



## Shoreline Capital Management, Ltd.

### PART 2A FORM ADV

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**This brochure provides information about the qualifications and business practices of Shoreline Capital Management, Ltd. ("Shoreline" or the "Adviser"). If you have any questions about the contents of this brochure, please contact us at +1 (408) 354-2277 or [kathleen.ou@shoreline-capital.com](mailto:kathleen.ou@shoreline-capital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

**Additional information about the Adviser also is available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).**

Shoreline is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Recipients of this Brochure should be aware that registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser's skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services to its clients.

**ITEM 2**  
**Material Changes**

The Form ADV Part 2 Disclosure Brochure includes the following material changes since it was last filed in March 2012:

The regulatory asset under management has increased to \$480,964,125 as of December 31, 2012.

**ITEM 3**  
**Table of Contents**

The table of contents is provided on the following page.

## TABLE OF CONTENTS

	<u>Page</u>
ITEM 2 Material Changes .....	2
ITEM 3 Table of Contents.....	2
ITEM 4 Advisory Business .....	4
ITEM 5 Fees and Compensation .....	4
ITEM 6 Performance-Based Fees and Side-by-Side Management .....	6
ITEM 7 Types of Clients.....	7
ITEM 8 Methods of Analysis, Investment Strategies and Risk of Loss .....	7
ITEM 9 Disciplinary Information.....	12
ITEM 10 Other Financial Industry Activities and Affiliations .....	12
ITEM 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	15
ITEM 12 Brokerage Practices .....	16
ITEM 13 Review of Accounts.....	16
ITEM 14 Client Referrals and Other Compensation .....	16
ITEM 15 Custody .....	17
ITEM 16 Investment Discretion .....	17
ITEM 17 Voting Client Securities.....	17
ITEM 18 Financial Information .....	17
ITEM 19 Requirements for State Registered Advisers .....	17

#### ITEM 4

##### Advisory Business

Shoreline Capital Management, Ltd. ("**Shoreline**" or the "**Adviser**") is an investment adviser with its main office in Guangzhou, China. Shoreline is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "**Advisers Act**"), and, as a company formed in the British Virgin Islands (the "**BVI**"), is licensed by the British Virgin Islands Financial Services Commission to conduct investment business services according to the Securities & Investment Business Act, 2010.

Currently, Shoreline's clients are two private investment funds: Shoreline China Value I, LP ("**Fund I**") and Shoreline China Value II, LP ("**Fund II**" and, collectively with Fund I, "the **Funds**"), both of which are BVI limited partnerships. Shoreline serves as general partner of and investment manager to Fund I, and serves as the investment manager to Fund II. An affiliate of Shoreline, Shoreline Capital Partners Limited, serves as the general partner to Fund II ("**Affiliated GP**"), but has delegated investment management authority over Fund II to Shoreline pursuant to an investment management agreement between Fund II and Shoreline. As described in greater detail in Section 8 below, Shoreline primarily advises the Funds on the investments in distressed debt or equity, including non-performing loans ("**NPLs**"), and special situations in China.

Shoreline was formed in 2004. It is owned by Xiaolin Zhang, Benjamin Fanger, Linyu Yang and Ye Shen, who are principals of the Adviser and members of the investment committee with ultimate responsibility for approving investments and overseeing the Funds and their investment portfolios.

Prior to forming Fund I in 2008, Shoreline advised distressed investors in locating and pricing distressed assets and portfolios in China. Shoreline formed Fund II in 2011. Fund I and Fund II are managed pursuant to certain investment objectives, strategies and limitations set out in each Fund's offering document (the "**Offering Document**") and limited partnership agreement ("**Limited Partnership Agreement**"). Shoreline does not tailor the investment advice it provides to the Funds to any investor's individual needs or objectives. Shoreline China Value I, LP has a term of five years from the date of its initial closing, though this term may be extended under certain circumstances for up to two additional one-year periods. Shoreline China Value II, LP has a term of seven years and may be extended for up to two additional one-year periods.

The Adviser has two wholly-owned subsidiaries, Shoreline Capital Consulting Co., Ltd. ("**SCC Ltd.**") and Shoreline Capital Consulting, Inc. ("**SCC Inc.**" and, collectively with SCC Ltd., the "**Consulting Firms**"). The Consulting Firms house the employees of Shoreline and provide Shoreline with certain services pursuant to an agreement between each Consulting Firm and the Adviser (each a "**Consulting Agreement**"). SCC Ltd. is situated in Guangzhou, China. SCC Inc. is located in Los Gatos, California.

Shoreline manages \$480,964,125 of the Funds' assets on a discretionary basis as of December 31, 2012.

#### ITEM 5

##### Fees and Compensation

Management Fee. Each Fund pays Shoreline a management fee payable quarterly in advance. The management fee equals 2% per annum until the earlier of (1) the end of the applicable Fund's Commitment Period (as defined below), or (2) Shoreline or an affiliate or related person of Shoreline forming a Competitive Fund (as defined below). Thereafter, the management fee is reduced to 1.5% per annum based on the aggregate capital invested in the applicable Fund's remaining investments, as determined by Shoreline at the beginning of each quarter during which the reduced fee is paid. From and after the commencement of the first Extension Period, the management fee is further reduced to 1% per annum based on the aggregate capital invested in the applicable Fund's remaining investments. Each Fund's "**Commitment Period**" runs from its initial closing to the earliest of (1) the third anniversary of the initial closing, (2) the date on which

the aggregate capital commitments of all investors have been reduced to zero, (3) the termination of the Fund, and (4) the affirmative vote of 66 2/3% in interests of the investors to end the Commitment Period (excluding defaulting limited partners and affiliates of Shoreline). A "**Competitive Fund**" means a partnership or similar investment structure with investment objectives and strategies similar to those of the applicable Fund.

Shoreline may waive all or part of the management fees payable by any limited partner in a Fund in Shoreline's sole discretion. No Management Fees will be payable by Shoreline or the Affiliated GP, as applicable, or any other Fund investor that is related to Shoreline, the Affiliated GP or their affiliates.

All transaction, investment banking, break-up or similar fees relating to any investment by the Funds (transaction fees) received by Shoreline in excess of all reimbursable costs and expenses will be applied against and will reduce the management fee payable to Shoreline.

Additional information about the management fees payable by an investor in a Fund is available in that Fund's Offering Document and Limited Partnership Agreement, which are provided to qualified prospective investors.

Carried Interest. Shoreline is entitled to receive a carried interest with respect to Fund I, and Affiliated GP is entitled to receive a carried interest with respect to Fund II. Proceeds from the disposition of investments will be made:

- (a) First, 100% to each limited partner until that limited partner has received cumulative distributions equal to the aggregate capital contributions that investor made to the applicable Fund,
- (b) Second, 100% to each limited partner until limited partners have received a preferred return (making the carried interest subject to a "hurdle" rate over and above the return of capital contributions),
- (c) Third, 100% to either Shoreline or Affiliated GP, as applicable, until Shoreline or Affiliated GP has received 20% of distributions made over and above return of capital in satisfaction of the hurdle rate, and
- (d) Fourth, 80% to limited partners and 20% to Shoreline or the Affiliated GP, as applicable.

The carried interest is subject to a clawback after dissolution of the relevant Fund under certain circumstances.

Shoreline may waive all or part of the carried interest with respect to any limited partner's capital account in a Fund in Shoreline's sole discretion. No carried interest allocation will be made by Shoreline or the Affiliated GP, as applicable, or any other Fund investor that is related to Shoreline, the Affiliated GP or their affiliates.

Other Fees and Expenses. Fund I (and thus investors in that Fund) bore the Fund's organizational expenses up to \$300,000. Fund II (and thus investors in that Fund) bore the Fund's organizational expenses up to \$500,000.

On an ongoing basis, the Fund will bear: all costs and expenses, including legal, auditing consulting financing accounting and custodian fees and expenses, reimbursable costs and expenses of Shoreline and/or the Affiliated GP, as applicable, litigation costs of the Fund (including attorney's fees), all costs and expenses related to the Fund's indemnification obligations, expenses associated with the Fund's tax returns, expenses incurred in connection with transactions not consummated, expenses related to the members of the Advisory Committee (discussed below in Section 10), the costs and expenses associated with any litigation (excluding fees incurred by Shoreline or the Affiliated GP, as applicable, in which Shoreline or the Affiliated GP is adviser to the Fund, director and office liability or other insurance costs, all expenses incurred in liquidating the Fund, any taxes, fees or other governmental charges levied against the Fund and all expenses incurred in

connection with any tax return, audit, investigation, settlement or review of the Fund, other expenses associated with the acquisition, holding and disposition of investments, including extraordinary expenses, and all other liabilities of the Fund of whatsoever kind and nature (subject to applicable laws and regulations).

In addition, a Fund may pay certain third-parties or affiliates of Shoreline or the Affiliated GP for certain services, as set forth in Section 10 below. For instance, when Shoreline is exiting an NPL portfolio, it typically hires a debt servicer to handle loan documents, negotiations with borrowers and guarantors, oversee the filing of lawsuits, and finding exits for loans across the entire portfolio. In some cases, a Shoreline affiliate may perform certain of this work in-house pursuant to an agreement with a Fund. Shoreline seeks to ensure that each Service Company (as defined in Item 10) is qualified to provide the applicable services to the applicable Fund and that the cost of such services are fair and reasonable to the Fund. When a Shoreline affiliate performs the required services, the fees paid to the Shoreline affiliate will not have been set in an arm's length negotiation. Shoreline will seek to ensure that the cost of services provided by an affiliate will not be less favorable than could be obtained in arm's length negotiations with unrelated third parties for similar services. As discussed in Item 10, below, Shoreline will provide the applicable Fund's Advisory Committee with information regarding the agreement with a Shoreline affiliate and, in certain cases must seek the Advisory Committee's approval for the transaction or must provide the Advisory Committee with information sufficient to evidence that the rate paid to the Shoreline affiliate is a reasonable market rate.

## **ITEM 6**

### **Performance-Based Fees and Side-by-Side Management**

As discussed in Item 5 above, Shoreline is entitled to receive a carried interest with respect to Fund I, and Affiliated GP is entitled to receive a carried interest with respect to Fund II.

The existence of the carried interest with respect to the Funds could create an incentive for Shoreline to make more speculative investments on behalf of the Funds than it might otherwise make in the absence of such performance-based compensation.

In many cases, an adviser receiving a carried interest is incentivized to allocate investment opportunities to clients who either pay higher carried interest percentages or to the client whose current performance does not require them to reimburse limited partners for losses attributable to prior unprofitable investments or which have reached their "hurdle rate." In this case, however, Fund I's original investment period ended prior to the initial closing of Fund II. As a result, Shoreline cannot allocate investments based on the incentive allocations paid by the Fund. In the event Shoreline creates additional funds or manages other clients' assets in the future, the existence of a carried interest could create conflicts of interest that are not currently present.

The terms of the carried interest could also give Shoreline an incentive to make decisions regarding the timing and structure of realization transactions that may not be in the best interests of Fund investors. For example, Shoreline would be in a position to receive carried interest distributions earlier if profitable investments are liquidated prior to investments that are not profitable because, at the time proceeds from such profitable investments are liquidated, Shoreline Capital Management would not be required to first distribute capital to limited partners to make up for prior losses associated with unprofitable investments. Although both Fund I and Fund II contain a "clawback" requiring the general partner of such Funds to return excess distributions to limited partners in the event the general partner receives more than its carried interest percentage of Fund profits on an aggregate basis over the life of the Fund, the return of such distributions to the limited partners would generally be delayed until the dissolution of the Fund.

The carried interest also creates a potential conflict of interest for Shoreline when it is valuing investments. For example, Shoreline or Affiliated GP, as applicable, will not receive a carried interest until the limited partners receive distributions equal to their share of any write downs that were not taken into account for prior distributions. This creates an incentive for Shoreline to avoid writing down the value of

assets that are not readily marketable or difficult to value because the Shoreline or Affiliated GP will be in a position to receive a higher carried interest for the period prior to the dissolution of the Fund and the application of the clawback.

## **ITEM 7**

### **Types of Clients**

Currently, the Adviser's sole clients are the Funds. Shoreline may create additional funds or advise other clients in the future. Each investor in a Fund must be an accredited investor, as defined in Regulation D under the Securities Act of 1933, as amended (the "**1933 Act**"). The minimum investment in either Fund I or Fund II was \$2.5 million prior to each Fund's final closing, subject to waiver by Shoreline. Funds created in the future may have different qualification requirements or minimum investment amounts.

## **ITEM 8**

### **Methods of Analysis, Investment Strategies and Risk of Loss**

The following is a general description of the investment strategies and methods of analysis Shoreline uses in pursuing the Funds' investment objective. Each Fund may have a different focus or may seek to invest in different ways. Additional information about the investment objectives and strategies of a particular fund can be found in that Fund's Offering Memorandum.

**Overview.** The aftermath of the global financial crisis has created compelling opportunities within China, particularly for experienced, local Chinese investors. Accordingly, Shoreline believes the current market environment has many opportunities as a result of: (i) over or under-inclusive lending policies implemented by the Chinese government; (ii) overall capital mismatches that characterize a rapidly growing economy such as China's; and (iii) a general lack of investor knowledge necessary to not only gauge risk, but also to structure and execute transactions in China. As a result of these inefficiencies, Shoreline seeks to invest in attractive opportunities that it believes exhibit a high likelihood of generating solid returns, while also minimizing the risk of capital loss.

#### ***Description of Investment Foci.***

Shoreline's general investment strategy includes four core investment focuses that utilize the Adviser's skill set and are complementary in nature: (i) NPL portfolios; (ii) single credit restructurings; (iii) structured special situations financings; and (iv) distressed private equity and real estate. Within each of these investment focuses, Shoreline has the core competencies to source attractive deals, structure transactions and exit investments successfully. Furthermore, Shoreline believes the diversity embedded within this strategy should allow the Funds to invest throughout economic cycles.

**NPL portfolio.** In its NPL portfolio, Shoreline causes the Funds to purchase non-performing loans at discounts to the outstanding principal balance and exit through auctions sales, workout or debt-equity swaps or other feasible exits. Such NPL portfolios are generally corporate loan portfolios and may come from geographic locations anywhere in China, holding companies of almost any industry.

**Single Credit Restructurings.** In pursuing single credit restructurings, Shoreline seeks to restructure the debt of a company and exit through repayments, debt-equity swaps, sales, listing or other feasible exits.

**Structured Special Situations.** In its structured special situations investments, Shoreline provides financing to companies that cannot access other sources of credit. Generally, the financing is structured to include security through collateral in excess of the amount of the financing. The structured special situations may involve both debt and equity-like components.

*Distressed Private Equity and Real Estate.* In its distressed private equity and real estate investments, the Adviser seeks to acquire assets of or equity in distressed companies and the exit through markets. Alternatively, the locus of distress could be a distressed seller, rather than the company or real estate itself being distressed.

**Localized platform.** The backbone of the Adviser's organization is the investment expertise of the Investment Committee members, as well as the Consulting Firms' Chinese team (the “**Shoreline Team**”), who collectively possess many years of experience navigating the Chinese legal system and credit markets. Shoreline seeks to exploit the opportunities discussed above through its extensive deal sourcing network that spans mainland China. This network has provided the Adviser with deal flow that has increased steadily (and in recent years, very rapidly) since Shoreline’s inception.

**Deal Sourcing.** The Adviser generally utilizes a blend of proprietary relationships and sourcing partnerships to source deals. As its strategies have evolved, Shoreline's network has expanded and deals can be identified through several conduits. A large portion of the publicly recognized NPLs in China are currently held in four Asset Management Corporations (“**AMCs**”) that were created in the late 1990s as holding entities for NPLs of the four major commercial banks in China. These AMCs are tasked with the servicing and disposal of these portfolios of NPLs, and because AMCs cover loans throughout mainland China, they are structured with many highly autonomous branch offices across the country. Additionally, a second anticipated source of distressed debt is China’s banks themselves. The Shoreline Team has built and maintains very strong relationships with the managers of the local AMCs and bank branches as well as the financial institutions’ management in Beijing. The Adviser also sources investments through its far-reaching networks with brokers and dealers, financial institutions, guaranty companies and auction houses, who regard the Firm as a responsible, trustworthy and professional purchaser of distressed debt – a reputational advantage that many of the Firm’s competitors do not themselves enjoy. All of these are potential deal flow sources for the Fund’s four investment focuses. The Shoreline Team has steadily built a reputation for prudence, thorough due diligence, and professionalism, which has also served to increase deal flow from proprietary contacts, current (or past) investments, industry peers, and other sourcing arrangements.

China’s rapidly growing economy is accompanied by unsophisticated capital markets and lending practices, which have and continue to create high yield financing opportunities in which well-run companies can not obtain loans due to certain government policies. Conversely, many distressed debt opportunities exist, and are expected to increasingly surface, as result of companies obtaining an excessive amount of credit despite their substandard creditworthiness. The Adviser focuses on these types of opportunities as they arise throughout the economic cycle due to inefficiencies in China. The distressed market in China possesses the key attributes present within the distressed markets in developed economies, namely: limited available information pertaining to privately held companies and idiosyncratic events, sellers incentivized to dispose of underperforming securities at a significant discount to their inherent value, and high transaction costs. In fact, these attributes are arguably even more prevalent in China as a result of the overall financing dynamics, which can be restrictive and limiting in certain aspects. Through its experienced local team, proprietary investment platform and established networks in China, the Adviser is well-positioned to navigate the distressed landscape to source and execute uncompetitive deals that Shoreline considers to have superior risk-adjusted return profiles.

**Structuring and pricing.** The Adviser generally structures transactions with a focus on secured credit downside protection, but with equity upside potential through convertibility or other methods of equity-like exposure. Within Shoreline's strategy, a solid understanding of the enforceability of creditors’ rights is essential in minimizing investment risk. The Shoreline Team’s investment focus centers primarily on the hard assets, cash flow, liquidation value, and operating status of the borrower, rather than pricing in assumptions about future growth. Within the NPL space, the Shoreline Team conducts a comprehensive analysis of the intrinsic value of a given NPL portfolio, and projects cash flows with a discount (taking into account any legal, operational and government policy risks it deems appropriate). The Adviser generally prices a portfolio based on the likelihood of recovering the investment cost from a subset of borrowers that it has conducted diligence on, with the remainder effectively treated as option value. Outside of the NPL space, the Shoreline Team typically targets investments in companies with hard assets or marketable



securities that can collateralize the Funds' financing. Distressed private equity and real assets investments are generally limited to companies that hold real estate, development projects, or otherwise have a long-standing business with stable and predictable cash flow characteristics. The Adviser's bottom-up, asset and cash flow-based pricing and senior credit structures allow for return consistency and sustainability with less risk of capital loss. Moreover, Shoreline understands the legal and practical rules surrounding the enforceability of credits in China's various jurisdictions. As a result, when pricing investments, the Adviser is able to exclude from its valuations irrelevant factors that other, less experienced, investors may erroneously deem pertinent to the underwriting criteria.

***Adding Value and Exit Strategies.*** The Adviser is not a distressed debt trader. Instead, Shoreline seeks to take positions in companies and credits to which Shoreline's unique platform can add value. The Shoreline Team has experience adding value in many ways, including: (i) finding and attaching assets to loans, which are often difficult to locate and accurately value without a local, experienced team and network; (ii) marketing NPLs and assets to potential local or international buyers; (iii) restructuring debt; (iv) resolving legal issues; and (v) helping borrowers increase cash flow through increased revenue or additional financing sources. The Shoreline Team also has significant experience with a range of diverse exit strategies beyond the two typical private equity exit channels (public offerings and trade sales). The Firm's exit capabilities include: (i) negotiating a discounted loan pay-off; (ii) foreclosing on real estate or equity assets; (iii) selling loans to local strategic buyers; (iv) restructuring assets or securities; and (v) public market listings.

***Risk of Loss from Investments.*** The Adviser's investment strategies involve a high degree of risk. There can be no assurance that a Fund's investment objectives will be achieved or that an investor will receive a return of or on its capital. The following considerations are general risks relating to investing in the Funds. The following list is not exhaustive, and additional discussion of risk factors relating to a Fund's activities can be found in that Fund's Offering Memorandum.

***Non-Performing Nature of Loans.*** It is anticipated that the loans purchased by the Funds will be non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be involved in bankruptcy or in liquidation proceedings. There can be no assurance as to the amount and timing of payments with respect to the loans. Although Shoreline will attempt to manage these risks, there can be no assurance that the Funds' investments will increase in value or that the Funds will not incur significant losses. Shoreline anticipates that some of the Funds' investments will incur losses. Investors should be prepared to lose all or substantially all of their investment in the Funds.

***Illiquidity and Volatility of the Funds' Investments.*** It may take several years from the time a particular investment is made to exit, if at all, from such investment. The Funds will often be dependent on a process of litigation and protracted negotiation with borrowers, searches for potential buyers of the assets or other resolution strategies to achieve liquidity for the Funds' investment. Some of these resolution strategies may not provide liquidity for several years, if at all. Consequently, it is possible that no significant return from disposition of many of the Funds' investments will occur for a period of several years, if at all. There is currently no public market for the Funds' expected investments and a market is unlikely to develop during the terms of the Funds.

***Borrower Defaults May Adversely Affect the Funds.*** The Funds' income will be derived largely from interest payments received from its portfolio. A wide range of factors may adversely affect an obligor's ability to make interest or other payments, including: adverse changes in the financial condition of such obligor, or the industries or regions in which it operates; the obligor's exposure to counterparty risk; systemic risk in the financial system and settlement; changes in law or taxation; changes in governmental regulations or other policies; natural disasters; terrorism; social unrest, civil disturbances; or general economic conditions. Default rates tend to accelerate during economic downturns.

Any defaults will have a negative impact on the value of the Funds' investments and may reduce the income that the Funds receive from its investments in certain circumstances.

In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of an obligor, holders of debt instruments ranking senior to the Funds' investment would typically be entitled to receive payment in full before the Funds receive any distribution in respect of its investment. After repaying the senior creditors, such obligor may not have any remaining assets to repay its obligations to the Funds. In the case of debt ranking equally with the loans or debt securities in which the Funds invest, the Funds would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant investee company.

*Investments in Financially Distressed Entities and Restructurings.* The Funds may acquire interests in the securities and other obligations of financially distressed entities. Although such positions may bring high returns to the Funds, they involve varying degrees of risk. The financial difficulties of such entities may never be overcome and may cause such entities to become subject to bankruptcy proceedings. The timing and outcome of any bankruptcy or restructuring is unpredictable. Any one or all of the entities in which the Funds acquire interests may be unsuccessful in its attempts to restructure and become profitable or the positions may not show any return for a considerable period of time. In any bankruptcy or restructuring, the Funds may lose their entire investment, may be required to accept cash or securities with a value less than the Funds' original investment, or may be forced to liquidate its investment at a substantial loss. In addition, under certain circumstances, payments to the Funds and distributions by the Funds to the Limited Partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by statutes related to, among other things, fraudulent conveyances, voidable preferences, lender liability, and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions.

*Leverage of Financially Distressed Entities.* The Fund may invest in portfolio companies with leveraged capital structures, in which case, such investments will be subject to increased exposure to adverse economic factors such as a rise in interest rates, a downturn in the economy or further deterioration in the condition of such portfolio company or its industry. Similarly, the Fund is expected to invest in portfolio companies that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of the Fund's investment in such a portfolio company could be significantly reduced or even eliminated due to further credit deterioration.

*Changing Legal Framework for NPL Transactions.* NPL sales are a relatively new phenomenon in China, and the legal framework governing NPL transactions is still developing. Although there have been a number of NPL auctions in past years, the rules applicable to the transfer, holding and servicing of NPLs, together with the taxation of such transactions, continue to evolve. Further, the structure of NPL transactions is subject to approval by Chinese government authorities, and to negotiation with the state-owned asset management companies which own the bulk of NPLs available for investment. It is possible that changes in the rules applicable to auctions of NPLs or to government policies could adversely affect the Funds' ability to participate in auctions of NPLs and to hold and service NPLs. Such changes could adversely affect returns earned by the Funds in NPL transactions. Further, such changes could render investment in NPLs in China unattractive as an asset class.

*Uncertainty of Valuations.* Certain of the Funds' investments will be investments for which there is no, or a limited, liquid market. The fair market value of such investments may not be readily determinable. In some cases, the Funds will value these securities at fair market value determined by Shoreline. The valuations used by Shoreline for a significant portion of the Funds' investments may therefore not reflect the most recently available market information. The types of factors that may be considered in fair market value pricing of the Funds' investments include the nature and realizable value of any collateral, the obligor's ability to make payments and its earnings, the markets in which the obligor does business, comparisons to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations with respect to loans and securities of private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on

estimates. Shoreline's determinations of fair market value may differ materially from the actual realizable values of such investments. The Funds' financial condition and results of operations could be adversely affected if the Funds' fair market value determinations were materially higher than the values that the Funds ultimately realize upon the realization of such investments.

*Risks in the Real Estate-Backed Financing Industry.* Real estate is a heavily regulated industry in China and the relevant laws and regulations are constantly evolving. In addition to national laws and regulations governing property rights and the real estate sector, various provincial and local governments enact regulations and procedures. For example, the central and local governments from time to time make policy adjustments and adopt new regulatory measures in a direct effort to control the pace and scale of development of the national and local real estate markets. Foreign ownership of real estate or real estate-related assets in China may be restricted, requiring the Funds to share the applicable investment with local third-party partners or investors. There may be significant local land use and permit restrictions, costs associated with obtaining the necessary governmental approval for foreign investment, local taxes, and other transaction costs which adversely affect the returns sought by the Funds. The Funds' failure to comply with real estate-related laws and regulations could also result in fines or other penalties, and the need to obtain government approvals or third-party consent and otherwise to comply with regulatory requirements may cause significant delays in the development process, exacerbating the risk that changes in the local market will render a project economically unattractive. Regulatory enactments, or changes in their interpretation by the competent authorities, may preclude the Funds from engaging in activities in which it otherwise might seek to engage or force the Funds to incur additional costs.

#### ***Risks of Investing in a Fund.***

*Long-Term Nature of Investment; No Assurance of Return.* An investment in the Fund requires a long-term commitment, with no certainty of return. Because of the nature of the Fund's investments, there can be no assurance that the Fund will be able to realize returns on such investments in a timely manner or at all, and there may be little or no near-term cash flow available to the Partners. The return of capital and the realization of gains, if any, from an investment may not occur until a number of years after the respective investment is made, if at all.

*No Market for Interests; Restrictions on Transferability; No Withdrawal Rights.* Interests in the Funds have not been registered under the 1933 Act or the securities laws of any state, country or other jurisdiction, and cannot be resold unless they are subsequently registered under the 1933 Act and other applicable U.S. and non-U.S. securities laws or an exemption from registration is available. It is not contemplated that registration of the interests under the 1933 Act or other securities laws will ever be effected. There is no public market for the interests and none is expected to develop. An investor also will generally not be permitted to assign its interest without the prior consent of Shoreline, which may be withheld in Shoreline's sole discretion. Fund investors may not withdraw capital from the Funds. Consequently, investors may not be able to liquidate their Interests prior to the termination of the Fund and must be prepared to bear the risks of owning interests for an extended period of time.

*Reliance on Management.* The Funds' investments will be managed by Shoreline and its investment professionals. Investors will not make decisions with respect to the selection, management, disposition or other realization of any investment, or any other decisions regarding the Funds' businesses and affairs. Investors must rely entirely on Shoreline and the Shoreline Team to conduct and manage the affairs of the Funds. The success of the Fund will depend in part upon the skill and expertise of the professionals comprising the Shoreline Team. There can be no assurance that these professionals will continue to be associated with Shoreline throughout the term of the Funds. The loss of one or more members of the Shoreline Team or other key personnel could have a detrimental effect on a Fund's returns.

#### ***Risks Related to Investing in China.***

*Continued State Involvement in the Chinese Economy.* In the past, the Chinese economy was a planned economy subject to one- and five-year state plans adopted by the central Chinese government

authorities and implemented, to a large extent, by provincial and local authorities, which set out production and development targets. Beginning in the late 1970s, China has been transitioning itself from a state-controlled economy to a market-driven economy. Over this period, the Chinese government has issued policies and implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. Despite China's ongoing transition to a market-driven economy, the Chinese government continues to directly or indirectly own a substantial portion of China's productive assets and plays a significant role in regulating development through industrial policies, taxation, allocating resources, regulating payments of foreign currency obligations, imposing credit policies on commercial banks and setting monetary policy. Many of these reform-oriented policies and measures are unprecedented or experimental, which may cause fiscal deficits, inflation, or other economic imbalances, and may or may not be reversed, suspended, delayed or improved over time. Such policies and measures could negatively affect the Funds' investments in China.

*Foreign Investment Controls.* There are laws and regulations in the People's Republic of China that, to varying degrees, preclude or restrict direct foreign investment in the assets and securities of Chinese resident companies and entities. These restrictions or controls may increase the costs and expenses of the Funds. China currently requires governmental approval prior to investments by foreign persons and limits the repatriation of investment income, capital and the proceeds of sales by foreign investors, and foreign currency. The Funds could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, interest and dividends paid on securities held by the Funds or any other such development.

*Foreign Exchange Control.* The Chinese government imposes controls on the convertibility of RMB into foreign currencies and the remittance of currency out of China in certain circumstances. Under existing foreign exchange laws, RMB can be converted into foreign currencies and remitted out of China to pay current account items such as payments to suppliers for imports, labor, services, and payments of interest on foreign exchange loans. Expenses of a capital nature such as the repayment of bank loans denominated in foreign currencies require approval from appropriate governmental authorities before RMB can be converted into foreign currency for remittance out of China. Similarly, inbound transfers of foreign currency can only be converted into RMB under certain circumstances. This system could be changed at any time by executive decision of the State Council. Furthermore, the State Administration of Foreign Exchange has a significant degree of administrative discretion in implementing the laws, and has used this discretion to limit convertibility of current account payments out of China. Furthermore, the State Administration of Foreign Exchange has prohibited foreign-invested enterprises from converting foreign currency of registered capital into RMB for purposes of making equity investments over "hot money" concerns. Whether as a result of a deterioration in the Chinese balance of payments, a shift in China's macroeconomic prospects or any number of other reasons, China could impose restrictions on capital remittances abroad. There can be no assurance that the Fund will be permitted to repatriate capital or profits, if any, and there can be no assurance that a Fund will be able to easily convert foreign currency into RMB for purposes of making certain investments onshore. A Fund and its investors could also be adversely affected by delays in, or a refusal to grant, any required governmental approval for deployment and repatriation in connection with equity and debt capital, interest and dividends paid on investments held by the Fund.

## **ITEM 9**

### **Disciplinary Information**

There are no legal or disciplinary events required to be disclosed pursuant to this Item 9.

## **ITEM 10**

### **Other Financial Industry Activities and Affiliations**

*Affiliates and Affiliated Relationships.* Shoreline is an affiliate of the Affiliated GP and is the whole owner of the Consulting Firms. As noted above, Affiliated GP serves as the general partner of Fund

II, but has delegated management authority over Fund II to Shoreline. Shoreline has entered into the Consulting Agreements with each of the Consulting Firms, pursuant to which the Consulting Firms provide Shoreline with certain services. Shoreline will compensate the Consulting Firms for these services. In certain cases, the Consulting Firms may be hired as Service Providers (as defined below) to provide services with respect to specific investments or other issues.

**Conflicts of Interest.** While Shoreline believes that its interests are generally aligned with those of the Funds, it is possible that conflicts of interest between Shoreline and/or its affiliates and a Fund might arise. In dealing with conflicts in general, if Shoreline believes a transaction or circumstance raises a potential conflict of interest, it may submit the transaction or circumstances to the applicable Fund's Advisory Committee, a body composed of investors in the Fund unaffiliated with Shoreline, for consideration and approval. In addition, certain types of transactions and agreements entered into by Shoreline on behalf of the Funds require the approval of the applicable Advisory Committee under the Funds Limited Partnership Agreements.

**Carried Interest.** As noted above in Section 5, Shoreline receives a carried interest with respect to Fund I and Shoreline's affiliate, Affiliated GP, receives a carried interest with respect to Fund II. As discussed in Section 6, above, the carried interest allocated to Shoreline or Affiliated GP may motivate Shoreline to take greater investment risks or to favor one fund, such as a fund that has satisfied its preferred return "hurdle rate" over another that has not. In the case of the Funds, this conflict is mitigated by the fact that Fund I's investment period ended prior to the initial closing of Fund II.

**Other Activities and Businesses.** To the extent permitted in the Funds' Partnership Agreements and Shoreline's policies and procedures and code of ethics, discussed in Section 11 below, Shoreline, its affiliates and its related persons may exercise investment responsibility or otherwise engage, directly or indirectly, in any other business, irrespective of whether any such business is similar to, or identical with, the business of the Funds, which may include purchasing, selling, holding or otherwise dealing with investments either as adviser or for their own account. An investor will not, solely by reason of being a partner in a Fund, have any right to participate in any manner in any profits or income earned or derived by or accruing to Shoreline, its affiliates or any related person from the conduct of any other business or activity or from any transaction or other investment effected by Shoreline, its affiliates or related persons.

**Service Agreements with a Fund.** From time to time, as deemed necessary by Shoreline, a Fund may enter into service agreements (each, a "**Service Agreement**") with affiliates or subsidiaries of Affiliated GP and/or Shoreline or third-parties designated by Shoreline ("**Service Companies**"), pursuant to which such Service Companies will provide services to one or both of the Funds. For instance, when Shoreline is exiting an NPL portfolio, it typically hires a debt servicer to handle loan documents, negotiations with borrowers and guarantors, oversee the filing of lawsuits, and finding exits for loans across the entire portfolio. In some cases, a Shoreline affiliate may perform certain of this work in-house and enter into a Service Agreement with a Fund.

Shoreline will seek to ensure that each Service Company is qualified to provide the applicable services to the applicable Fund and that the cost of such services are fair and reasonable to the Fund. Shoreline will seek to ensure that the cost of services provided by a Service Company will not be less favorable than could be obtained in arm's length negotiations with unrelated third parties for similar services.

Any Service Agreement with Shoreline, the Affiliated GP or their affiliates or third parties that satisfies certain criteria set forth in the applicable Limited Partnership Agreement will not require the prior approval from or consent of the Advisory Committee, and the Advisory Committee will be deemed to have consented to each such Service Agreement.

All Services Agreements will be presented to the Advisory Committee of the relevant Fund each year. In addition, any member of a Fund's Advisory Committee may request annually that Shoreline provide to the Advisory Committee evidence of the current market rate terms and fees for services similar to

those provided pursuant to any agreement between the applicable Fund and Shoreline, Affiliated GP and/or its affiliates ("**Market Rate Fees**").

The Advisory Committee may contest the terms and/or the amount of the service fees paid or payable pursuant to such agreement. In such event, unless Shoreline demonstrates to the reasonable satisfaction of the Advisory Committee that Shoreline will promptly pay to the Fund the amount of the excess service fees. In the event that the Advisory Committee and Shoreline cannot come to an agreement as to whether such fees are equal to or lower than Market Rate Fees, an independent valuation firm reasonably acceptable to both Shoreline and the Advisory Committee will be appointed at the Fund's expense to determine whether such fees are higher than Market Rate Fees; provided, that, if such valuation firm determines that such fees exceed such Market Rate Fees by more than two percent (2%) of the aggregate capital contributions used by the Fund to purchase the related portfolio investment, Shoreline will bear the cost of such valuation firm. Any such determination by such valuation firm will be conclusive and binding as to a Fund (and the investors therein) and Shoreline.

As a result of the fees payable under Service Agreements, Shoreline may have an incentive to appoint an affiliated Service Provider to perform services that it would otherwise have performed. The Advisory Committee's annual review and ability to contest such fees, however, mitigates this conflict to a significant extent.

#### *Follow-On and Parallel Funds.*

Following a Fund's Commitment Period and in certain other limited circumstances outlined in the relevant Limited Partnership Agreement, Shoreline may organize, manage or serve as a principal of one or more follow-on funds (a "**Follow-On Fund**"). Until the termination of the Commitment Period, a Follow-On Fund may only co-invest with a Fund with respect to investments for which the remaining capital commitments of all partners is insufficient to make such investment taking into account the Fund's and the Follow-On Fund's investment focus, capacity for new investments, diversification requirements, scheduled termination date, and any other factors Shoreline determines to be relevant. Any such co-investment by a Follow-On Fund will be on terms and conditions that are the same or worse in all material respects than those of a Fund, unless the Fund is legally or contractually prohibited from making such investment or such investment could have a material adverse effect on the Fund or Shoreline.

During a Fund's Commitment Period, neither Shoreline nor any other related person will invest in (other than on behalf of the Funds) or offer to any person (other than the Funds) any investment opportunity of a kind suitable for a Fund unless such investment opportunity was first offered to the Funds. Without limiting the foregoing, Shoreline will (x) allocate all investment opportunities among the Funds and/or any Follow-On Fund in a manner which Shoreline determines, in its sole discretion, is fair and equitable taking into account each such investment vehicle's investment focus, capacity for new investments, diversification requirements, scheduled termination date, and any other factors Shoreline determines to be relevant to such allocation decision, (y) make all determinations in respect of the Fund's investments including determinations as to value or disposition of such investments on the same basis and (z) otherwise treat the Funds and any Follow-On Funds on a fair and equitable basis in respect of investments.

To the extent permitted by the Funds Limited Partnership Agreements, Shoreline may (but is not obligated to) provide opportunities to one or more limited partners and third parties, including affiliates of Shoreline, to co-invest with the Fund. Shoreline and its affiliates may charge carried interest, management and other fees to co-investors including, without limitation, limited partners and third parties, with respect to any co-investment, and may make an investment, or otherwise participate, in any vehicle formed to structure a co-investment in connection therewith.

In order to facilitate investments by certain investors, Shoreline may create one or more parallel funds (each a "**Parallel Fund**"), the structure of which may differ from that of a Fund but which will generally invest proportionately on a going-forward basis in all of the Fund's transactions on substantially the same terms and conditions as the Fund except to the extent reasonably necessary to address the particular

tax, legal or regulatory considerations of the Parallel Fund or investors in such Parallel Fund. Parallel Funds may include, without limitation, offshore funds open to non-U.S. investors and certain U.S. tax-exempt investors. Parallel Funds will generally have investment strategies and investment policies substantially similar to those of the relevant Fund.

## ITEM 11

### Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

#### Code of Ethics

Shoreline has adopted a Code of Ethics (the “**Code**”) designed to ensure compliance with Rule 204A-1 under the Advisers Act. The Code applies to all partners, principals, directors, officers, employees and supervised persons of the Adviser, the Affiliated GP and each Consulting Firm (each a “**Covered Person**”). The Adviser and its affiliates strive to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. Accordingly, the Code incorporates the following general principles that all Covered Persons are expected to uphold:

- Covered Persons must at all times place the interests of clients first;
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of a Covered Person's position of trust and responsibility must be avoided;
- Covered Persons must not take inappropriate advantage of their positions;
- information concerning the portfolios and financial circumstances of clients must be kept confidential.

Finally, Covered Persons are required to comply with applicable federal securities laws at all times.

Violations of the Code are subject to the imposition of sanctions, up to and including termination of employment with the Adviser or the relevant affiliate. A copy of the Code of Ethics is available for advisory clients and prospective clients. You may request a copy by emailing [kathleen.ou@shoreline-capital.com](mailto:kathleen.ou@shoreline-capital.com).

#### Personal Trading Reporting in the Code

In order to ensure that personnel of Shoreline do not abuse inside information or information about client transactions, Shoreline and its affiliates maintain a Restricted Trading List (“**RTL**”). The RTL is a list of securities and security types subject to restrictions on trading, which list is furnished to personnel on a weekly basis.

#### Material, Non-Public Information.

The Code includes policies and procedures concerning “inside information” (the “**Insider Trading Policies**”) that are designed to prevent the misuse of material, non-public information. Covered Persons are required to certify to their compliance with the Code, including the Insider Trading Policies, on a periodic basis. The Insider Trading Policies prohibit the Adviser and Covered Persons from trading for Clients or themselves, or recommending trading, in securities of a company while in possession of material, non-public information (“**Inside Information**”) about the company, and from disclosing such information to any person not entitled to receive it.

By reason of their various activities, Adviser personnel may have access to Inside Information and, as a result, be restricted from effecting transactions in certain investments that might otherwise have been initiated. For example, there may be certain cases where the Adviser or its personnel receive Inside Information due to their various activities on behalf portfolio companies in which the Adviser has made investments, which could result in either limited liquidity in the investment (*i.e.*, an inability to sell the

investment as a result of having the Inside Information) or in the Adviser or its personnel being prohibited from using such information for the benefit of the Clients. The Adviser seeks to minimize those cases whenever possible, consistent with applicable law and its Insider Trading Policies, but there can be no assurance that such efforts will be successful.

#### Participation in Client Transactions

Shoreline does not engage in cross trades or principal transactions. Shoreline generally does not co-invest with the Funds, nor does it permit its personnel to invest in securities held or under consideration by a Fund.

### **ITEM 12 Brokerage Practices**

Shoreline does not generally provide advice with respect to securities transactions that require execution through a broker. And it does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

Were Shoreline to do so, however, it would have the discretion to select a broker for a Fund's transactions. In placing portfolio transactions that require execution through a broker, Shoreline must use reasonable diligence to ascertain the "best" market price for all securities bought or sold in that market so that the price to the Funds is as favorable as possible under prevailing market conditions. The determinative factor is whether the transaction represents the best qualitative execution for a Fund and not whether the lowest possible commission cost is obtained. Shoreline would consider the full range of quality of the broker's service in selecting brokers to meet best execution obligations and may not pay the lowest commission rates available. The Adviser generally takes the following factors into account to select brokers for portfolio transactions: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any), (ii) the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution, (iii) the financial strength, integrity and stability of the broker, (iv) the broker firm's risk in positioning a block of securities, (v) the quality, comprehensiveness and frequency of available research services considered to be of value, and (vi) the competitiveness of commission rates in comparison with other brokers satisfying the Adviser's other selection criteria. Shoreline is not required to weigh these factors equally.

### **ITEM 13 Review of Accounts**

The Adviser monitors the composition of the Funds' portfolio and the status of their respective investments regularly. Each investment, led by at least one partner, is at least assigned to two asset managers for checks-and-balances purposes. Each week, the Firm holds an investment review meeting where each asset manager will report on the status of an investment and possible exits therefrom. The meeting may include discussions on the performance of investments, any obstacles to the successful realization of returns, and follow-on investments that may be made. Each month, financial data on performance and net asset value of investments are provided to the Finance Department, which is then prepared in a basic unaudited report for internal review. The Finance Department communicates regularly with management about the foregoing reports.

Shoreline will generally provide investors with (1) audited annual reports within 90 days after the end of each fiscal year, (ii) quarterly reports with unaudited financial statements within 45 days after the end of each fiscal quarter, and (iii) annual tax information necessary to complete the investors' income returns.

### **ITEM 14 Client Referrals and Other Compensation**



The Adviser does not receive any economic benefit from a third party for providing investment advice or other advisory services to the Funds.

In March 2012 Shoreline entered into an agreement with Eaton Partners, LLC ("Eaton") for a limited mandate to help raise part of Fund II. When Fund II was closed to new investors in November 2012, fees owed to Eaton is \$500,000, in addition to out-of-pocket expenses such as travel.

## **ITEM 15**

### **Custody**

Shoreline has "custody" of the assets of each Fund under Rule 206(4)-2 of the Advisers Act. Cash and cash management instruments held by Fund I and Fund II are maintained with Silicon Valley Bank, which constitutes a "qualified custodian" under the Advisers Act. Haywood Securities is the custodian of stock of an investment in Fund I. In order to comply with the Advisers Act's "custody rule," the Adviser ensures that both Funds are audited each year by Ernst & Young Shanghai, an independent public accountant registered and inspected by the U.S. Public Company Accounting Oversight Board. The Adviser also ensures that audited financial statements for each Fund are provided to investors in that Fund within 90 days of the end of the Fund's fiscal year (December 31).

## **ITEM 16**

### **Investment Discretion**

Shoreline Capital Management has full discretionary authority with respect to the Funds' investments, subject to the investment objectives, guidelines and limitations in the Offering Document and Limited Partnership Agreement of each Fund.

## **ITEM 17**

### **Voting Client Securities**

Although the Adviser does not expect to be called upon to vote proxies, it has the authority to vote proxies on behalf of the Funds in certain cases. In the event the voting of proxies is required, the Adviser has adopted a policy governing the voting of proxies that is designed to ensure that the Adviser votes securities held by the Funds in the Funds' best interest. The Adviser generally will vote proxies so as to promote the long-term economic value of the underlying securities. Each proxy proposal will be considered on its own merits, and an independent determination will be made whether to support or oppose management's position.

## **ITEM 18**

### **Financial Information**

Item 18 is not applicable.

## **ITEM 19**

### **Requirements for State Registered Advisers**

Item 19 is not applicable.