions and reorganizations under Chapter 11 of the U.S. Bankruptcy Code and the bankruptcy or insolvency laws of other jurisdictions). Through such analysis, Centerbridge seeks to assess the risks of each investment and the Credit Funds' portfolios as a whole – in particular, the risk of a permanent loss of capital as opposed to mark-to-market price fluctuations – with a view toward generating superior risk-adjusted returns. The investment strategy revolves around a disciplined credit research process and is based on the belief that a thorough understanding of a company and its industry is essential to generating positive absolute returns. Centerbridge expects to apply its substantial experience in analyzing and assessing a company's valuation, capital structure, financial performance and underlying industry dynamics in order to capitalize on market imbalances, event-driven situations and other mispriced opportunities. Such investments might include issuers who are the subject of corporate reorganizations, restructurings, liquidity crises, mergers, spin-offs, leveraged buyouts or credit rating changes or other situations when the market may be mispricing an asset's intrinsic value.

The Credit Funds seek to minimize downside risk and protect principal by performing intensive credit research and actively monitoring the risk of each investment. In general, with respect to investments in restructuring transactions, the Credit Funds focus on senior or secured debt instruments issued by North American domiciled companies (with a focus on the U.S.) in light of the downside protection inherent in such instruments and their superior legal rights in a Chapter 11 reorganization context. The Credit Funds also invest in areas outside North America, especially in Europe. In pursuit of their investment objective, the Credit Partners Funds have authority to use leverage and the Special Credit Funds have limited

authority to do so on a non-recourse, asset-level basis. Among the ways the Credit Funds may seek to manage potential downside risk is the use of hedging techniques, which may include interest rate, currency or other forms of hedging through options, forwards, derivative contracts (including credit default swaps with one or more reference assets) or other instruments.

## **2. Capital Partners Funds**

The Capital Partners Funds seek to opportunistically make primarily (i) private equity investments using Centerbridge's experience in a targeted range of industry verticals and (ii) distressed investments with the primary purpose of obtaining influence over or control of financially troubled companies. Centerbridge's investment team has extensive experience investing domestically and abroad, and Centerbridge focuses the Capital Partners Funds' investment activities principally in North America and Europe but may pursue opportunities in other geographies. Centerbridge's ability to bridge the private equity and distressed investment strategies provides the Capital Partners Funds with considerable flexibility to adapt to different market conditions. Centerbridge believes that this complementary approach has several competitive advantages, including: (i) a flexible investment approach; (ii) a reduced need to "time" the market, as the strategies generally are countercyclical; (iii) expanded sources of deal flow; (iv) enhanced industry relationships and insights; and (v) broadened due diligence, investment execution and value creation skill sets. Centerbridge's restructuring experience informs a general preference for conservative leverage, particularly in the case of businesses emerging from bankruptcy proceedings.

*Private Equity Transaction Structures.* In private equity transactions, Centerbridge seeks to employ a variety of structures (including leveraged buyouts, recapitalizations, turnarounds, corporate buildups and growth opportunities) as well as forms (including common stock, preferred equity or debt of portfolio companies). In these transactions, Centerbridge seeks to invest opportunistically, employing rigorous analysis coupled with a value orientation across a broad range of targeted industry verticals, and approaches each investment with a defined thesis and a plan to add value to the business.

In addition to controlling positions, Centerbridge seeks corporate partnerships where companies are in need of capital and are looking for sponsorship from a sophisticated equity owner. Centerbridge aims to identify opportunities where companies can effectively utilize capital to finance value added expansion initiatives, including mergers and acquisitions and deleveraging opportunities. Centerbridge is flexible in its approach to corporate partnerships and makes minority investments with appropriate governance protection.

*Distressed Transaction Structures.* In distressed for influence or control transaction structures, Centerbridge invests through various distressed or defaulted debt instruments, including bank loans, publicly and privately traded bonds, including high yield bonds and "fallen angels," trade claims, direct capital investments and other privately or publicly held instruments and claims. Specifically, it seeks to position the Capital Partners Funds to acquire material stakes in debt instruments or claims, including control or "blocking" positions in certain classes of debt, in an effort to acquire control of, or an influential equity stake in, the targeted business. This may result in the Capital Partners Funds receiving, in exchange for its holdings, cash, new debt or equity securities or a significant equity stake in, or outright control of, a reorganized company. In effectuating restructuring transactions, the Capital Partners Funds may serve on official or unofficial creditors' committees to implement its strategy or act unilaterally in certain circumstances. In addition, the Capital Partners Funds



may act occasionally as a lender to distressed companies through syndicated or bilateral credit facilities, including “rescue financings” and debtor-in-possession loans extended in the context of a Chapter 11 reorganization.

In implementing its distressed for influence or control strategy for the Capital Partners Funds, Centerbridge uses its core distressed trading capabilities – resources and abilities that Centerbridge believes very few private equity investors possess. When the market presents the opportunity, Centerbridge often acquires substantial debt positions with the goal of leading a restructuring transaction whereby it will ultimately be able to gain control of, or acquire an influential equity stake in, the restructured company. These situations may result in a reorganization as originally anticipated, or, depending on certain factors, including sufficiently improved business performance or receptive capital markets that allow for refinancing, a restructuring may not transpire or may be sponsored at a valuation above that which Centerbridge believes is attractive. In these scenarios, Centerbridge may seek to exit its position, often at a profit, and recycle that capital into more attractive private equity or distressed opportunities.

**B. Material, Significant or Unusual Risks Relating to Investment Strategies.**

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in one or more of the Funds. These risk factors include only those risks Centerbridge believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by Centerbridge.*

**Portfolio Concentration.** At points in time, each Fund’s portfolio may be concentrated – whether by issuer, asset type, geographic region, sector, location in the capital structures of the issuers in which it invests or other measures. There are no assurances that all of the Funds’ investments will perform well or even return capital. Therefore, if certain investments perform unfavorably, for each Fund to achieve above-average returns, one or a few of its investments must perform very well. There are no assurances that this will be the case.

**Competition for Investments.** The activity of identifying, completing and realizing on attractive private equity, distressed and other similar investments is highly competitive and involves a high degree of uncertainty. The Funds expect to encounter competition from other entities having similar investment objectives and others pursuing the same or similar opportunities. Potential competitors include other investment partnerships and corporations, business development companies, strategic industry acquirers, sovereign wealth funds, and other financial investors investing directly or through affiliates. Further, over the past several years, an ever-increasing number of private equity and distressed debt funds have been formed (and many such existing funds have grown in size). Additional funds with similar investment objectives may be formed in the future by other unrelated parties. Some of these competitors may have more relevant experience, greater financial and other resources and more personnel than Centerbridge and the Funds. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available to the Funds and adversely affecting the terms upon which investments can be made. The Funds may incur bid, due diligence or other costs on investments which may not be successful. As a result, a Fund may not recover all of its costs, which would adversely affect returns. There can be no assurance that a Fund will be able to identify or consummate investments satisfying its investment criteria or that such investments will satisfy such Fund’s rate-of-return objectives.

Likewise, there can be no assurance that a Fund will be able to realize upon the values of its portfolio investments or that a Fund will be able to invest its committed capital. To the extent that the Funds encounter competition for investments, returns to investors may decrease.

**Investments in Highly Leveraged Companies.** The Funds' portfolio investments are expected to include companies whose capital structures may have significant leverage. While investments in leveraged companies offer the opportunity for capital appreciation and Centerbridge will seek to use leverage in a manner it believes to be prudent, such investments also involve a higher degree of risk. A Fund's portfolio investments may involve varying degrees of leverage, which could magnify the impact of circumstances such as unfavorable market or economic conditions, operating problems and other changes that affect the relevant portfolio company or its industry, resulting in a more pronounced effect of such circumstances on the profitability or prospects of such portfolio companies. In using leverage, these portfolio companies may be subject to terms and conditions that include restrictive financial and operating covenants, which may impair their ability to finance or otherwise pursue their future operations or otherwise satisfy additional capital needs. Moreover, rising interest rates may significantly increase portfolio companies' interest expense, causing losses and/or the inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet its debt obligations, the investing Funds may suffer a partial or total loss of capital invested in the portfolio company.

**Credit Risk.** One of the fundamental risks associated with the Funds' investments is credit risk, which is the risk that an issuer or borrower will be unable to make principal and interest payments on its outstanding debt obligations when due or otherwise defaults on its obligations to a Fund and/or that the guarantors or other sources of credit support for such persons do not satisfy their obligations. A Fund's return to investors would be adversely impacted if an issuer of debt securities or a borrower under a loan in which the Fund invests becomes unable to make such payments when due. Although the Funds may make investments that Centerbridge believes are secured by specific collateral the value of which may initially exceed the principal amount of such investments or a Fund's fair value of such investments, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, the Funds could experience delays or limitations with respect to their ability to enforce rights against and realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment may be released without the consent of the Funds or the Funds' expected rights to such collateral could, under certain circumstances, be voided or disregarded. The Funds' investments in secured debt may be unperfected for a variety of reasons, including the failure to make required filings by lenders and, as a result, a Fund may not have priority over other creditors as anticipated. Furthermore, a Fund's right to payment and its security interest, if any, may be subordinated to the payment rights and security interests of the senior lender. Certain of these investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In addition, certain instruments may provide for payments-in-kind payments, which has a similar effect of deferring current cash payments. In both cases, a company's ability to repay the principal of an investment may be dependent upon a liquidity event or the long-term success of the company, the likelihood of which is uncertain. With respect to a Fund's investments in any number of credit products, if the borrower or issuer breaches any of the covenants or restrictions under the indenture governing notes or the credit agreement that governs loans of such issuer or

borrower, it could result in a default under the applicable indebtedness as well as the indebtedness held by the Fund. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. This could result in an impairment or loss of a Fund's investment or result in a pre-payment (in whole or in part) of a Fund's investment. As it relates to all of the foregoing risks and related considerations discussed above, it should also be noted that the Funds may also invest in leveraged loans, high-yield securities, marketable and non-marketable common and preferred equity securities and other unsecured investments, each of which involves a higher degree of risk than senior secured loans.

**Bank Loans.** The Funds' investment programs may include investments in significant amounts of bank loans and participations. 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; (iv) collateral posting obligations that may arise in connection with investments in revolving credit facilities or delayed draw term loans, which gives rise to the risk of loss with respect to posted collateral; and (v) the risk that ownership through assignment is not feasible and a Fund may be required to hold its interest via a participation, which gives rise to counterparty credit risk and limitations on the ability of a Fund to directly enforce certain rights (*e.g.*, voting rights). In analyzing each bank loan or participation, Centerbridge compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Funds. Bank loans are frequently traded on the basis of standardized documentation which is used in order to facilitate trading and market liquidity. There can be no assurance, however, that future levels of supply and demand in bank loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue or that the same documentation will be used in the future. The settlement of trading in bank loans often requires the involvement of third parties, such as administrative or syndication agents and there presently is no central clearinghouse or authority which monitors or facilitates the trading or settlement of all bank loan trades. Often, settlement may be delayed based on the actions of any third party or counterparty, and adverse price movements may occur in the time between trade and settlement, which could result in adverse consequences for the Funds.

Where a Fund acquires a participation interest in a bank loan, the form of agreement documenting the acquisition can vary based on the contract law governing the debt. Where the contract is New York law governed, the agreement is also generally New York law governed and intended to be structured as a "true participation," providing the Fund with a beneficial ownership right in the proceeds payable in relation to the bank debt. This structure can limit a Fund's counterparty credit risk exposure against the institution selling the participation, and if the seller files for bankruptcy during the life of the agreement, the court may ring-fence proceeds related to the bank debt for the benefit of the Fund. Where the contract is based under English law (or the law of another European jurisdiction), the agreement documenting the participation in many instances will be English or local law governed and structured as a derivative agreement between a Fund and the institution selling the debt. This structure generally carries a higher risk for a Fund because: (i) the derivative agreement grants no beneficial ownership interest in the proceeds paid to the selling institution, providing the Fund with only an unsecured claim against the selling institution in the event of its bankruptcy during the life of the agreement; and (ii) the possibility that the agreement will

be treated as a “security-based swap” pursuant to Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”).

**Loan Origination.** If a Fund is unable to sell, assign or successfully close transactions for participations in the loans that it originates, that Fund will be forced to hold its excess interest in such loans for an indeterminate period of time. This could result in a Fund’s investments being over-concentrated in certain borrowers.

**Debtor-in-Possession Loans.** From time to time, the Funds may invest in or extend loans to companies that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code or equivalent protections under the laws of other jurisdictions. These debtor-in-possession or “DIP” loans are most often revolving 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.

**Second Lien Loans.** The Funds may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy which can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.

**Mezzanine Debt.** The Credit Funds may invest in Mezzanine debt. Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Credit Funds to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of the Credit Funds or similar event, the Credit Funds’ debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

**Risks Associated with Non-Performing Loans.** It is anticipated that certain loans purchased by the Funds will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. Although Centerbridge frequently deals with large, individual non-performing loans, Centerbridge has limited

experience with acquiring and servicing portfolios of relatively small to medium-sized non-performing loans. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans. By their nature, these investments will involve a high degree of risk. Commercial and industrial loans in workout and/or restructuring modes or under the U.S. Bankruptcy Code and the bankruptcy or insolvency laws of other jurisdictions are subject to additional potential liabilities, which may exceed the value of a Fund's original investment. For example, borrowers often resist foreclosure by asserting numerous claims, counterclaims and defenses against the holder of real estate loans, including lender liability claims and defenses, in an effort to delay or prevent foreclosure. Under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Funds and distributions by the Funds to the participating investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. In addition to being lengthy and expensive, foreclosure and bankruptcy proceedings or legislation related thereto may disrupt or limit ongoing leasing and management of the underlying real property.

**Investments in Bridge Financings.** From time to time, one or more Funds may lend to portfolio companies on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always in a Fund's control, such long-term securities issuance or other refinancing or syndication may not occur and such bridge loans and interim investments may remain outstanding. In such event, the interest rate on such loans or the terms of such interim investments may not adequately reflect the risk associated with the position taken by a Fund.

**Bankruptcy Claims.** The Funds may invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. In and outside the U.S., the markets in bankruptcy claims differ to some extent from the market conventions and regulatory framework applicable to conventional debt trading. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

**Risks Associated with Bankruptcy Cases.** Bankruptcy or insolvency proceedings are adversarial, lengthy, complex, involve multiple and diverse constituents seeking to maximize their recovery from a debtor with limited assets (which often results in some classes of stakeholders receiving little or no recovery), and involve the exercise of equitable authority on the part of the bankruptcy court or other competent authority. Many of the events in or affecting bankruptcies or insolvencies are beyond the control of the creditors and other stakeholders. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court or other competent authority would not approve actions which may be contrary to the interests of the Funds. Furthermore, there are instances under applicable law where creditors and equity holders lose their ranking and priority.

Generally, the duration of a bankruptcy case can only be roughly estimated and such estimates may later prove inaccurate. 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 a Fund; 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. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Although each Fund intends to invest primarily in debt, the debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental value. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a Fund's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other changes with respect to, 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, creditors and equity holders, in exceptional circumstances, may lose their ranking and priority as such when they take over management and functional operating control of a debtor if they are found to have exercised "domination and control" in a manner that adversely affected the debtors.

Centerbridge intends to invest the Funds' assets principally in securities and other financial instruments of North American (with a focus on U.S.) and Western European issuers and assets located in these regions, although Centerbridge may invest the Funds' assets in securities and other financial instruments of other issuers domiciled, or assets located, elsewhere. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. The law and process in such jurisdictions may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. While each Fund generally favors jurisdictions where it believes the rule of law is clear, well-developed and respected, there can be no assurance that the outcome of bankruptcy or insolvency proceedings, particularly in jurisdictions outside the U.S., will result in a favorable outcome with respect to that Fund's investment. In addition, as more and more companies conduct operations internationally, multi-jurisdictional bankruptcy or insolvency proceedings are increasing in prevalence and the foregoing factors may result in unique challenges that impact the potential recovery and timing thereof.

Centerbridge, on behalf of each Fund, may elect to serve on creditors' or coordinating committees, official or unofficial, equity holders' committees or other groups to ensure preservation or enhancement of each Fund's position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If Centerbridge concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to one

or more Funds, it may be necessary to resign from that committee or group if such conflict cannot be appropriately resolved, and the Funds may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if a Fund is 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.

**Equitable Remedies.** 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, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors, or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, 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”). A Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case. Such purchase may be disallowed if disallowance is permitted under applicable law. Each Fund will seek to conduct its activities in a manner that would not form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the often contentious nature of bankruptcy and insolvency proceedings, a Fund 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.

**Short-Selling.** Short-selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short-selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which a Fund engages in short sales will depend upon Centerbridge’s investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a Fund of buying those securities to cover the short position. There can be no assurance that a Fund will be able to maintain the ability to borrow securities sold short. In such cases, a Fund can be “bought in” (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**General Real Estate Risks.** Real estate investments generally will be subject to the risks incident to the ownership and operation of real estate and real-estate-related assets and/or risks incident to the making of non-recourse mortgage loans secured by real estate, including risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of the Funds or third-party borrowers to manage the real properties. A Fund may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such

property and any improvements thereon, and ultimately disposing of such property. In addition, an investment in real estate may subject the investors to taxation and tax return filings with respect to such investment in the jurisdiction in which such real estate is located.

A Fund may invest in a real estate asset on a passive basis, giving a third-party operating partner and/or property manager a large degree of authority and responsibility for daily management of the assets and, therefore, will in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. In addition, that Fund will be unable to exercise sole decision-making authority and will be subject to the risk that a joint venturer or partner will act negligently or in a manner contrary to the Fund's best interest. There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid; holding periods accordingly are difficult to predict, particularly as business plans may be revised to adapt to changing economic, business and financial conditions.

Real estate investments are not as liquid as other types of investments and this lack of liquidity may tend to limit a Fund's ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. A Fund may need to comply with certain legal, tax and other requirements prior to liquidating such investments.

The insurance coverage applicable to real estate investments contains policy specifications and insured limits customarily carried for similar properties, business activities and markets. There may be certain losses, including losses from floods and losses from earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed to be economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to a real estate investment, a Fund could experience a significant loss and could potentially remain obligated under any recourse debt associated with the property.

Under various federal, state, and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. The Funds will attempt to assess such risks as part of their due diligence activities, but cannot give any assurance that such conditions do not exist or may not arise in the future. The presence of such substances on a Fund's real estate investments could adversely affect its ability to sell such investments or to borrow using such investments as collateral.

**Developments in the Structured Credit Markets and Their Broader Impact.** Declines in the market value of ABS and MBS, especially securities backed by subprime mortgages, were associated with significant market events resulting in the financial crisis of the late 2000s and the subsequent regulatory and market responses to the financial crisis. Increasing credit and valuation problems in the subprime mortgage market generated extreme volatility and illiquidity in the markets for securities directly or indirectly exposed to subprime mortgage loans. This volatility and illiquidity 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, uncertainty regarding the extent of—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. Except for agency RMBS, the market for RMBS has not significantly recovered from these conditions and it is difficult to predict if or when the non-agency RMBS market may recover from such conditions. If the structured credit markets continue to face uncertainty or to deteriorate, then the Funds may not be presented with sufficient investment opportunities in ABS and MBS, which may prevent the Funds from successfully executing investment strategies in such instruments. Moreover, further uncertainty or deterioration in the structured credit markets could result in further declines in the market values of or increased uncertainty with respect to investments made or considered by the Funds, which could require the Funds to dispose of existing investments at a loss while such adverse market conditions prevail.

**Ratings of Instruments May Not Accurately Reflect Risks.** Rating agencies rate debt securities based upon their assessment of the likelihood of the receipt of principal and interest payments. Rating agencies do not consider the risks of fluctuations in market value or other factors that may influence the value of debt securities. Therefore, the credit rating assigned to a particular instrument may not fully reflect the true risks of an investment in such instrument. Credit rating agencies may change their methods of evaluating credit risk and determining ratings. These changes may occur quickly and often. While the Funds may give some consideration to ratings, ratings may not be indicative of the actual credit risk of the Funds' investments in rated instruments, including ABS and MBS.

**Illiquid Investments.** The Funds may invest in securities, bank debt and other claims, and other assets, which are subject to legal or other restrictions on transfer or for which no liquid market exists. These instruments may be illiquid at the time an investment is made or may become and potentially stay illiquid during the pendency of an investment. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and a Fund 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 securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. 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. An investment in one or more of the Funds is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

**Uncertain Exit Strategies.** Due to the illiquid nature of many of the positions which a Fund is expected to acquire, as well as the uncertainties of the reorganization and active management process, Centerbridge is 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.

**Investments in the Communications Industry.** The Funds may make investments in communications companies. Communications companies are undergoing changes, mainly due to evolving levels of governmental regulation or deregulation as well as the development of communication technologies. Competitive pressures within the

communications industry are intense and the securities or instruments of communications companies may be subject to significant price volatility. In addition, because the communications industry is subject to significant changes in technology, the companies that the Funds may invest in will face competition from technologies being developed or to be developed in the future by other entities, which may make such companies' products and services obsolete.

**Investments in Technology Companies.** The Funds may make investments in technology companies. Technology companies face similar risks as companies within the communications sector. Moreover, the technology industry is challenged by various factors, including rapidly changing market conditions and/or participants, new competing products, services and/or improvements in existing products. The companies in this industry in which a Fund makes an investment will compete in this volatile environment. There is no assurance that products or services sold by these companies will not be rendered obsolete or adversely affected by competing products and services or that these companies will not be adversely affected by other challenges. Instability, fluctuation or an overall decline within the technology industry may not be offset by increases in other industries not so affected.

**Investments in Other Regulated Industries.** In addition to the communications and technology industries, other industries are heavily regulated. The Funds may make investments in companies operating in industries that are subject to greater amounts of regulation than other industries generally. These more highly regulated industries may include energy, health care, financial services (including banking and mortgage servicing), insurance, transportation (*e.g.*, aviation) and also businesses that serve primarily customers that are governmental entities. Investments in companies that are subject to greater amounts of governmental regulation pose additional risks relative to investments in other companies generally. Changes in applicable laws or regulations, or in the interpretations of these laws and regulations, could result in increased compliance costs or the need for additional capital expenditures and/or regulatory capital requirements in the case of banks or similarly regulated entities. If a company fails to comply with these requirements, it could also be subject to civil or criminal liability and the imposition of fines. A company also could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such company. Governments have considerable discretion in implementing regulations that could impact a company's business and governments may be influenced by political considerations and may make decisions that adversely affect a company's business. Additionally, certain companies may have a unionized work force or employees who are covered by a collective bargaining agreement, which could subject any such company's activities and labor relations matters to complex laws and regulations relating thereto. Moreover, a company's operations and profitability could suffer if it experiences labor relations problems. Upon the expiration of any such company's collective bargaining agreements, it may be unable to negotiate new collective bargaining agreements on terms favorable to it, and its business operations at one or more of its facilities may be interrupted as a result of labor disputes or difficulties and delays in the process of renegotiating its collective bargaining agreements. A work stoppage at one or more of any such company's facilities could have a material adverse effect on its business, results of operations and financial condition. Additionally, any such problems may bring scrutiny and attention to a Fund itself, which could adversely affect that Fund's ability to implement its investment objectives.

**Investments in Less-Established Companies.** The Funds may invest in the securities or instruments of less-established companies. Investments in such early-stage companies may involve greater risks than generally are associated with investments in more-established companies. Such companies may not have securities that trade publicly and may not have easy access to the capital markets or other traditional funding sources. Interests in such companies may be subject to transfer limitations and other restrictions. To the extent there is any market for the securities or instruments held by a Fund, such securities or instruments may be subject to more abrupt and erratic market price movements than those of larger, more-established companies. Less-established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. Start-up enterprises in the communications and related industries may not have significant or any operating revenues, and any such investment should be considered highly speculative and may result in the loss of a Fund's entire investment therein. The foregoing factors may increase the difficulty of valuing such investments. In addition, there can be no assurance that any losses on such investments will be offset by gains (if any) realized on a Fund's other investments.

**Investments in Public Companies.** The Funds' investment portfolio may contain securities or instruments issued by publicly held companies. Such portfolio investments may subject the Funds to risks that differ in type or degree from those involved with portfolio investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Funds to dispose of such securities or instruments at certain times, increased likelihood of shareholder litigation against such companies' board members and increased costs associated with each of the aforementioned risks.

**Additional Capital Requirements of Fund Investments.** Certain of the companies in which the Funds invest, especially those in a development or "platform" phase, may require additional financing to satisfy their working capital requirements or acquisition strategies. The amount of such additional financing needed will depend upon the maturity and objectives of the particular company. Each such round of financing (whether from the Funds or other investors) is typically intended to provide a company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, a company may have to raise additional capital at a price unfavorable to the existing investors, including the Funds. The availability of capital is generally a function of capital market conditions that are beyond the control of the Funds or any company. In addition, it may be necessary or desirable for a Fund to make additional debt and equity investments or exercise warrants, options or convertible securities that were acquired in the initial investment in such company in order to preserve that Fund's proportionate ownership when a subsequent financing is planned, or to protect that Fund's investment when the performance of such company does not meet expectations. If a Fund does not participate in any such additional financing rounds or offerings, that Fund's interest in the company may be diluted or become functionally subordinated. There can be no assurance that Centerbridge or the companies themselves will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

**Investment in Other Ventures.** The Funds may pursue certain of their strategies by investing in ventures such as syndicates or "club" deals in which the underlying

investments selected by Centerbridge are not controlled by Centerbridge or its affiliates. As a result, the Funds will have to bear the expenses, management fees and performance-based compensation associated with such investments. The combination of the Management Fee and Incentive Allocation and/or Carried Interest with the expenses, fees and performance-based compensation relating to such investments may result in higher compensation and expenses than are associated with comparable investment entities.

**Reliance on Companies' Management Teams.** The day-to-day operations of each company in which the Funds invest will be the responsibility of such company's management team. Although Centerbridge will be responsible for monitoring the performance of each investment and intends to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor, will be able to operate the company in accordance with each Fund's plans. The success of each company depends in substantial part upon the skill and expertise of each company's management team. Additionally, companies will need to attract, retain and develop executives and members of their management teams. The market for executive talent is, notwithstanding general unemployment levels or developments within a particular industry, extremely competitive. There can be no assurance that companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, the Funds may be adversely affected thereby.

**Risks in Managing Portfolio Companies and Effecting Operating Improvements.** In some cases, the success of the Funds' investment strategy will depend, in part, on the ability of the Funds to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that the Funds will be able to successfully identify and implement such improvements. Additionally, to the extent the Funds acquire a control or control oriented interest in a portfolio company, the Funds may be exposed to risks inherent in owning or operating a business. The exercise of control over a portfolio company through a control position, or the service of an officer or employee of Centerbridge and its affiliates as a director of a portfolio company, could (i) expose the assets of the Funds to claims by such portfolio company, its security holders and creditors or (ii) impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored. If these liabilities were to occur, the Funds, directly, and the Funds' investors indirectly, could suffer losses.

**Contingent Liabilities.** From time to time, the Funds may incur contingent liabilities in connection with an investment. For example, a Fund may enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to that Fund. From time to time, the Fund may also be asked to guarantee the liabilities of its affiliates.

**Financial Projections Related to All the Funds' Investments.** Centerbridge will generally make investment decisions and establish the capital structure of companies, and/or the terms of financing for a company, on the basis of financial projections, including projections specific for such companies. There can be no assurance that financial or economic models used to determine investment decisions will be correct, accurate or appropriately reflect

subsequent developments or all the other factors that could cause actual results to differ from such models or projections. Projected operating results will often be based on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the reliability of such projections. Moreover, a Fund's investments, particularly investments in loans or other forms of indebtedness, may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer or borrower repaying the principal on an obligation held by that Fund earlier than expected (which could result in the Fund's investment return from such investment being less than that anticipated by the Fund when it made the investment). As a consequence, the Fund's ability to achieve its investment objective may be affected.

**Risks Relating to Due Diligence of and Conduct at Companies.** Before making an investment in a company, Centerbridge will typically conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each company. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment. Such involvement of third party advisers or consultants may present a number of risks primarily relating to Centerbridge's reduced control of the functions that are outsourced. In addition, if Centerbridge is unable to timely engage third-party providers, its ability to evaluate and acquire more complex targets could be adversely affected. When conducting due diligence and making an assessment regarding an investment, Centerbridge will rely on the resources available to it, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that Centerbridge carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in an investment in a company being successful. Additionally, among the other risks inherent in investments, particularly so in companies experiencing financial distress, is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. There can be no assurance that attempts to provide downside protection with respect to companies in which a Fund invests will achieve their desired effect and potential investors should regard an investment in a Fund as being speculative and having a high degree of risk.

**Participation on Boards of Directors and Other Committees.** It is anticipated that the Funds may in certain circumstances and when and if applicable seek to place their representatives on the boards of directors and/or other committees of certain companies in which the Funds have invested. It is also anticipated that the Funds will invest in affiliate companies in which Centerbridge and/or other investors in their Funds will have representatives on the boards of such companies. While such representation may enable the Funds to enhance the sale value of their debt investments in a company, such involvement (and/or an equity stake by the Funds, Centerbridge and/or other investors in their Funds in such company) may also prevent the Funds from freely disposing of their debt investments and may subject the Funds to additional liability or result in re-characterization of the Funds' debt investments as equity. In addition, the Funds' acquisition of more than 10% of the equity securities of certain companies or the service by officers or employees of Centerbridge and its

affiliates as directors may subject the Funds to liability for “short-swing profits” under Section 16(b) of the 1934 Act. Under Section 16(b), holders of more than 10% of any class of equity securities of a company registered under Section 12 of the 1934 Act and certain officers and directors of such an issuer are prohibited from any purchase and sale, or any sale and purchase, of any equity or derivative security of such issuer within any period of less than six months. If the Funds engage in a transaction that results in short-swing profits, the Funds may be required to return the amount of such profit to the issuer, which could adversely affect the overall return on investment realized by the Funds. Measures to avoid short-swing liability may limit the ability of the Funds to buy or sell securities of target companies.

**Litigation.** In connection with ordinary course investing activities, Centerbridge, the Funds and their respective affiliates as well as portfolio companies of the Funds are and may become involved in litigation either as a plaintiff or a defendant. Moreover, in light of Centerbridge’s distressed investment activities, Centerbridge, the Funds and their respective affiliates as well as portfolio companies of the Funds are and may become parties in interest (for example, as creditors) in bankruptcy proceedings. Given the inherently adverse nature of the bankruptcy claims process, claimants having diverse interests to Centerbridge, its affiliates and portfolio companies have sought and will seek to advance wide-ranging arguments intended to enhance their recovery prospects.

There can be no assurance that any such litigation, once begun, would be resolved in favor of a Fund. 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. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by a Fund and would reduce net assets or could require investors to return to the Fund distributed capital and earnings.

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

**Currency Risks.** All the Funds’ investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. 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. Centerbridge may try to hedge these risks by investing directly in

foreign currencies, buying and selling forward foreign currency exchange contracts and buying and selling options on foreign currencies, but there can be no assurance such strategies will be effective. The occurrence of a fundamental change with respect to the currency in which one or more investments, or hedging transactions thereof, is denominated could adversely impact a Fund's performance. There can be no assurance that such an event, which is outside the control of the Funds and could arise due to factors such as political instability, sovereign distress or extreme inflation, will not occur.

**Leverage and Financing Risk.** One or more Funds may leverage their capital because Centerbridge believes that the use of leverage may enable the Fund to achieve a higher rate of return. Accordingly, a Fund may pledge its securities in order to borrow additional funds for investment purposes. A Fund may also leverage its investment return with options, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which a Fund may have outstanding at any time may be substantial in relation to its capital.

While leverage presents opportunities for increasing a Fund's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by a Fund would be magnified to the extent the Fund is leveraged. The cumulative effect of the use of leverage by a Fund in a market that moves adversely to the Fund's investments could result in a substantial loss to the Fund which would be greater than if the Fund was not leveraged.

In general, the use of short-term margin borrowings results in certain additional risks to the Funds. For example, should the securities pledged to brokers to secure a Fund's margin accounts decline in value, that Fund could be subject to a "margin call," pursuant to which the Fund must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Fund's assets, the Fund might not be able to liquidate assets quickly enough to satisfy its margin requirements.

The Funds may enter into repurchase and reverse repurchase agreements. When a Fund enters into a repurchase agreement, it "sells" securities issued by the U.S. or a non-U.S. government, or agencies thereof, or corporate issuers to a broker-dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, a Fund "buys" securities issued by the U.S. or a non-U.S. government, or agencies thereof, or corporate issuers from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Funds involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such case may involve costs to a Fund.

**Interest Rate Risk.** The value of the fixed rate securities in which the Funds may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities may decline. In addition, to the extent that the receivables or loans underlying specific securities are prepayable without penalty or premium, the value of such securities may be negatively affected by increasing pre-payments, which generally occur when interest rates decline.

**Hedging Transactions.** The Funds may utilize financial instruments, both for investment purposes and for risk management purposes: (i) to protect against possible changes in the market value of a Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) to protect a Fund's unrealized gains in the value of the Fund's investment portfolio; (iii) to crystallize losses; (iv) to facilitate the sale of any such investments; (v) to enhance or preserve returns, spreads or gains on any investment in a Fund's portfolio; (vi) to hedge the interest rate or currency exchange rate on any of a Fund's liabilities or assets; (vii) to protect against any increase in the price of any securities a Fund anticipates purchasing at a later date; or (viii) for any other reason that Centerbridge deems appropriate.

The success of each Fund's hedging strategy will depend, in part, upon Centerbridge's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of each Fund's hedging strategy will also be subject to Centerbridge's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While each Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for each Fund than if it had not engaged in such hedging transactions. For a variety of reasons, Centerbridge may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Funds from achieving the intended hedge or expose the Funds to risk of loss. Centerbridge may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of each Fund's portfolio holdings.

**Capital Structure Arbitrage.** The success of this strategy will depend on the ability of Centerbridge to identify and exploit the relationships between movements in different securities and instruments within an issuer's capital structure (*e.g.*, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer's securities were to fail to materialize as expected by Centerbridge, the Funds could incur a loss.

**Highly Volatile Markets.** The prices of financial instruments in which the Funds may invest can be highly volatile. Price movements of forward and other derivative contracts in which all the Funds' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The Funds are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses.

**Force Majeure Risk.** Companies may be affected by force majeure events (*i.e.*, events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, war, terrorism and labor strikes). Some force majeure events may adversely affect the ability of a party (including a company or a counterparty to the Funds or a company) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to a company or the Funds of repairing or

replacing damaged assets resulting from such force majeure event could be considerable. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over one or more companies or its assets, could result in a loss to a Fund, including if its investment in such company is canceled, unwound or acquired (which could be without what a Fund considers to be adequate compensation).

**General Private Equity Risks.** One or more of the Funds may from time to time invest in private equity investments, particularly those that may relate to companies undergoing debt restructurings and recapitalized companies, which involve a high degree of business and financial risk. Such companies may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may also face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses.

Although Centerbridge may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent each Fund takes minority positions in companies in which it invests, Centerbridge may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect its position in such companies.

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

**Counterparty Default.** The Funds expect to establish relationships to obtain financing, derivative intermediation, prime brokerage and fund administration services that facilitate the operation of the Funds and permit the Funds to trade in any variety of markets or asset classes over time. However, there can be no assurance that the Funds will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Funds' reporting capabilities, trading activities, create losses, preclude the Funds from engaging in certain transactions or prevent the Funds from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Funds' business due to the Funds' reliance on such counterparties.

Some of the markets in which the Funds may effect transactions are not "exchange-based", including "over-the-counter" or "interdealer" markets. The stability and liquidity of over-the-counter transactions depends in large part on the creditworthiness of the parties to the transactions. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of exchange-based markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and

conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Funds to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties. Generally, a Fund will not be restricted from dealing with any particular counterparties. Centerbridge’s evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and “foolproof” evaluation of the financial capabilities of each Fund’s counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds.

In addition, the Funds may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in foreign jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to each Fund’s assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on each Fund and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering a Fund’s financial instruments from or the payment of claims therefor by such counterparty and a loss to that Fund, which could be material.

C. Risks Associated with Particular Types of Investments.

**Distressed Securities and Other Instruments.** The Funds may invest in securities 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 instruments 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’ debt instruments 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 a Fund’s investment in any instrument, and a significant portion of the obligations and securities in which the Funds invest may be considered 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 Centerbridge will correctly evaluate the value of the assets underlying the Funds’ investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, a Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund’s original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from a Fund’s investments may not compensate a Fund 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 or instrument the value of which may 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, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

**Convertible Securities.** Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities; (ii) are potentially less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics; and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by a Fund is called for redemption, that Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on that Fund’s ability to achieve its investment objective.

**Investing in High-Yield Securities.** The Funds may invest in high-yield securities. Such securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded

marketplace. In addition, the Funds will invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

**Non-U.S. Investments.** The Funds expect to invest a portion of their aggregate capital commitments outside of the U.S., focusing in Europe, but also including other countries in North America, Australia and other jurisdictions, with a preference for those jurisdictions with a clear, well-developed and respected legal framework. Non-U.S. securities or instruments involve certain risk factors not typically associated with investing in U.S. securities or instruments, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which a Fund's foreign investments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) exposure to fluctuations in interest rates payable with respect to the instruments in which a Fund invests; (iii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iv) differences between the U.S. and foreign securities markets, including potential price volatility in and relative liquidity of some foreign securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (v) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, the risks of political, economic or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation or the imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sales or disposition proceeds; (vi) the possible imposition of foreign taxes on income, gains and gross sale or other proceeds recognized with respect to such securities or instruments; and (vii) differing and potentially less well-developed or well-tested corporate laws regarding stakeholder rights, creditors' rights (including the rights of secured parties), fiduciary duties and the protection of investors. A Fund may be less influential than other market participants in jurisdictions where it does not have a significant presence.

The Funds may be subject to additional risks, which include possible adverse political and economic developments, possible seizure or nationalization of foreign deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the securities may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. While Centerbridge will take these factors into consideration in making

investment decisions for the Funds, no assurance can be given that the Funds will be able to fully avoid these risks.

Additionally, in emerging and developing markets, there is often less government supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers, counterparties and issuers than in other more established markets. Any regulatory supervision which is in place may be subject to manipulation or control. Some emerging and developing market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain cases, the laws and regulations governing investments in financial instruments may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. The Funds may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. Due to the foregoing risks and complications, the costs associated with investments in emerging market securities generally are higher than for securities and other instruments of issuers based in developed countries.

In addition, economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could adversely affect global economic conditions and world markets and, in turn, could adversely affect a Fund's performance.

Existing and new laws and regulations in non-U.S. jurisdictions in which a Fund may invest may affect that Fund's investments in such jurisdictions in a manner that differs adversely from the results that would occur under U.S. laws and regulations applied to similar facts. The implementation or interpretation of such laws and regulations as they relate to a Fund's activities may be largely outside that Fund's control. For example, a Fund's investments in the debt of portfolio companies located in certain non-U.S. jurisdictions may be adversely affected as a result of the ownership or control of an equity stake in such portfolio companies by Centerbridge and/or its affiliates. As one illustration, in certain circumstances, a Fund could be subject to German "equity substitution rules" (similar to equitable subordination in the U.S.) if a portfolio company in which that Fund holds a debt investment and in which Centerbridge and/or its affiliates holds an equity investment was to become insolvent. In such case, among other things, (i) a Fund may not be able to enforce its rights with respect to collateral, if any, (ii) the debt held by that Fund may be subordinated and (iii) the receiver may be entitled to reclaim amounts paid to that Fund within one year of the filing for commencement of insolvency proceedings or thereafter. The laws of other non-U.S. jurisdictions in which a Fund may seek to invest may have rules similar to Germany's equity substitution rules discussed above or other unique rules, and the consequences to that Fund with respect to such rules may be more or less severe.

While Centerbridge intends to exercise caution in relation to the foregoing risks where known, there can be no assurance that these and other risks of investing in non-U.S. markets will not adversely affect the assets of a Fund that are held in certain countries and that Fund's performance.

**Commodities and Derivative Investments.** The prices of commodities contracts and derivative instruments, including options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of commodities, options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the commodities underlying them. In addition, all the Funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

A Fund may buy or sell (write) both call options and put options, and when it writes options, it may do so on a "covered" or an "uncovered" basis, subject to applicable legal requirements. A call option is covered when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. A Fund's option transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which a Fund has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions the Funds may enter into, the principal risks involved in options trading can be described as follows: When a Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of that Fund's investment in the option (including commissions). A Fund could mitigate those losses by selling short, or buying puts on, the securities for which it holds call options, or by taking a long position (*e.g.*, by buying the securities or buying calls on them) in securities for which it holds put options.

When a Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is covered. If it is covered, the Fund would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Fund might suffer as a result of owning the security.

Swaps and certain options and other customized instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets, the Funds may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits on exchanges on which a Fund may conduct its transactions in derivative instruments may prevent prompt liquidation of positions, subjecting that Fund to the potential of greater losses. Derivative instruments that may be purchased or sold by the Funds may include instruments not traded on an exchange. Derivative instruments not traded on

exchanges are also not subject to the same type of government regulation as exchange-traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions. In addition, significant disparities may exist between “bid” and “asked” prices for derivative instruments that are not traded on an exchange. Additionally, when a company defaults or files for Chapter 11 bankruptcy court protection, the use of derivative instruments presents special risks associated with the potential imbalance between the derivatives market and the underlying securities market. In such a situation, physical certificates representing such securities may be required to be delivered to settle trades and the potential shortage of such actual certificates relative to the number of derivative instruments may cause the price of the actual certificated debt securities to rise, which may adversely affect the holder of such derivative instruments. The risk of nonperformance by the counterparty on such an instrument may be greater and the ease with which a Fund can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. The stability and liquidity of derivative investments depend in large part on the creditworthiness of the parties to the transactions.

**Credit Default Swaps.** The Funds may invest in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value; or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination.

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. Credit default swaps can be used to implement Centerbridge’s view that a particular credit, or group of credits, will experience credit decline or improvement. In the case of expected credit improvement, a Fund may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of that Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. A Fund may “purchase” credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of Centerbridge, there is a high likelihood of credit deterioration.

The credit default swap market in high-yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views. In this regard, Centerbridge may also enter into credit default swap transactions, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Credit default swaps have been an area of regulatory focus and litigation both inside and outside the U.S. rulemaking efforts and other proceedings have, to a large extent, centered on the potential use of such instruments for speculative purposes, the impact on companies and markets associated with the entry into credit default swaps in relation to which the buyer of protection does not own the underlying reference asset or assets, credit default swaps relating to sovereign debt and also the use of centralized clearing facilities for credit default swaps. Many jurisdictions have enacted permanent or temporary bans of certain credit default swaps. In addition, under the Dodd-Frank Act, for example, swaps, including credit default swaps, are now regulated by the United States Commodity Futures Trading Commission and the SEC. It is difficult to predict the outcome of these regulatory and legislative efforts and their impact on the use of credit default swaps and the resulting impact on the marketplace if credit default swaps become unavailable as an investing or hedging technique.

**ABS and MBS – General.** The investment characteristics of ABS and mortgage-backed securities (“MBS”) differ from traditional debt securities. Among the major differences are that returns are contingent on a pool of non-recourse assets instead of the operations of an operating company, interest and principal payments are made more frequently, usually monthly, and principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

**ABS and MBS Subordinated Securities.** Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying assets. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the risks and attributes typically associated with equity investments without certain of the benefits.

**Commercial MBS.** Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal, thus, often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and/or specific industry segments; the solvency of the related tenants; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; terrorist threats and attacks and social unrest and civil disturbances. Most commercial mortgage loans underlying MBS are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower’s assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected.

The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

**ABS.** Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures. The Funds may invest either directly or indirectly, through CDOs (as defined below), in these and other types of ABS that may be developed in the future.

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

The collateral supporting ABS is of shorter maturity than mortgage loans. As with MBS, ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement. Structural and legal risks of ABS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), a court having jurisdiction over the proceeding could determine that, because of the degree to which cash flows on the assets of the issuing vehicle may have been commingled with cash flows on the originator's other assets (or similar reasons), (i) the assets of the issuing vehicle could be treated as never having been truly sold by the originator to the issuing vehicle and could be substantively consolidated with those of the originator, or (ii) the transfer of such assets to the issuer could be voided as a fraudulent

transfer. The time and expense related to a challenge of such determinations also could result in losses and/or delayed cash flows.

**RMBS.** Holders of residential mortgage-backed securities ("RMBS") bear various risks, including credit, market, interest rate, structural and legal risks. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the related mortgaged property is located, the terms of the loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Structural features of RMBS may contribute to the impact of increased delinquencies and defaults and lower recoveries on the underlying mortgage pool. In particular, there may be a decline in the interest rate payable under those RMBS structured to limit interest payable to investors based on a weighted average coupon cap. Mortgage loans bearing interest at a higher rate will have a greater tendency to default than those with lower mortgage rates. Such defaults will reduce the weighted average coupon of the underlying mortgage loans and accordingly the interest rate payable to investors in the related RMBS, including the Funds.

From late 2006 to 2012, delinquencies, defaults and foreclosures on residential mortgage loans have increased and, although there have been indications that the real estate market in the United States stabilized in 2012, there can be no assurance that delinquencies, defaults and foreclosures will not continue to increase in the future. The increases were not limited to "subprime" mortgage loans, which are made to borrowers with impaired credit. Also affected were "Alt A" mortgage loans, which are made to borrowers often with limited documentation, and "prime" mortgage loans, which are made to borrowers with better credit who frequently provide full documentation. In addition to higher delinquency, default and foreclosure rates, loss severities on all types of residential mortgage loans increased due to declines in residential real estate values, resulting in reduced home equity. Nationwide home price appreciation rates were generally negative from 2007 to 2012, and despite recent indications of stability it is possible that they will be negative in the future. Higher loan-to-value ratios generally result in lower recoveries on foreclosure and an increase in loss severities above those that would have been realized had property values remained the same or continued to appreciate.

Another factor that most likely contributed to higher delinquency rates since late 2006 was an increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate to the rate computed in accordance with the applicable index and margin. Mortgage loans that provide for the payment of interest, but not principal, for a certain period may also result in higher delinquency rates when, following the interest-only period, the monthly payment with respect to each of these mortgage loans is increased in order to amortize the principal balance of the mortgage loan over the remaining term and to pay interest at the applicable mortgage interest rate. Market conditions from 2006 to 2012 impaired the ability of some borrowers to refinance or sell their

residential properties, which also contributed to higher delinquency and default rates. In response to increased delinquencies and losses with respect to mortgage loans, many mortgage loan originators implemented more restrictive underwriting criteria for mortgage loans, resulting in reduced availability of refinancing alternatives for borrowers. The risk of reduced refinancing options will be exacerbated if prevailing mortgage interest rates increase from current levels. Home price depreciation experienced to date, and any further price depreciation, also may leave borrowers with insufficient equity in their homes to enable them to refinance. Borrowers who intend to sell their homes on or before the maturity of their mortgage loans often find that they cannot sell their property for an amount equal to or greater than the unpaid principal balance of their mortgage loans. While some mortgage loan originators and servicers have created or otherwise are participating in modification programs in order to assist borrowers with refinancing or otherwise meeting their payment obligations, not all borrowers will qualify for or will take advantage of these opportunities.

In response to these circumstances, federal, state and local authorities have enacted and continue to propose new legislation, rules and regulations relating to the origination, servicing and treatment of mortgage loans in default or in bankruptcy. These initiatives could result in delayed or reduced collections from mortgagors, limitations on the foreclosure process and generally increased servicing costs. Certain of these initiatives could also permit the servicer to take actions, such as with respect to the modification of mortgage loans, that might adversely affect the related RMBS, without any remedy or compensation to the holders of the RMBS.

In 2008 the Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") were placed into conservatorship. While Fannie Mae and Freddie Mac currently act as the primary sources of liquidity in the residential mortgage markets, both by purchasing mortgage loans for their own portfolios and by guaranteeing mortgage-backed securities, their long-term role is uncertain as the Obama administration has proposed reducing and eventually eliminating their role in the residential mortgage markets. A reduction in the ability of mortgage loan originators to access Fannie Mae and Freddie Mac to sell their mortgage loans may adversely affect mortgage loan originators and the availability of mortgage financing. In addition, any decline in the value of RMBS issued by Fannie Mae and Freddie Mac may affect the value of RMBS in general.

These adverse changes in market and credit conditions have in the past had, and may in the future have, the effect of depressing the market values of RMBS generally, impairing the cash flow performance of RMBS, and substantially reducing the liquidity of RMBS generally. If these conditions were to occur or be exacerbated at the time that the Funds had investments in RMBS or CDO Securities (as defined below) backed by a significant portion of RMBS, then the performance, marketability and overall market value of these investments (or synthetic securities of the Partnership which reference such RMBS or CDO Securities backed by a significant portion of RMBS and, therefore the performance of the Funds as a whole, could be adversely affected.

**Financial Regulatory Reforms and Proposed Regulations.** In response to the financial crisis of the late 2000s, the United States Congress passed the Dodd-Frank Act, which President Obama signed into law on July 21, 2010. The Dodd-Frank Act required the creation of new federal regulatory agencies, and granted additional authorities and responsibilities to existing regulatory agencies to identify and address emerging systemic risks posed by the activities of financial services firms. The Dodd-Frank Act also provides for

enhanced regulation of derivatives and ABS/MBS offerings, and enhanced oversight of credit rating agencies. Additionally, the Dodd-Frank Act established the Consumer Financial Protection Bureau within the Federal Reserve System, a new consumer protection regulator tasked with regulating consumer financial services and products. The Dodd-Frank Act also limits the ability of federal laws to pre-empt state and local consumer laws.

The impact of the Dodd-Frank Act will depend significantly upon the content and implementation of the rules and regulations issued on its mandate. It is not yet clear how the Dodd-Frank Act and its associated rules and regulations will impact the MBS market and mortgage lending generally. In addition, the SEC and other regulatory agencies recently have proposed or adopted financial reform regulations, including risk-retention proposals relating to the offering of ABS and MBS. It is not clear whether or when any proposed regulations will be adopted, what the final form of any such regulations will be or how they will be implemented. No assurance can be given that any new or proposed Dodd-Frank Act or other regulations will not have an adverse impact on the value of ABS and MBS or other instruments held by the Funds.

The federal government, state and local governments, consumer advocacy groups and others have urged mortgage loan servicers to be aggressive in modifying mortgage loans to avoid foreclosure, and federal, state and local governmental authorities have enacted and proposed numerous laws, regulations and rules relating to mortgage loans generally, and foreclosure actions particularly. New laws, regulations and rules may provide new defenses to foreclosure, insulate the servicers from liability for modification of loans without regard to the terms of the pooling and servicing agreement or other servicing agreements underlying an RMBS, or result in limitations on upward adjustment of mortgage interest rates, reduced payments by borrowers, permanent forgiveness of debt, increased prepayments due to the availability of government-sponsored refinancing initiatives and/or increased reimbursable servicing expenses, all of which could result in delays and may result in reductions in the distributions to be made on RMBS.

Several courts and state and local governments and their elected or appointed officials also have taken unprecedented steps to slow the foreclosure process or prevent foreclosure altogether (including proposals to use eminent domain powers). A number of these laws have been enacted. These laws, regulations and rules will result in delays in the foreclosure process, and may lead to reduced payments by borrowers or increased reimbursable servicing expenses. Investors in RMBS bear the risk that future regulatory and legal developments could result in losses on their RMBS. Such changes also could impact the Funds' investments in REO assets by limiting the options available for the ongoing management and disposition of such assets.

**CDOs.** The Funds may invest in collateralized debt obligations ("CDOs") and similar structured debt products (collectively, "CDO Securities") including securities issued by CDOs that are structured, managed and/or advised by Centerbridge or its affiliates. CDO Securities in which a Fund invests will be backed by certain fixed income securities, such as ABS, CDO Securities, corporate leveraged loans, credit default swaps and other derivatives. CDO Securities are instruments representing interests in pools, the underlying asset classes of which include bonds, debentures, syndicated loans and private placement debt and are limited-recourse obligations of the issuer thereof payable solely from the underlying securities in the portfolio of such issuer. CDO Securities are subject to various risks including the following credit, liquidity, interest rate and other risks:

CDOs may invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the holder of the related CDO Securities to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the holder of the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry or region.

A Fund's investment in CDOs involves significant leverage. Leverage is embedded in all classes of a CDO other than the most senior tranche. While the leverage presents opportunities for increasing a Fund's total return, it has the effect of potentially increasing losses as well.

The value of the CDO Securities owned by the Funds generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

CDOs are subject to significant interest rate risk. Some of the CDO Collateral of an issuer of a CDO bears interest at a fixed rate, while the CDO Security typically bears interest at a floating rate. As a result, there could be a floating/fixed rate mismatch between such CDO Security and the CDO Collateral.

There are no restrictions on the credit quality of the investments of the Funds. CDO Securities in which the Funds may invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. In general, the ratings of nationally recognized rating organizations represent the opinions of such agencies as to the quality of securities that they rate. Such ratings are relative and subjective; they are not guarantees of performance or absolute standards of credit quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

At times, the fixed income markets have in the past experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, a CDO may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of a Fund's portfolio, and may be difficult or impossible to hedge against.



**ITEM 9**  
**DISCIPLINARY INFORMATION**

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



**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

A. Broker-Dealer Registration Status.

Centerbridge and its management persons are not currently 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.

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

Centerbridge and its 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. Centerbridge currently relies on exemptions from registration as a commodity pool operator and commodity trading advisor.

C. Material Relationships or Arrangements with Industry Participants.

From time to time, Centerbridge or its affiliates may receive compensation in connection with financial transactions structured by Centerbridge or its affiliates (which does not include fees received by portfolio companies). Such compensation may include, for example, break-up and topping fees, monitoring and directors' fees, organization fees, set-up fees, consulting fees, management fees, closing and transaction fees and other similar fees. Such fees may reduce all or a portion of the Management Fees paid by the Funds, as discussed in Item 5.

D. Material Conflicts of Interest.

Centerbridge does not recommend or select any third-party investment advisers for its clients.

Portfolio companies held by one or more Funds may be selected by Centerbridge on an arm's-length basis and subject to terms which Centerbridge has determined to be no less favorable to the relevant Fund(s) than would be obtained in a transaction with an unaffiliated party, to perform certain services and functions, including, but not limited to, loan servicing and other functions, on behalf of one or more Funds. In connection therewith, a portfolio company may spend a disproportionate amount of time providing services to a Fund that is not commensurate with such Fund's pro rata interest in the portfolio company or provide services to a Fund that has no interest in such portfolio company.

At times, if unrelated officers of a portfolio company have not yet been appointed, Centerbridge may be negotiating and executing agreements between Centerbridge parties on the one hand and the portfolio company or its affiliates on the other hand, including management services agreements or similar agreements, which could entail a conflict of interest in relation to efforts to enter into terms that are arm's length. Among the measures Centerbridge uses to mitigate such conflicts is involving outside counsel to review and advise on such agreements and provide insights into commercially reasonable terms.



Currently, none of the portfolio companies held by any of the Funds is a registered investment adviser.



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

**A. Code of Ethics.**

Centerbridge strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, Centerbridge has adopted a Code of Ethics (the “Code”). The following set of principles from the Code frames the professional and ethical conduct that Centerbridge expects from its personnel:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective investors, employers, employees, colleagues in the investment profession and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients and the interests of Centerbridge above one’s own personal interests;
- Adhere to the fundamental standard that personnel should not take inappropriate advantage of their position;
- Identify and manage conflicts of interest;
- Conduct all personal securities transactions in a manner consistent with the Personal Securities Trading Policy (as defined in the Code);
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities;
- Devote sufficient time and attention to the proper execution of one’s professional responsibilities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect favorably on the employee and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve one’s professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

Clients may request a copy of the Code by contacting Centerbridge at the address or telephone number listed on the first page of this document.

**B. Securities in which Centerbridge or a Related Person Has a Material Financial Interest.**

**1. Cross Trades**

Centerbridge disfavors cross trades; however, cross trades are not prohibited by the Funds’ organizational documents. In the exceptional circumstance that Centerbridge were to undertake a cross-trade between two Funds, such a transaction would be conducted in accordance with, and subject to, any applicable laws and Centerbridge’s fiduciary obligations to each client. We note that Centerbridge may at times restructure the form of legal ownership,

e.g., from direct ownership to participation. Such restructuring is not intended to result in a change in the level of beneficial ownership.

## **2. Principal Transactions**

Centerbridge also disfavors principal transactions. To the extent that cross trades or other transactions with a Fund may be viewed as principal transactions due to the ownership interest in a client by Centerbridge or its personnel, Centerbridge would effect such transaction only if Centerbridge were to first determine that such trade is in the best interests of the affected Funds and then only in compliance with the requirements of Section 206(3) of the Investment Advisers Act of 1940 (“Advisers Act”), as amended, or similar applicable law, and the governing documents of the affected Funds, including obtaining any required informed consents.

### **C. Investing in Securities that Centerbridge or a Related Person Recommends to Clients.**

The Code places restrictions on personal trades by employees, including that employees pre-clear most types of personal securities transactions and that they disclose their personal securities holdings and transactions to Centerbridge on a periodic basis.

Centerbridge, its affiliates and its employees, may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of clients, or may give advice or take action for their own accounts that may differ from or conflict with advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that Centerbridge and its personnel may have investments in some Funds but not in others or may have different levels of investments in the various Funds.

Centerbridge has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

### **D. Conflicts of Interest Created by Contemporaneous Trading.**

Centerbridge manages investments on behalf of a number of clients. Certain clients have investment programs that are similar or overlap and may, therefore, participate with each other in investments. It is the policy of Centerbridge to allocate investment opportunities on a basis that Centerbridge believes in good faith to be fair and reasonable and in accordance with applicable laws, rules and regulations and the provisions of any applicable operating agreements of the Funds, as well as disclosures provided to clients, and taking into account the considerations more fully described below. Allocation to a particular Fund is not based on the amount or structure of fees for such Fund.

In general, allocations of new investment opportunities will be made primarily on the basis of the following factors, and in the case of Funds pursuing comparable strategies (for example, the Credit Funds), particular consideration is paid to available capital amounts of such Funds:



- The exclusivity and allocation requirements under the applicable governing documents;
- A Fund's existing position in a particular security or issuer; and
- The net asset value of the Funds for which such investment may be appropriate and available capital (or liquidity) of the Funds for which such investment may be appropriate.

In addition, other factors as Centerbridge may reasonably deem relevant may be taken into account when determining an allocation, including, without limitation, a Fund's investment objective, policies and restrictions, guideline limitations and relevant risk considerations (including risk weighting considerations).

In certain circumstances, taking into account the investment programs and guidelines of the Funds and Centerbridge's views regarding whether the investment's characteristics may make it appear to be suitable for more than one fund family, Centerbridge may allocate an investment to more than one Fund, for example, to the Capital Partners Funds and to the Credit Funds. Such determinations, including determinations as to the proportion in which such allocations occur, are made by Centerbridge in its good faith judgment, taking into account the facts and circumstances known to it and expectations, projections or predictions made at the time, all of which then-current assumptions may vary from how the investment ultimately evolves.

Centerbridge may also offer co-investments to third-party investors, based on, among other factors determined by Centerbridge in good faith, strategic reasons, as further described in Item 4.

Please also refer to the discussion of expense allocations in Item 4, Part B.



## **ITEM 12 BROKERAGE PRACTICES**

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

As noted previously, Centerbridge 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. Centerbridge's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

Portfolio transactions for the Funds are allocated to brokers and dealers on the basis of seeking best execution and in consideration of such broker's or dealer's ability to effect such transactions, its resources, its reliability and financial responsibility. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged to the Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers.

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

As a matter of general policy, Centerbridge does not participate in soft dollar arrangements, although Centerbridge, from time to time, receives research prepared by broker-dealers and circulated by such broker-dealers to their clients.

#### **2. Brokerage for Client Referrals.**

Currently, Centerbridge has no active engagement with any broker-dealer providing for the payment of placement fees in consideration for client referrals.

#### **3. Directed Brokerage.**

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

### **B. Order Aggregation.**

In some circumstances, it may be appropriate for Centerbridge to buy or sell an investment on behalf of more than one client account for which the transaction is allocable at one time or over a period of time. In these circumstances, and as a general matter, Centerbridge believes that the aggregation of orders for multiple advisory clients is consistent with its duty to seek best execution for its clients. Aggregation of trades facilitates more efficient and less costly execution by enabling Centerbridge to negotiate transactions on a consolidated basis rather than dealing with multiple smaller lots in investment types that normally trade in significant and/or pre-set blocks.



## **ITEM 13 REVIEW OF ACCOUNTS**

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

Centerbridge performs various daily, weekly, monthly, quarterly and periodic investment due diligence and monitoring reviews of each client's investment portfolio. Such reviews are conducted by Centerbridge's investment professionals.

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

Portfolio management is a dynamic process. The frequency of reviews of client account portfolios is a function of facts and circumstances, which can include, for example, market or economic conditions, conditions affecting a particular issuer and Centerbridge's general views about various opportunities and risks that may be relevant to the portfolio or a particular position at a given point in time. Accordingly, evaluation of the portfolio happens on a periodic as well as a non-periodic basis as circumstances such as the above are believed warranted by Centerbridge.

### **C. Content and Frequency of Account Reports to Investors.**

Centerbridge provides annual audited financial statements to the Funds' investors no later than 90 to 120 days of the applicable Fund's fiscal year end, as required by the governing documents of the Fund and consistent with the Custody Rule (as defined in Item 15).

Investors in the Funds receive periodic update letters from Centerbridge with commentary, although Centerbridge may provide certain investors with information on a more frequent and detailed basis if agreed to by Centerbridge, including in response to specific due diligence requests made by one or more investors or their representatives. Investors and prospective investors have unique due diligence needs and accordingly the information furnished in response to such investors may vary based on the nature of the information requested. In addition, investors in the Special Credit Funds and the Capital Partners Funds are invited to attend annual meetings regarding the applicable Fund. Information also is available through the password-protected website of the administrator of the Funds. Centerbridge endeavors to make matters that Centerbridge considers to be of general significance to investors available to investors generally and to ensure that information furnished in response to due diligence requests is generally consistent; however, to the extent an investor receives 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. This may enhance such investor's ability to make investment decisions with respect to the Fund and possibly, with respect to the Credit Partners Funds, affect such investor's decision to request a redemption from the Fund. Conversely, investors who are "friends and family" investors have agreed that they may receive more limited information.

Centerbridge encourages all investors and prospective investors to make such due diligence requests as they consider appropriate.



**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

A. Economic Benefits for Providing Services to Clients.

Centerbridge does not receive economic benefits from non-clients for providing investment advice and other advisory services.

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

Neither Centerbridge nor any related person directly or indirectly currently compensates any person who is not a supervised person, including placement agents, for client referrals. However, Centerbridge has in the past entered, and may in the future enter, into a placement agreement pursuant to which the placement agent receives fees (the payment dates for which may be ongoing and which placement agent fees offset the Management Fee paid or payable by the applicable client) in consideration for introducing investors to the Funds.



## **ITEM 15 CUSTODY**

Centerbridge is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to the clients are sent by qualified custodians to Centerbridge.

Centerbridge is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule") and satisfies its Custody Rule obligations with respect to each Fund by either: (i) complying with the provisions of the so-called "Pooled Vehicle Annual Audit Exception" with respect to such Fund, 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 or (ii) complying with the requirements related to quarterly delivery of account statements and annual independent verification, and any other applicable requirements of the Custody Rule with respect to such Fund.



## **ITEM 16**

### **INVESTMENT DISCRETION**

Centerbridge serves as the management company with discretionary trading authority for each Fund.

Centerbridge's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as described in its offering documents.

Centerbridge or an affiliate of Centerbridge entered into an investment management agreement, or similar arrangement, with each Fund, pursuant to which Centerbridge or an affiliate of Centerbridge was granted discretionary trading authority. In addition, the Sub-Advisor has entered into sub-advisory agreements with the Advisors pursuant to which the Sub-Advisor serves as sub-advisor to the Funds.



## **ITEM 17**

### **VOTING CLIENT SECURITIES**

#### **A. Policies and Procedures Relating to Voting Client Securities.**

In compliance with Advisers Act Rule 206(4)-6, Centerbridge has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, “Proxies”) in a way it believes, consistent with its fiduciary duty, will cause the value of the issue to increase the most or decline the least.

Centerbridge’s general practice is to vote consistently for all Funds offered the opportunity to vote. In limited circumstances, Centerbridge may refrain from voting Proxies where Centerbridge believes that abstaining from voting would be in the applicable Fund’s best interest.

Conflicts of interest may arise between the interests of the clients on the one hand and Centerbridge or its affiliates on the other hand. If Centerbridge determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, Centerbridge will either (i) use an independent, third-party service to vote the proxy on behalf of the affected Fund(s), (ii) disclose the conflict of interest to the investors in such Fund(s) and obtain their consent to vote the proxy in accordance with Centerbridge’s policy or (iii) employ an alternative method of addressing the identified conflict of interest. A copy of Centerbridge’s Proxy voting policies is available through the password-protected website of the administrator of the Funds. In addition, clients may obtain a copy of Centerbridge’s Proxy voting policies and its Proxy voting record upon request.



**ITEM 18**  
**FINANCIAL INFORMATION**

Centerbridge is not required to include a balance sheet for its most recent fiscal year (see Item 5(A)), 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.

