

# **NAPIER PARK GLOBAL CAPITAL LLC**

**FORM ADV PART 2A – DISCLOSURE BROCHURE**

**April 12, 2013**

**399 PARK AVENUE  
NEW YORK, NY 10022  
212-235-0717  
[www.napierparkglobal.com](http://www.napierparkglobal.com)**

**This brochure provides information about the qualifications and business practices of Napier Park Global Capital, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 235-0717. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Napier Park Global Capital LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Napier Park Global Capital LLC is an SEC-registered investment adviser. Being a registered investment adviser does not imply a certain level of skill or training.**

## **Item 2 Material Changes**

**This Item 2 includes only material changes since the prior Brochure.**

Napier Park Global Capital LLC (“Napier Park”) previously was a wholly-owned subsidiary of Citigroup Inc. ("Citi"). On February 28, 2013, Citi completed its spin-out of Napier Park into an independent operating entity (the "Transaction"). Citi retains a passive, non-controlling minority ownership interest in Napier Park Global Capital LP, a Delaware limited partnership and the parent of the Napier Park; however, Napier Park operates independently of Citi. As a result, the funds and accounts managed by Napier Park are no longer sponsored by Citi, and, although Napier Park will be using transition services provided by Citi ("Citi Transition Services") for up to six months following closing of the Transaction, neither Citi nor any of its affiliates have any obligation to provide financial or any other support to Napier Park or such funds and or accounts.

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

Napier Park Global Capital LLC (“Napier Park”) is a wholly-owned subsidiary of Napier Park Global LP. Citi owns a non-controlling interests minority interests in Napier Park Global LP and the remainder is owned by employees of Napier Park or its affiliates. Napier Park may provide advisory services to private investment companies such as funds of hedge funds, private equity funds, hedge fund and, infrastructure funds, (“collectively referred to herein as “Funds” and individually as “Fund”), and institutional investors, pension plans; state and municipal government entities, and high net worth individuals. Napier Park also may provide investment advice to separately managed accounts (“Managed Accounts”) on a fully discretionary or non-discretionary basis.

References herein to Napier Park shall be deemed to also include Napier Park’s subsidiaries that provide advisory services to Funds.

A number of fixed income and equity strategies fall within Napier’s market strategies group (“Market Strategies”) in addition to infrastructure strategies. Napier Park will provide investment services for the types of products listed below.

#### ***Services Provided:***

#### ***Market Strategies Products:***

Each Market Strategies investment center represents a specialized area of expertise in a fixed income or equities sector and seeks to offer Funds with a consistent investment approach, appropriate asset-liability management and attractive risk-return profile. Napier Park manages a range of fixed income and equity products with varying degrees of risk, return and diversification profiles (including hedge funds and separate accounts) with the ability to customize solutions. Napier Park manages fixed income and equity investment funds in the areas of emerging markets, bank debt, global macro, European loans, U.S. loans, U.S. municipal bond arbitrage, corporate credit, mortgage backed and asset backed securities, structured credit and distressed debt as well as an event driven strategy among others.

Napier Park uses an integrated product development, investment management, risk, operations and technology platform that draws upon professionals who have experience in investments, research, structured finance, liability management, risk analytics, client servicing, operations, technology, legal and accounting.

Napier Park’s investment and strategy selection and execution process includes an evaluation of each strategy, the development of risk management and investment guidelines, identifying and contracting third party service providers who it believes can successfully execute the strategies selected at any given time and, finally, active management of both the assets and the liabilities of the funds.

### India Infrastructure/Real Estate Products:

Napier Park manages a infrastructure/real estate business that makes investments in India (the “India Investment Business”). Napier Park has engaged a third-party Indian advisor that provides research and advisory services to Napier Park, including deal sourcing, due diligence, deal structuring, exit strategies and other investment related advice.

### Managed Accounts:

Napier Park provides investment advice to separately managed accounts (“Managed Accounts”).

The Managed Accounts may be managed on a fully discretionary basis (“Discretionary Managed Accounts”) or a non-discretionary basis (“Non-Discretionary Managed Accounts”).

With respect to a Discretionary Managed Account, Napier Park and its affiliates will enter into an advisory agreement with the client pursuant to which Napier Park will construct and manage on a discretionary basis the Discretionary Managed Account. With respect to a Non-Discretionary Managed Account, Napier Park and its affiliates may enter into an advisory agreement with a client pursuant to which Napier Park will provide investment advice relating to private investment funds and will construct on a non-discretionary basis the Non-Discretionary Managed Account’s portfolio. Individual agreements may provide for other services to be provided by Napier Park which may include: overall allocation advice, due diligence services, certain account consolidation, analytical and reporting services and certain administrative services. Affiliates or third parties may be retained by the Managed Account clients or Napier Park to provide administrative, custodial or other services to the Managed Accounts. It is expected that in certain instances Citibank, N.A. or other Citigroup affiliates will provide these services and in other instances third party service providers may be engaged to provide these services to the extent a client prefers particular service providers.

In constructing a Managed Account portfolio, Napier Park will first consider and assess the Managed Account client’s financial goals, investment objectives, investment time horizon, and investment preferences. Napier Park expects that Managed Accounts will in most cases follow strategies similar to other Funds it advises, as described above. See Item 8 “Methods of Analysis.”

### ***Particular Investment Restrictions***

Individual investors in the Funds are not consulted in the design or implementation of such Fund’s investment programs. Each Fund’s account documentation will describe that Fund’s investment program.

With respect to Managed Accounts, each advisory agreement and related account documentation will specify the particular investment program and any related investment restrictions. It is expected that in general each Managed Account will be customized to reflect a particular client’s investor profile.

## ***Definitions***

The term “Platform” includes Market Strategies Products, India Infrastructure, and Managed Accounts. As used in Item 8.B below, the term “Alternative Investments” includes Funds and Managed Accounts.

## ***Assets Under Management***

As of March 1, 2013, Napier Park has approximately \$5,662,001,416 billion in assets under management based on gross assets data as of December 31, 2012 which were transferred from CAI.

## **Item 5 Fees and Compensation**

Napier Park’s fee schedule is available upon request.

### ***Fees Charged: Market Strategies Products***

Each Fund will pay Napier Park a management fee, and in certain cases an incentive fee or incentive allocation (if earned). Fees earned with respect to each Fund may compensate Napier Park or its affiliates for the provision of certain ancillary services, the responsibility for all or a portion of which may be subcontracted to other parties. The amount of fees to be paid by a sponsored vehicle will be set forth in the offering materials for that vehicle.

### ***Fees Charged: India Investment Business***

Napier Park receives a management fee and if earned, an incentive allocation based on investment returns. The amount of the fees and incentive allocations are disclosed in the relevant offering materials, but may be subject to negotiation with investors.

### ***Fees Charges: Managed Accounts***

The investment advisory agreement and account documentation relating to each Managed Account will specify the fees payable to Napier Park. Such fees may include management fees and incentive fees. Napier Park may share a portion of such fees with certain placement, sales or referral agents.

Napier Park or its affiliates may provide certain administrative services related to the support of the Managed Accounts for fees.

### ***Method of Payment of Fees***

The Funds will pay any management and incentive fees at such times and in such manner specified in their respective account documentation. Such fees will be deducted from the Fund and reflected in an investor’s net asset value per share or capital account, as applicable.

It is expected that a Managed Account's management fees will be calculated and payable monthly in arrears and will be deducted from the client's account. Any incentive fee will be calculated and payable at the end of each fiscal year and also deducted from the Managed Account.

### ***Additional Compensation Received by Affiliates***

Affiliates of Napier Park typically will receive placement fees for placing Funds. Napier Park may also receive fees from a Fund or Managed Account (the amount of which will be specified in the agreement) for the provision of administrative services, the responsibility for all or a portion of which may be subcontracted to other parties. Affiliates of Napier Park also may have relationships with, and provide certain services to, a Fund or Managed Account for which the affiliate receives compensation. Affiliates of Napier Park may be compensated by a Fund and the manager thereof for placing assets in a Fund.

### ***Additional Fees and Expenses***

As described in more detail in their respective offering or account documentation, each Fund and each Managed Account bears its organizational and initial offering expenses and its operating and other expenses, which may include, but not be limited to, direct investment-related expenses (e.g. custodial fees, interest expense, consulting and other professional fees relating to particular investments), reporting and legal expenses, accounting, audit and tax preparation expenses, ongoing expenses relating to the offering and sale of the fund's interests, remuneration to directors or managing members, as applicable, insurance, administrator fees, liability insurance premiums, any extraordinary expenses and other similar expenses related to the fund.

As described in more detail in each client's advisory agreement and related account documentation, each Managed Account client may incur other costs and charges in certain circumstances (for example where individual securities are held in the Managed Account).

### ***Compensation of Napier Park Personnel***

Napier Park's personnel or supervised persons do not receive commissions tied directly to the sale of any particular securities or other investment products advised by Napier Park in the form of asset-based sales or services fees. Affiliates of Napier Park that serve as placement agents, referral agents or distributors for Napier Park products and third party marketers do receive such compensation.

### ***Payment of Fees in Advance and Arrears***

Generally fees payable to Napier Park are paid in arrears except for managed fees charged by Citi Infrastructure Investors, as described above. Fees for Managed Accounts shall generally be payable in arrears or less than six months in advance as specific in such Managed Accounts' (s) relevant documentation.

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

### ***Market Strategies Products; Accounts:***

Napier Park and its affiliates receive performance-based fees from certain of our Funds and Managed Accounts. Other Managed Accounts or Funds are charged fixed fees, including asset-based fees. The performance-based fees may create an incentive for Napier Park to cause the relevant Fund or Managed Account to make investments that are riskier or more speculative than would be the case if Napier Park did not receive a performance-based fee, or to direct investments in favor of a fund or account receiving a performance-based fee. Please refer to Item 11 “Code of Ethics Participation in Client Transactions and Personal Trading” and Item 12 “Brokerage Practices” for a discussion of Napier Park’s conflict management procedures, incentive compensation arrangements, managerial review and oversight and allocation policy, all of which are intended to mitigate conflicts.

## **Item 7 Types of Clients**

Napier Park provides investment advice to Funds, Managed Accounts and other investment vehicles. However, the ultimate investors in Funds and Managed Accounts advised by Napier Park are institutional investors, registered funds, funds of funds, pension plans, state and municipal government entities and high net worth individuals.

*Market Strategies Products:* Ultimate investors in each Fund are required to make a minimum capital commitment generally ranging between \$250,000 and \$10,000,000 depending on the product. The minimum for a specific Fund will be set forth in the offering materials for that fund.

*India Investment Business:* Ultimate investors in each Fund generally are required to make a minimum capital commitment of \$2,000,000.

*Managed Accounts:* With respect to the Managed Accounts, the clients are the holders of the Managed Accounts. Napier Park expects that such clients may include individuals, trusts, institutions, investment funds and pension plans. Napier Park generally requires a minimum investment of \$50 million for both Discretionary Managed Accounts and Non-Discretionary Managed Accounts.

At its discretion, Napier Park may accept a lower capital commitment from an investor in a managed account operated by Napier Park.

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

### ***MARKET STRATEGIES PRODUCTS:***

#### ***Credit Strategies:***

#### ***Investment Strategy and Method of Analysis:***

The strategy’s objective is to achieve long-term returns through a combination of long and short positions involving corporate credit-related products, including, but not limited to, unsecured or



secured corporate debt securities and their derivatives, bespoke risk tranches, equity and equity-related securities and various other similar investments. The strategy may invest in credit-related instruments and securities directly or indirectly by investing in derivative or synthetic instruments, including, without limitation, credit default swaps, various credit indices, credit index tranches and credit options. The strategy intends to be active in the secondary market for such investments and may source long and short positions in both the cash and synthetic markets. The strategy expects that the nature of its assets and the relative value strategies it intends to pursue should result in a low long term correlation between the performance of the strategy and the performance of the equity or corporate debt markets. In the view of Napier Park, a relative value strategy that is deliberately oriented towards both long and short opportunities is a superior way to earn consistent risk-adjusted returns as compared to a pure “directional trading” or “long” only strategy.

The strategy’s investment strategy is two-fold. Firstly, Napier Park will set the strategy’s overall investment strategy based on its forward view of the credit markets. At any time during the life of the strategy its risk profile may be long, short or neutral credit risk as determined by, and in the discretion of Napier Park. Within this directional view, Napier Park will seek to invest in securities positions and credit-related instruments on the strategy’s behalf which it believes best express the directional strategy. The strategy will seek to deliver superior risk-adjusted returns for its investors by carefully selecting investments that are positively correlated to certain risks (“long-risk” or “long” positions) as well as investments that are negatively correlated to certain risks (“short-risk” or “short” positions).

Secondly, the strategy will seek to identify undervalued assets and intends to efficiently utilize a variety of investment techniques to maximize the strategy’s total return. Undervalued “out of favor” financial instruments may include securities which sell at a significant discount to their underlying economic value due to market imperfections or inefficiencies or have catalysts viewed by Napier Park as being in place for the realization of their underlying value.

Napier Park’s credit analyst team relies heavily on bottom-up analysis, which may include analysis of an issuer’s current and future revenues, EBITDA, free cash flow generation, liquidity, balance sheet quality, capital structure, corporate structure, enterprise valuation, balance sheet and operational leverage, fixed charge coverage and industry comparables. Qualitative factors considered by the analyst team may include evaluation of management and financial sponsors, secular and cyclical trends, industry structure, local and U.S. federal regulations, international and domestic competition, potential and existing litigation, post-retirement and other legacy obligations, competitive advantages, barriers to entry, market share, customer analysis, corporate strategy and future prospects. In addition, Napier Park’s analysts consider the potential for event risk or liability restructuring that could affect an issuer’s creditors. Individual issuer debt ratings are considered, but are not viewed a proxy for credit quality. There is no minimum credit rating for instruments in which the strategy may invest and the strategy may invest in securities below investment grade, distressed or defaulted securities.

Napier Park’s analysts review the pricing, restrictive covenants and market liquidity of all instruments in an issuer’s capital structure vis-à-vis industry comparables to gauge the attractiveness of a particular security. These investments may be made in the form of notes, bonds, loans or other cash instruments. Investments may also be expressed in single name credit default swap contracts.

### ***Strategy Risks:***

***Relative Value Strategies.*** Napier Park intends to pursue a relative value strategy which may entail offsetting long and short positions in comparable securities that have either an economic or mathematical relationship to each other or where a distortion exists with reference to either the historical price relationship or fair values of such positions. Although there is an economic or mathematical relationship between such long and short positions, there is no guarantee that Napier Park's assessment of that relationship will be correct or that such relationship will continue. While this strategy is designed to be relatively non-correlated to movements in markets in general, the Alternative Investment's performance may nevertheless be adversely affected by events that are unanticipated or beyond Napier Park's control, such as changes in interest rates, general macroeconomic trends, regulatory changes or political crises.

***Fixed Income Securities.*** The Alternative Investment may invest in a wide variety of fixed income securities of varying maturities issued by business entities organized in the US or in other jurisdictions with varying credit ratings. Fixed income securities are subject to market and credit risk and have varying levels of sensitivity to changes in interest rates and varying degrees of credit quality. Investments in debt obligations of an issuer will subject the Alternative Investment to credit risk of the issuer's ability to make payments of principal and interest when due and payable. The market prices of fixed income securities in the lowest investment grade categories may fluctuate more than higher-quality securities and may decline significantly in periods of general or regional economic difficulty. Early repayment of principal on the underlying corporate debt obligations of a fixed income security may expose the Alternative Investment to a lower rate of return upon reinvestment of principal. This risk will be greater for long-term securities than for short-term securities. In addition, the value of securities or other instruments may be adversely affected by a negative trend in the market's perception of the creditworthiness of the issuers or counterparties which could adversely affect the value of the Shares.

***Non-Investment Grade Securities.*** The Alternative Investment may invest in non-investment grade securities that are considered speculative. Non-investment grade securities and unrated securities of comparable credit quality are subject to the increased risk of an issuer's inability to meet principal and interest payment obligations. These securities may be subject to greater price volatility due to such factors as specific corporate or municipal developments, interest rate sensitivity, negative perceptions of the junk bond markets generally and less secondary market liquidity. A number of instruments and strategies used by the Alternative Investment may involve non-investment grade securities, including without limitation distressed securities, special situation investments and CLOs.

***Asset Backed Securities.*** The Alternative Investment may invest in CDOs, which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities across all risk tranches. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of typically high-risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The Alternative Investment may also invest in other asset-backed securities. The risks of an investment in a CDO depend largely on the type of

the collateral securities and the class of the CDO. In addition to the normal risks associated with credit-related securities (e.g., interest rate risk and default risk), CDOs carry additional risks including, but not limited to, the risk that: (i) distributions from collateral securities may not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the Alternative Investment may invest in CDOs that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

**Structured Credit Products.** Special risks may be associated with the Alternative Investment's investments in other structured credit products, such as synthetic credit portfolio transactions. For example, synthetic portfolio transactions may be structured with two or more classes of tranches that receive different proportions of the interest and principal distributions on a pool of credit assets. The yield to maturity of a tranche may be extremely sensitive to the rate of defaults in the underlying reference portfolio. A rapid change in the rate of defaults may have a material adverse effect on the yield to maturity. It is therefore possible that the Alternative Investment may incur losses on its investments in structured products regardless of their ratings by rating agencies. Additionally, Napier Park may invest in securities that are subject to legal or contractual restrictions on their resale or for which there is a relatively inactive trading market. Securities subject to resale restrictions may sell at a price lower than similar securities that are not subject to such restrictions. Certain financial institutions and trust companies have recently established central clearing facilities for credit default swaps and other structured credit products including CDS indices and single-name CDS instruments, with the intent of increasing liquidity and transparency in the market for CDS instruments. These clearing facilities establish a daily settlement price for listed CDS instruments and conduct auctions for such instruments among participating members. The ICE Trust, which serves as a clearinghouse for credit default swaps, has set criteria for eligible derivatives clearing members, imposes margin requirements, provides monitoring, and has established guaranty funds available in certain cases. Certain clearinghouses attempt to function as the buyer to every seller, and the seller to every buyer, but subject to certain conditions, such clearinghouses may also permit bilateral trades among participants and non-participants, in which case there may be counterparty credit risk involved in the execution of the trade. Central clearing facilities or exchanges may impose restrictions on opening transactions or closing transactions. The capacities of such exchanges may not at all times be adequate to handle current trading volume and may not list each of the CDS instruments in which the Alternative Investment invests. Until the use of such exchanges is widely adopted, the utility of such exchanges may be limited. When a particular position may not be traded on a clearinghouse or centralized exchange, effecting such a trade may entail entering into a bilateral transaction with the trade counterparty, subject to counterparty credit risk. Additionally, one or more of such exchanges or clearing facilities could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of CDS products (or a particular class or series of CDS products).

**Convertible Securities Risk.** The Alternative Investment may invest in convertible securities. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to

trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock.

***Illiquidity of Investments.*** The Alternative Investment may purchase securities which become illiquid or which are illiquid due to events relating to the issuer of the securities, market events, economic conditions investor perceptions, or subject to legal or other restrictions on the transfer of such assets. The market prices, if any, for such assets tend to be volatile and may fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry and the financing condition of the obligors on the Alternative Investment's assets. Napier Park may not be able to sell assets 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 illiquid assets and restricted 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. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Moreover, during periods when the market for such assets are illiquid, it may not be feasible to efficiently dispose of or accurately determine the value of the Alternative Investment's investments in such assets, in which case redemptions may be suspended or the payment of all or a portion of redemption proceeds may be delayed.

***Borrowings; Leverage; Interest Rates.*** The Alternative Investment may borrow or utilize other forms of leverage on a secured or an unsecured basis for any purpose, including increasing investment capacity, covering operating expenses, making redemption or dividend payments or for clearance of transactions. There are no contractual limitations on the amount or use of such forms of leverage by the Alternative Investment. In connection with those investment activities in which the Alternative Investment utilizes borrowings, the possibilities for profit and the risk of loss will be increased and the debt that the Alternative Investment has outstanding at any time may be large in relation to its assets. The level of interest rates generally and the rates at which the Alternative Investment can borrow in particular, will affect the operating results of the Alternative Investment. The Alternative Investment may borrow from broker-dealers that act as its prime brokers. In the future, the Alternative Investment may seek additional or alternative standby or permanent financing from one or more banks or other lenders and it may seek to borrow funds from institutions, foreign or domestic, by means of privately placed notes or debentures. It may enter into other types of financing arrangements, including swaps and derivative transactions, that Napier Park considers appropriate. The Alternative Investment may enter into reverse repurchase agreements and dollar rolls on its assets. A reverse repurchase agreement or dollar roll involves the sale of a security by the Alternative Investment and its agreement to repurchase the instrument at a specified time and price and may be considered a form of borrowing for some purposes. Reverse repurchase agreements, dollar rolls and other forms of borrowings may create leveraging risk for the Alternative Investment and may adversely affect values. The Alternative Investment may be subject to an increase in borrowing costs if the counterparty to a reverse purchase agreement seeks to increase the rate of the borrowing upon a roll of the repurchase agreement. Furthermore, because of the leverage employed by the Alternative Investment, a relatively small movement in the market price of traded instruments may result in a disproportionately large profit or loss. If income and appreciation on investments made with borrowed funds are less than the cost of the leverage or,

under certain circumstances, if the borrowing is terminated by the lender or counterparty in advance of its stated term, the value of the Alternative Investment's net assets will decrease. Accordingly, the Alternative Investment may lose more than its initial investment in such an instrument as a result of a small change in the market price of such an instrument. The cumulative effect of the use of leverage in a market that moves adversely to a leveraged investment could result in a substantial loss which would be greater than if leverage were not used. Further, most leveraged transactions require the posting of collateral. Increases in the amount of collateral the Alternative Investment is required to post could result in a disposition of Alternative Investment's assets at times and prices which could be disadvantageous to the Alternative Investment and could result in substantial losses. To the extent that a creditor has a claim on the Alternative Investment, such claim would be senior to the rights of the Alternative Investment and its Shareholders. However, a Shareholder cannot lose more than its investment in the Alternative Investment.

***Long/Short Strategies.*** Napier Park may employ a long/short strategy which involves identifying debt or equity securities which are generally undervalued (or, in the case of short positions, overvalued) by the marketplace. Success of this strategy necessarily depends upon the market eventually recognizing such value in the price of the security, which may not necessarily occur or may occur over extended time frames which limit profitability. Positions may undergo significant short-term declines and experience considerable price volatility during these periods. In addition, long and short positions may or may not be correlated to each other. If the long and short positions are not correlated, it is possible to have investment losses in both the long and short sides of the portfolio.

***Use of Hedges.*** Napier Park may also utilize hedging strategies to take advantage of overvalued or undervalued components of the market. Hedging strategies may be implemented through transactions and investments in a broad variety of financial instruments, which subject the Alternative Investment to the risks inherent in such instruments. No assurance can be given that Napier Park will successfully implement its hedging activities. Furthermore, Napier Park's implementation of hedging activities may negatively affect the value of the Alternative Investment.

***Options and Derivative Transactions.*** The purchase or sale of an option involves the payment or receipt of a premium payment by the investor and the corresponding right or obligation, as the case may be, either to purchase or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that the option expires worthless and the investor loses its premium. The Alternative Investment may engage in various types of options, swap transactions and other derivative transactions, including hedging and arbitrage in options on securities and in contracts involving a return on an index of securities or basket of securities, in connection with the foregoing strategies. The prices of derivative instruments, including option prices, may be highly volatile. When the Alternative Investment purchases an option, it must pay the price of the option and transaction charges to the broker effecting the transaction. If the option is exercised, the total cost of exercising the option may be more than the brokerage costs that would have been payable had the underlying security been purchased directly. If the option expires, the Alternative Investment indirectly or directly will lose the cost of the option. When the Alternative Investment engages in an over-the-counter derivatives transaction, it is exposed to the risk of a failure by the counterparty to perform its

contractual obligations, either as a consequence of financial weakness or other factors. Furthermore, the ability of the Alternative Investment to close out a position as purchaser of an exchange-listed option would be dependent upon the existence of a liquid secondary market on an exchange.

**Swaps.** Investments in swaps involve the exchange by the Alternative Investment with another party of all or a portion of their respective interests or commitments. For example, in the case of currency swaps, the Alternative Investment may exchange with another party their respective commitments to pay or receive currency. In the case of a credit default swap, one party makes periodic payments to the counterparty in return for a specified payment if a third party defaults on an underlying reference obligation. Use of swaps may subject the Alternative Investment to risk of default by the counterparty upon specified credit events. The Alternative Investment may participate in credit default swaps as either a "buyer" of credit protection or a "seller" of credit protection. If there is a default by the counterparty to such a transaction, the Alternative Investment will have contractual remedies pursuant to the agreements related to the transaction. The Alternative Investment may enter into currency, interest rate, credit default, total return or other swaps which may be surrogates for other instruments such as currency forwards, interest rate options, credit instruments and equity instruments and indices on the foregoing. The value of such instruments generally depends upon changes in volatility, price movements in the underlying assets and counterparty risk. Additionally, Title VII of the recently enacted Financial Reform Act gives primary authority to the Commodity Futures Trading Commission (the "CFTC") and the Securities Exchange Commission (the "SEC" and together with the CFTC, the "Commissions") to regulate the swaps market and impose additional rules consistent with the Financial Reform Act. The effect of the rulemaking by the Commissions on the ability of the Alternative Investment to realize its investment strategy is uncertain. The Financial Reform Act includes a number of significant changes effecting the markets for swaps, including, without limitation: (i) requiring that certain "swaps" be traded on exchanges, centrally cleared and publicly reported; (ii) requiring the registration of both dealers in swaps and large end users with one or both of the Commissions; (iii) authorizing the Commissions to establish a comprehensive regulatory system applicable to these registered dealers and end users; (iv) requiring the establishment of new swap market mechanisms, including exchanges, clearing organizations and swap information "repositories"; and (v) providing the Commissions broad and often overlapping powers that they would, in many instances be required to use jointly, sometimes in conjunction with, or under the direction of, the various banking regulators.

**Short Sales.** The Alternative Investment may sell securities short, thereby increasing the possibility of profit and the risk of loss. Short selling allows one to profit from declines in market prices to the extent such decline exceeds the transaction costs and any costs of borrowing. A short sale involves the sale of a security that is not owned in the expectation of purchasing the same security at a later date at a lower price. To make delivery to the buyer, the Alternative Investment must borrow the security and the Alternative Investment will be obligated to pay the lender of the security any dividend or interest payable on the security until it returns the security to the lender. This is accomplished by a later purchase of the security by the Alternative Investment. A short sale involves the risk that the market price of the security will increase as any appreciation in the price of the borrowed assets would result in a loss, which is theoretically unlimited in amount. In addition, the person from whom the security was borrowed to effect the short sale may demand the return of the security before the Alternative Investment had planned.

In this situation, the Alternative Investment may be forced to cover the short position in the market at a higher price than its short sale.

***Futures Transactions.*** The Alternative Investment may have interests in financial futures contracts. A principal risk in futures trading is the volatility in the market prices of the underlying assets. The profitability of such activities depends on Napier Park's ability to predict fluctuations in market prices. Prices of futures contracts are affected by a wide variety of complex factors that are difficult to predict, such as supply and demand of a particular asset, weather and climate conditions, governmental activities and regulations, political and economic events and characteristics of the marketplace.

***Volatile Markets.*** Movements in the price of credit related securities can be volatile and are influenced by, among other things: changing supply and demand relationships; interest rates, inflation, government trade and fiscal policies; national and international political and economic events and changes in exchange rates and interest rates. Such volatility may adversely affect the value of the Shares.

***Inflation/Deflation.*** The Alternative Investment may be exposed to inflation and deflation risk as a result of market conditions which affect purchasing power of such cash flows in the future. For all but adjustable bonds or floating rate bonds, the Alternative Investment is exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk. As inflation increases, the real value of the Shares and the Alternative Investment's investment portfolio can decline. In addition, during any periods of rising inflation, the dividend rates or borrowing costs associated with the Alternative Investment's leverage would likely increase, which would tend to further reduce returns to Shareholders. Deflation risk is the risk that prices throughout the economy decline over time and may have an adverse affect on the creditworthiness of issuers, increasing the likelihood of issuer defaults, which may result in a decline in the value of the Alternative Investment's portfolio.

***Government Regulation – Short Sales and Swaps.*** As part of the global governmental and private sector efforts to stabilize financial markets, there have recently been certain well-publicized regulatory changes or interpretations that have prohibited or significantly impacted investment strategies that have been implemented by investors in a variety of formats for many years. For instance, in February 2010 the SEC adopted rules to place certain restrictions on short selling when a stock is experiencing significant downward price pressure, and the SEC and various non-U.S. regulatory bodies have previously imposed temporary bans on short-selling in a variety of stocks and adopted permanent regulations that may have the effect of making short-selling more difficult or costly. These actions were generally regarded as causing unexpected and volatile increases in the stock prices of a variety of issuers as short sellers closed out their positions by buying securities. Of particular relevance to the Alternative Investment, certain governmental entities have indicated that they intend to regulate the market in credit default swaps, including imposing eligibility restrictions that could prevent the Alternative Investment from trading in the credit default swap market. As discussed above, the Financial Reform Act imposes a number of significant changes for reporting and clearing swap transactions. It is difficult to predict the impact of any such regulation on the Alternative Investment, but such regulation could cause significant and unexpected market disruptions or significant additional compliance costs that could in turn adversely affect the value of the Alternative Investment.

***Loans of Portfolio Securities.*** The Alternative Investment may lend its portfolio securities on terms customary in the securities industry, enter into reverse repurchase agreements or enter into other transactions constituting a loan of the Alternative Investment's assets. By doing so, the Alternative Investment would seek to increase its income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan or a default by the borrower of the securities, the Alternative Investment could experience delays in recovering the securities it lent and may be able to recover only some of their value, if it is able to recover them at all.

See also "*General Risks*" below.

### ***Distressed Debt Strategies:***

#### ***Investment Strategy and Method of Analysis:***

The strategy's objective is to achieve capital appreciation and current income by investing capital in financial assets in a disciplined, focused and creative manner. Napier Park intends for the strategy to invest primarily in senior debt (both secured and unsecured), bank loans, high-yield bonds, and other obligations of financially distressed and/or highly leveraged issuers. The issuers chosen for investment may be undergoing bankruptcy proceedings, restructurings, reorganizations, liquidations and other events. References herein to investments, activities and expenses of the strategy include direct and indirect investments, activities and expenses of the strategy.

Napier Park, on behalf of the strategy, will seek to acquire assets which in its view are undervalued as a result of the financial distress of the issuer or holder, or because of a deterioration in the quality of such assets, that Napier Park believes will, either through a restructuring of the issuer or the assets or otherwise, recover a substantial portion of their value over time. Napier Park, on behalf of the strategy, will also seek to acquire assets which, because of various technical and market conditions such as the lack of access to credit markets, collateralized debt obligation ("CDO") selling, rating agency downgrades, the change of bank accounting rules, high default rates and large credit spreads, are priced below what Napier Park believes to be their intrinsic value. Finally, Napier Park, on behalf of the strategy, may also engage in the short sale of publicly traded high yield bonds, as a stand alone strategy or for hedging or for purposes incidental to Napier Park's management of the strategy's investments. Napier Park will often play an active role in workouts on behalf of the strategy and may serve as a member of an ad hoc or formal creditors' committee.

The strategy's investment program will consist of the identification, screening and selection of target companies, securities, assets or situations where mispricing is judged to be sufficient to produce timely profits. Napier Park also seeks investment opportunities where future events are judged likely to result in the correction of such mispricing. To determine value, Napier Park performs comprehensive, bottom-up financial analyses. Investment processes associated with this program include financial statement analysis, financial forecasting, management review, industry analysis, and debt covenant analysis. For all portfolio investments under its management, Napier Park continually monitors its investments' internal rate of return ("IRR") and related assumptions. Napier Park intends to employ its extensive experience in structuring and negotiating complex transactions, its network of prominent industrial, financial, legal and



restructuring contacts, and other sources of technical expertise to select and closely monitor its investments.

### ***Strategy Risks:***

***Recent Developments in the Credit Markets.*** The credit crisis affecting U.S. and international financial institutions and the global financial markets has resulted in the contraction of credit accompanied by widespread insolvency. The United States federal government has taken a number of steps to help stabilize the financial system and ease the credit market. Whether these actions and any future actions will help stabilize the financial markets is unknown. The current global economic environment, and the potential systemic risk arising from illiquidity in the banking system at large, may continue to contribute to market volatility and may have long-term effects on the U.S. and international financial markets. Napier Park cannot predict how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the Alternative Investment or the global economy and securities markets. Due to these unprecedented events, an investment in the Alternative Investment may be a much longer-term investment than may be anticipated at this time. Prospective investors should not rely on prior periods of economic crisis to evaluate the likelihood or timing of the economy recovering. There is a risk that market conditions will not materially improve and, indeed, that they will deteriorate further, within the investment horizon of the Alternative Investment, thereby potentially resulting in a significant loss of capital. A prospective investor should carefully consider his or her need for liquidity and his or her ability to assume these risks before making an investment in the Alternative Investment.

***Directional Investing.*** Directional investing is dependent upon Napier Park's research and Napier Park's ability to select individual securities and to correctly interpret market data and predict future market movements. The rationale for a trade may be incorrect or the market's response to it may be contrary to that which was expected. Any factor that would make it more difficult to execute more timely trades, such as a significant lessening of liquidity in a particular market, may also be detrimental to profitability.

***Risks Associated with Investments in Companies in Distressed Situations.*** The Alternative Investment may invest in securities, loans, claims or other obligations of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although the terms of such financing may result in significant financial returns to the Alternative Investment, they involve a substantial degree of risk. Investments in companies involved in reorganization proceedings typically entail a number of risks that do not normally apply to investments in financially sound companies. For example, if Napier Park's evaluation of the anticipated outcome of a reorganization or the timing of such outcome should prove incorrect, the Alternative Investment could experience losses. There is no assurance that Napier Park will correctly evaluate the value of the assets collateralizing the Alternative Investment's participation in the loans, claims or other obligations of the company or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company which the

Alternative Investment has invested in, the Alternative Investment may lose all or part of its investment or may be required to accept collateral with a value less than the amount of the Alternative Investment's investment. In addition, such investments could subject the Alternative Investment to certain additional potential liabilities that may exceed the value of the Alternative Investment's original investment therein. For instance, under certain circumstances, payments to the Alternative Investment and distributions by the Alternative Investment to its shareholders may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws.

***Special Situations.*** The Alternative Investment may invest in companies undergoing work-outs, liquidations, reorganizations, bankruptcies or other fundamental changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or new securities the value of which will be less than the purchase price to the Alternative Investment of the securities or other financial instruments in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Alternative Investment may be required to sell its investment at a loss. The consummation of such transactions can be prevented or delayed by a variety of factors, including but not limited to: (i) intervention of a regulatory agency; (ii) market conditions resulting in material changes in securities prices; (iii) compliance with any applicable securities laws; and (iv) the inability to obtain adequate financing. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Alternative Investment intends to invest, there is a potential risk of loss by the Alternative Investment of its entire investment in such companies. In connection with such transactions (or otherwise), the Alternative Investment may purchase securities on a when-issued basis, which means that delivery and payment take place sometime after the date of the commitment to purchase and is often conditioned upon the occurrence of a subsequent event, such as approval and consummation of a reorganization or debt restructuring. The purchase price or interest rate receivable with respect to a when-issued security can be fixed when the Alternative Investment enters into the commitment. Such securities are subject to changes in market value prior to their delivery.

***General Risks of Owning Debt Instruments.*** The value of the Alternative Investment's investment in both secured and unsecured loans (and hence, each Shareholder's interest) may be detrimentally affected to the extent a borrower defaults on its obligations, there is insufficient or no collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted loan. Napier Park will attempt to minimize this risk by maintaining low loan-to-liquidation values with each loan and the collateral underlying each secured loan. However, there can be no assurance that the value assigned by Napier Park to collateral underlying a secured loan can be realized upon liquidation, nor can there be any assurance that collateral will retain its value or that there will be any collateral. In addition, certain of the Alternative Investment's loans will be supported, in whole or in part, by personal guarantees made by the borrower or a relative, or guarantees made by a corporation affiliated with the borrower. The amount realizable with respect to a loan may be detrimentally affected if a guarantor fails to meet its obligations under the guarantee. Moreover, loans may also be supported by collateral, the value of which may fluctuate. In addition, active lending by the Alternative Investment may subject it to additional regulation, as well as possible adverse tax consequences to the Alternative Investment and/or its

investors. It is anticipated that certain debt instruments purchased by the Alternative Investment will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor also may be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such loans. Napier Park will seek to adopt appropriate procedures to minimize such risk. Finally, there may be a monetary, as well as a time cost involved in collecting on defaulted loans and, if applicable, taking possession of various types of collateral.

***Bank Loans.*** Loans may become nonperforming for a variety of reasons. Such nonperforming loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the loan. In addition, because of the unique and customized nature of a loan agreement and the private syndication of a loan, certain loans may not be purchased or sold as easily as publicly traded securities, and, historically, the trading volume in the loan market has been small relative to other markets. Loans may encounter trading delays due to their unique and customized nature, and transfers may require the consent of an agent bank or borrower. Risks associated with bank loans include the fact that prepayments may occur at any time without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause the Alternative Investment to reinvest prepayment proceeds in lower-yielding investments.

Purchasers of loans are predominately commercial banks, investment strategies and investment banks. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate loan trading that may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because holders of such loans are provided confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not purchased or sold as easily as publicly-traded securities are purchased or sold.

***Loan Participations and Assignments.*** The Alternative Investment may invest in corporate loans acquired through assignment or participations. In purchasing participations, the Alternative Investment will usually have a contractual relationship only with the selling institution, and not the borrower. The Alternative Investment generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor will it have the right to object to certain changes to the loan agreement agreed to by the selling institution. The Alternative Investment may not directly benefit from the collateral supporting the related secured loan and may not be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the states thereof, the Alternative Investment may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the secured loan. Consequently, the Alternative Investment may be subject to the credit risk of the selling institution as well as of the borrower. Certain loans or loan participations may be governed by the laws of a jurisdiction other than a United States jurisdiction, which may present additional risks as regards the characterization under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

***Possible Limited Availability of Senior Loans.*** Although there is currently an excess of leveraged loans available for investment, the supply of and demand for senior loans are cyclical

in nature and depend on current market conditions. There is a risk that market demand for senior loans will increase at a time when direct investments in senior loans and, to a lesser degree, investments in participation interests in or assignments of senior loans may be limited. The limited availability may be due to a number of factors. Direct lenders may allocate only a small number of senior loans to new investors, including the Alternative Investment. There may be fewer loans available for investment that meet Napier Park's credit standards, particularly in times of economic downturns. Also, lenders or agents may have an incentive to market the less desirable senior loans to investors such as the Alternative Investment while retaining attractive loans for themselves. This would reduce the amount of attractive investments for the Alternative Investment. If market demand for senior loans increases, the interest paid by senior loans that the Alternative Investment holds may decrease.

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

***Unsecured Loans Risk.*** Unsecured loans have lower priority in right of payment to any higher ranking obligations of the borrower and are not backed by a security interest in any specific collateral. They are subject to risk that the cash flow of the borrower and available assets may be insufficient to meet scheduled payments after giving effect to any higher ranking obligations of the borrower. Unsecured loans are expected to have greater price volatility than senior loans and secured loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in unsecured loans, which would create greater credit risk exposure.

***Risks Associated with Investments in High Yield Securities.*** The Alternative Investment may invest in "high yield" bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominately speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor

perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

***Corporate Debt Obligations.*** Napier Park may invest in corporate debt obligations, including commercial paper. Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (i.e., credit risk). Napier Park may actively expose the Alternative Investment to credit risk. However, there can be no guarantee that the Alternative Investment will be successful in making the right selections and thus fully mitigate the impact of credit risk changes on the Alternative Investment.

***Debt Securities.*** The Alternative Investment may take positions in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. The Alternative Investment may take positions in debt securities which are not protected by financial covenants or limitations on additional indebtedness. The Alternative Investment may invest in securities which are moral obligations of issuers or subject to appropriations. The Alternative Investment will therefore be subject to credit and liquidity risks.

***Interest Rate Risk.*** The Alternative Investment is subject to interest rate risk. Generally, the value of fixed income instruments will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income instruments tends to decrease. Conversely, as interest rates fall, the market value of fixed income instruments tends to increase. This risk will be greater for long-term securities than for short-term securities. The Alternative Investment may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures, interest rate options and/or other hedging strategies. However, there can be no guarantee that Napier Park will be successful in mitigating the impact of interest rate changes on the portfolios.

***Extension Risk.*** During periods of rising interest rates, the average life of certain fixed rate debt is extended because of slower than expected principal payments. This may lock in a below-market interest rate and extend the duration of these securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, these securities may exhibit additional volatility and additional loss in value. This is known as extension risk.

***Contingent Liabilities.*** The Alternative Investment may from time to time incur contingent liabilities in connection with an investment. For example, the Alternative Investment may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Alternative Investment would be obligated to strategy the amounts due. Also, by way of further example, in order to procure financing in connection with its investment activities, the Alternative Investment may enter into agreements pursuant to which it agrees to assume responsibility for default risk or other risk presented by a third-party, a warehouse financing vehicle or an investment vehicle. The Alternative Investment may incur numerous other types of contingent liability. There can be no assurance that the Alternative Investment will adequately reserve for its contingent liabilities and that such liabilities will not have an adverse effect on the Alternative Investment.

***Loans of Portfolio Securities.*** The Alternative Investment may lend its portfolio securities on terms customary in the securities industry, enter into reverse repurchase agreements or enter into other transactions constituting a loan of the Alternative Investment's assets. By doing so, the Alternative Investment would seek to increase its income through the receipt of interest on the

loan. In the event of the bankruptcy of the other party to a securities loan, the Alternative Investment could experience delays in recovering the securities it lent, and may be able to recover only some of their value, if it is able to recover them at all.

See also “*Illiquidity of Investments*” and “*Borrowings; Leverage; Interest Rates*”, “*Long/Short Strategies*”, “*Use of Hedges*”, “*Options and Derivative Transactions*”, “*Short Sales*”, “*Swaps*”, “*Government Regulation – Short Sales and Swaps*”, “*Futures Transactions*”, “*Volatile Markets*”, and “*Loans of Portfolio Securities*” above.

See also “*General Risks*” below.

### **Mortgage Credit Strategies**

#### ***Investment Strategy and Method of Analysis:***

The strategy’s objective is to achieve long-term returns through a combination of long and short positions on securitized, mortgage-related and corporate credit-related products, including, but not limited to, asset-backed securities (“ABS”), CDOs, CLOs, mortgage-backed securities (“MBS”), unsecured or secured corporate debt, bespoke risk tranches, equity and equity-related securities, cash-settled commodity instruments and various other similar investments and their derivatives. In particular, the strategy will seek exposure to both long and short positions primarily in securitized residential mortgages (prime, Alt-A, sub-prime), CDOs, and other mortgage-related debt, equity and derivative instruments (including credit default swaps). The strategy intends to be active in the secondary market for such investments and may source long and short positions in both the cash and synthetic markets. A minority of positions may be sourced in the primary market or via construction of bespoke trades. The strategy expects that the nature of its assets and the relative value strategies it intends to pursue should result in a low long term correlation between the performance of the strategy and the performance of the equity or corporate debt markets.

Napier Park believes that the strategy has a significant opportunity to benefit from the ongoing re-pricing of risk across all ratings levels in securitized products. In the view of Napier Park, a relative value strategy that is deliberately oriented towards both long and short opportunities is a superior way to earn consistent risk-adjusted returns as compared to a pure “directional trading” or “long” only strategy.

Napier Park believes that the rapid growth of securitized products, along with their complexity and opacity, provides good opportunities for skilled investment professionals to create and capture value. Securitized products are usually created when an originating issuer segregates a pool of assets (e.g. corporate loans, mortgage loans, other complex bonds, credit default swaps, etc.) and then issues different classes or tranches of interests backed by the assets in the pool. These distinct tranches have different rights and priorities with respect to the asset pool and are typically sold to a variety of investors with differing risk-reward preferences. The tranches are paid interest and principal based on often complex rules governing their rights and priorities and have recourse only to the cash flows and liquidation proceeds of the pool. The values of different tranches are thus derivatives of the value of the underlying assets. Assessing the value of a particular tranche requires an in-depth analysis of the underlying portfolio assets as well as

the covenants and applicable provisions for how value is distributed across different tranches in different circumstances through structural nuances. This deal structure becomes particularly important when an asset portfolio has lost value or becomes impaired. As an example, in certain CDOs, cash interest may still be paid to junior tranches (e.g. subordinated debt) even if that tranche is impaired from a principal return point of view; while in other CDOs, junior tranches may stop receiving interest even if they are unimpaired from a principal return point of view.

Napier Park has developed a proprietary analytical platform that serves as the cornerstone of the investment process and helps model, analyze, and benchmark pools of mortgage loans on a loan by loan basis in great detail in order to help make absolute and relative value judgments throughout the investment selection process.

Napier Park will also consider certain qualitative factors which Napier Park believes are key drivers of value. Napier Park intends to consider, among other things, the structure of the investment including the offering memorandum, the governing documents for the entity and other documents related to the investment. Some key points on deal structure may be types of cash-flow triggers and their levels, subordination, waterfall rules, remedies upon events of defaults, and embedded hedges. In addition to deal structure, an additional and often vital determinant of value is the behavior of a manager or servicer where the asset pool is actively managed. The actions and historical performance of a portfolio manager are also significant considerations in the selection process because manager incentives and the behavior of various agents who are able to modify the asset portfolio may significantly affect the valuation of a tranche. Napier Park is acquainted with past practices followed by certain individuals and organizations involved in the securitized products markets and may use this industry experience to assess the management of such investments.

### ***Strategy Risks:***

***Mortgage-Backed Securities.*** The Alternative Investment intends to invest in mortgage-backed and other mortgage-related instruments. Mortgage-related securities include mortgage pass-through securities, collateralized mortgage obligations (“CMOs”), commercial mortgage-backed securities, mortgage dollar rolls, CMO residuals, and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The value of some mortgage-related instruments may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on the mortgages underlying or associated with mortgage-related securities may expose the Alternative Investment to a lower rate of return upon reinvestment of principal. When interest rates rise, the value of a mortgage-related security generally will decline; however, when interest rates are declining, the value of mortgage-related securities with prepayment features may not increase as much as the value of other fixed income securities. This risk will be greater for long-term securities than for short-term securities. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may shorten or extend the effective date of maturity of the security beyond that anticipated at the time of purchase. If unanticipated rates of prepayment on underlying mortgages increase the effective maturity of a mortgage-related security, the volatility of the security can be expected to increase. In addition, the value of securities or other instruments may be adversely affected by a negative trend in the market’s perception of the creditworthiness of the issuers or counterparties which could adversely affect the value of the Shares. Additionally, although mortgages and mortgage-related securities are generally supported by some form of

government or private guarantee and/or insurance, there is no assurance that private guarantors or insurers will meet their obligations.

***Commodity Instruments.*** The Alternative Investment may invest in cash-settled commodity instruments (including options on, futures with respect to, forward contracts on, exchange traded instruments related to, and other synthetic instruments linked to the performance of one or more commodities), the prices of which can be volatile, particularly over short periods of time. Commodities markets may fluctuate widely based on a variety of factors, including changes in overall market movements, domestic and foreign political and economic events and policies, war, acts of terrorism, changes in domestic or foreign interest rates and/or investor expectations concerning interest rates, domestic and foreign inflation rates. In any over-the-counter transactions by the Alternative Investment, including in connection with cash-settled commodity instruments, the Alternative Investment may be exposed to the risk of a failure by the counterparty to perform its contractual obligations, either as a consequence of financial weakness or other factors. The Alternative Investment may also be exposed to risk in its ability close out a position as purchaser of an exchange-listed option relating to commodities as a liquid secondary market on an exchange is necessary to timely and efficiently settle such trade. Additionally, the commodity markets are subject to comprehensive statutes, regulations and margin requirements. Recent legislation has created a new multi-tiered structure of exchanges in the U.S. subject to varying degrees of regulation, and rules and interpretations regarding various aspects of this regulatory structure have only recently been finalized. The regulation of commodity transactions in the U.S. is a rapidly changing area of law and is subject to ongoing modification by government and judicial action. In addition, various national governments have expressed concern regarding the disruptive effects of speculative trading in the currency markets and the need to regulate the derivatives markets in general. The effect of any future regulatory change on the Alternative Investment is impossible to predict, but could be substantial and adverse.

***Investments in Indexes.*** The Alternative Investment may invest in certain index products. An investment in an index product is subject to the risks and opportunities of the underlying securities which compose the index. Although the index may be managed by an administrator, Napier Park will not have control over the composition of the index, and the may be exposed to changes in value based upon the performance and management of the reference obligations or securities which constitute the index.

***Investments in Real Estate Securities and Loans.*** The Alternative Investment may invest a portion of its assets in real estate-related securities including Real Estate Mortgage Investment Conduit (“REMIC”) securities that Napier Park believes are undervalued, non-recourse mortgages where the mortgagor is not a significant operating company, and in the securities or obligations of single-purpose companies whose primary asset is real estate. Special risks associated with such investments include changes in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants, and changes in operating costs. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing and potential liability under changing environmental and other laws. Furthermore, many of the properties securing these loans may be suffering varying degrees of financial distress or may be located in economically distressed areas. Loans may become nonperforming for a wide variety of reasons, including, without



limitation, because the mortgaged property is too highly leveraged (and, therefore, the property is unable to generate sufficient income to meet its debt service payments), the property is poorly managed or because the mortgaged property has a high vacancy rate, has not been fully completed or is in need of rehabilitation.

See also *“Relative Value Strategies”*, *“Asset Backed Securities”*, *“Structured Credit Products”*, *“Illiquidity of Investments”*, *“Borrowings; Leverage; Interest Rates”*, *“Directional Investing”*, *“Long/Short Strategies”*, *“Use of Hedges”*, *“Risks Associated with Investments in Companies in Distressed Situations”*, *“Options and Derivative Transactions”*, *“Swaps”*, *“Short Sales”*, *“Government Regulation – Short Sales and Swaps”*, *“Futures Transactions”*, *“Volatile Markets”*, *“Inflation/Deflation”* and *“Loans of Portfolio Securities”* above.

See also *“General Risks”* below.

### **US Leveraged Loans**

#### ***Investment Strategy and Method of Analysis:***

The investment objective of the strategy is to achieve a rate of total return, primarily through income generation, and to a limited extent, capital appreciation, over a medium term investment horizon through investments in a diversified portfolio of loans and debt securities, subject to various guidelines and restrictions, including concentration limits.

The majority of the strategy’s portfolio (by principal amount) must be U.S. dollar denominated investment grade and non-investment grade senior secured loans and investment grade and non-investment grade senior secured debt securities, including senior classes of issues of asset-backed securities, issued by U.S. Obligors (as defined below) and Non-Emerging Market Obligors (as defined below) (collectively, "Senior Secured Debt"). The balance of the portfolio may be invested in U.S. Dollar denominated investment grade and non-investment grade senior unsecured loans and investment grade and non-investment grade senior unsecured debt securities made to or issued by U.S. Obligors and Non-Emerging Market Obligors (collectively, "Other Permitted Assets"). The strategy may invest in collateralized debt obligations, credit linked notes and indices of obligors domiciled in any jurisdiction, if the underlying assets of such securities would qualify as portfolio assets.

Napier Park's primary consideration in selecting portfolio assets for investment by the strategy is the creditworthiness of the obligor. Napier Park performs its own independent credit analysis of the obligor and, if purchased through a participation interest, the financial institution from which the strategy purchases its interest in a portfolio asset. Napier Park's analysis will continue on an ongoing basis for any portfolio assets purchased and held by the strategy based on information available to it that it deems relevant.

The strategy typically invests in a portfolio asset if, in Napier Park's judgment, the obligor of such portfolio asset can meet the debt service on such portfolio asset. In addition, Napier Park may consider factors deemed by it to be appropriate to its analysis of the obligor and the portfolio asset, including (without limitation) such financial ratios of the obligor as interest coverage, debt coverage and debt to equity. In its analysis, Napier Park also examines the nature

of the industry in which the obligor is engaged, the nature of the obligor's investments, the management of the obligor, the adequacy of collateral and the general quality and liquidity of the obligor. Napier Park also considers, among other things, the overall economic environment, the obligor's capital structure, public debt ratings, legal, tax and environmental issues and lender liability and fraudulent conveyance risks.

Napier Park also reviews (with counsel or other advisers if deemed necessary) such documentation and financial information as it deems appropriate. In particular, Napier Park may consider financial, affirmative and negative covenants, events of default and conditions requiring prepayment (which may include, among other things, excess cash flow recapture, asset sales and debt and equity offerings). The structure and documentation review of a portfolio asset also takes into account the portfolio asset's assignability and liquidity, representations and warranties and other provisions of the respective loan agreement and supporting documentation. Napier Park also reviews the terms and conditions of the obligor's other indebtedness. Although such reviews are generally exhaustive, they do not eliminate the risks inherent in the Strategy's investments.

The strategy may invest in portfolio assets with respect to which the obligors are Non-Emerging Market Obligors. Napier Park applies the same credit standards to such Non-Emerging Market Obligors as it applies to U.S. Obligors.

### ***Strategy Risks:***

***Credit Spread Risk.*** The strategy is vulnerable to a decline in the market values of loans and a reduction in income to the Alternative Investment due to adverse movements in credit spreads over LIBOR. It is anticipated that loans will typically pay interest at rates which float at a margin above a generally recognized base lending rate such as the prime rate of a designated U.S. bank, or which adjust periodically at a margin above a certificate of deposit rate or LIBOR. An increase in spreads over the base rate of obligors of loans that are of comparable credit quality to any given portfolio asset could cause a decline in market value of the related loan.

***Credit Risks of Loans.*** Loans are subject to risks of creditworthiness of the obligors on such loans (each, an "Obligor") for payment of interest and principal. The nonreceipt of scheduled interest and/or principal payments on a loan constituting a portfolio asset will adversely affect the income of the Alternative Investment or the market value of such portfolio asset, which may in turn reduce the net asset value of the strategy.

Loans may be rated below investment grade or be of similar credit quality. The lower rating of obligations in the non-investment grade market reflects a greater possibility that adverse changes in the financial conditions of an obligor on such obligations, in general economic conditions, or both, may impair the ability of such obligor to make payments of principal and interest or may cause the bankruptcy or insolvency of such obligor. In the case of bankruptcy or insolvency of an Obligor, recovery of the principal or interest on such obligor's loans is highly uncertain, both as to amount, if any, and timing.

Loans made in connection with leveraged buy-outs, recapitalizations and other highly leveraged transactions may be subject to greater credit risks than other types of loans. However, loans in

which the strategy invests will generally (although not necessarily in all cases) hold the most senior position in the capitalization structure of an obligor, and will usually be secured by assets of such obligor. The capitalization of many obligors can include significant leverage and may include non-investment grade subordinated debt. During periods of deteriorating economic conditions, such obligors may experience difficulty in meeting its payment obligations under its debt obligations. Such difficulties may detract from the obligor's perceived or actual creditworthiness or its ability to obtain short-term financing and could force such obligor into bankruptcy or other forms of credit restructuring, all of which could adversely affect the market value of, timing and eventuality of recovering cash flow on, any senior debt included in the loans held by the strategy.

The Alternative Investment may acquire interests in loans that are designed to provide temporary or "bridge" financing to an Obligor pending the sale of identified assets or the arrangement of longer-term loans or the issuance and sale of debt or equity obligations. An Obligor's use of bridge loans involves a risk that the Obligor may be unable to locate permanent financing to replace the bridge loan, which may impair the Obligor's perceived creditworthiness.

For a typical loan, an agent for the lenders administers the terms of a particular loan agreement. The Alternative Investment must generally rely upon the agent or intermediate participant to receive and forward to the Alternative Investment its portion of the principal and interest payments on the loan. The agent is typically responsible for monitoring compliance with covenants contained in the loan agreement based upon reports prepared by the applicable Obligor. In addition, the Alternative Investment will be bound by provisions of underlying loan agreements that require the preservation of the confidentiality of information provided by the Obligor.

***Assignments and Participations in Loans.*** Loans owned by the Alternative Investment at any time are expected to consist of Loans acquired through assignments or participations.

The purchaser of an assignment of an interest in a loan typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the loan agreement with respect to such loan. As a purchaser of an assignment, the Alternative Investment generally will have the same voting rights as other lenders under the applicable loan agreement, including the right to vote to waive enforcement of breaches of covenants or to enforce compliance by the Obligor with the terms of the loan agreement, and the right to set-off claims against the Obligor and to have recourse to collateral, if any, supporting the loan.

Holders of loan participations are subject to additional risks not applicable to a holder of a direct interest in a Loan. If the Alternative Investment purchases a participation in a loan, the Alternative Investment will generally have the right to receive payments of principal, interest and any other amounts to which it is entitled only from the selling institution and only to the extent actually received by such selling institution from the Obligor. The Alternative Investment may generally not directly benefit from the collateral, if any, supporting the related loan and may be subject to any rights of set-off the Obligor has against the selling institution. As a result, the Alternative Investment will assume the credit risk of both the Obligor and the institution selling the participation, which will remain the legal owner of record of the applicable loan. A participant in a loan will generally not have any right to enforce compliance by the Obligor with

the terms of the loan agreement or any right to vote under the applicable loan agreement with respect to any matter that arises thereunder. Selling institutions voting in connection with such matters may have interests different from those of the Alternative Investment and may fail to consider the interests of the Alternative Investment in connection with their administration of, or vote on, a loan.

In the event of insolvency of the selling institution, the owner of a participation interest may be treated as a general creditor of the selling institution and may not have any exclusive or senior claim with respect to the institution's interest in, or the collateral, if any, with respect to, the applicable loan and may not benefit from any set-off between the selling institution and the Obligor. As a result, a concentration of participations from any one selling institution subjects the Alternative Investment to an additional degree of risk with respect to defaults by such selling institution. Such concentrations are limited by the investment restrictions set forth herein.

Certain loans may be governed by the law of a jurisdiction other than a United States jurisdiction. The Alternative Investment is unable to provide any information with respect to the risks associated with purchasing a participation under an agreement governed by the laws of any jurisdiction other than United States jurisdictions, including characterization under such laws of such participation in the event of the insolvency of the institution from whom the Alternative Investment purchases such participation.

***Collateral Impairment Risks.*** Loans may be secured by assets or property pledged by the Obligor ("Loan Collateral"). For each type of loan that the Alternative Investment holds, Loan Collateral is generally evaluated on the basis of the Obligor's status as a going concern and such valuation may exceed the immediate liquidation value of the Loan Collateral. There is no assurance that the liquidation of the Loan Collateral would satisfy the Obligor's obligation in the event of nonpayment of scheduled interest or principal, or that Loan Collateral could be readily liquidated.

If an Obligor becomes involved in bankruptcy proceedings, a court may invalidate the Alternative Investment's security interest in the Loan Collateral or subordinate the Alternative Investment's right under the Loan to the interests of the Obligor's unsecured creditors. Such action by a court could be based, for example, on a fraudulent conveyance claim to the effect that the Obligor did not receive fair consideration for granting the security interest in the Loan Collateral to the holders of interests in such loan (including the Alternative Investment). For loans made in connection with a highly leveraged transaction, consideration for granting a security interest may be deemed inadequate if the proceeds of the loan were not received or retained by the Obligor, but were instead paid to other persons (such as shareholders, subsidiaries, or affiliates of the Obligor) in an amount which left the Obligor insolvent or without sufficient working capital. There are also other events, such as the failure to perfect a security interest due to faulty documentation or faulty official filings, which could lead to the invalidation of the security interest in the Loan Collateral. If the Alternative Investment's security interest in Loan Collateral is invalidated or the loan is subordinated to other debt of an Obligor in bankruptcy or other proceedings, it may significantly reduce the probability that the Alternative Investment would be able to recover the full amount of the principal and interest due on the loan.

***Lender Liability and Equitable Subordination Considerations.*** The Alternative Investment or the grantor of a participation in a loan may be subject to "lender liability" claims or to claims that such Loan should be equitably subordinated to the claims of other lenders. Lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the Obligor or has assumed a degree of control over the Obligor resulting in a creation of a fiduciary duty owed to the Obligor or its other creditors or shareholders. In addition, courts have in some cases applied the doctrine of equitable subordination to subordinate the claim of a lending institution against an Obligor to claims of other creditors of the Obligor, when the lending institution is found to have engaged in unfair, inequitable, or fraudulent conduct.

***Potential Effects of Prepayments.*** The documentation for loans in which the Alternative Investment invests may give the Obligor the right to prepay or require, in addition to scheduled payments of interest and principal, the prepayment of loans from free cash flow. The degree to which the Obligors prepay Loans, whether as contractual requirement or at their election, may be affected by general business conditions, the financial condition of the Obligor and competitive conditions among lenders, among others. As such, prepayments cannot be predicted with accuracy. Upon a prepayment, either in part or in full, the actual outstanding debt from which the Alternative Investment derives interest income will be reduced. Prepayments generally should not materially affect the Alternative Investment's relative performance under normal market conditions because Napier Park will attempt to reinvest prepayments in loans and in other Alternative Investment assets and because, in some cases, receipt of penalty or upfront fees may mitigate any reinvestment losses.

### ***Risks of Debt Securities.***

Portfolio assets may include high yield debt securities that are rated below investment grade, which will be obligations of corporations, partnerships or other entities that are Non-Emerging Market Obligors.

Obligors of debt securities, like any obligation rated below investment grade, will have greater credit and liquidity risks than investment grade obligations. Debt securities may be unsecured and may be subordinated to other obligations of the Obligors thereof. The lower ratings of obligations in the non-investment grade market reflect a greater possibility that adverse changes in the financial condition of an Obligor of such obligations may impair that ability of such Obligor to make payments of principal and interest. Factors adversely affecting the market value of such debt securities are likely to adversely affect the Net Asset Value of the Notes.

Risks of debt securities may include (among others): (i) limited liquidity and secondary market support, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the prior claims of banks and other senior lenders, (iv) the operation of mandatory sinking strategy or call/redemption provisions during periods of declining interest rates that could cause the Alternative Investment to reinvest premature redemption proceeds in lower yielding debt securities, (v) the possibility that earnings of the Obligor on such debt securities may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of such Obligor. An economic downturn or an increase in interest rates could be adverse to the creditworthiness of such Obligor, severely disrupt the market for its debt

securities and adversely affect the value of outstanding debt securities and the ability of the Obligor thereof to repay principal and interest.

Obligors of debt securities may be highly leveraged and may not have available to them more traditional methods of financing. The risks associated with owning the securities of such Obligors generally are greater than in the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, such Obligors may be more likely to experience financial stress, especially if such Obligors are highly leveraged. During such periods, timely service of debt obligations may also be adversely affected by specific Obligor developments, or such Obligor's inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by the Obligor is significantly greater for the holders of Debt Securities because such securities may be unsecured and may be subordinated to other creditors of the Obligor of such debt securities. In addition, the Alternative Investment may incur additional expenses to the extent it is required to seek recovery upon a default on a debt security or participate in the restructuring of such obligation.

The performance of debt securities is subject to the risk of market changes in prevailing interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially if the interest rate paid by such instrument is fixed). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price.

Debt securities may have call or redemption features that would permit the Obligor thereof to repurchase the debt securities from the Alternative Investment. If a call were exercised by the Obligor of debt securities during a period of declining interest rates, the Alternative Investment may have to replace such called debt securities with lower yielding Portfolio assets. Redemption by Obligors of debt securities generally should not materially affect the Alternative Investment's relative performance because Napier Park will attempt to reinvest prepayments of debt securities in other Alternative Investment. The Alternative Investment may receive redemption premiums from the prepayment of debt securities and the receipt of such redemption premiums may mitigate any adverse impact on the Alternative Investment's yield. The necessity of reinvesting, however, does pose risks, among others, that (i) credit spreads on newly acquired debt securities may be lower than on previously held debt securities and (ii) delay in reinvesting could result in holdings of investments providing lower yields to the Alternative Investment.

The prices of debt securities have at times experienced significant and rapid decline when a substantial number of holders decided to sell. In addition, the Alternative Investment may have difficulty disposing of certain debt securities because there may be a thinly traded market for such securities. To the extent that a secondary trading market for non-investment grade debt securities does exist, it is generally not as liquid as the secondary market for higher rated securities. Limited secondary market liquidity may have an adverse impact on market price and the Alternative Investment's ability to dispose of particular issues when necessary to meet the Alternative Investment's liquidity needs or in response to a deterioration in the creditworthiness of the Obligor of such securities. Limited secondary market liquidity for certain debt securities may also make it more difficult for the Alternative Investment to obtain accurate market quotations for purposes of valuing the Portfolio assets. Market quotations are generally available

on many debt securities from only a limited number of dealers and may not in every instance represent executable bids of such dealers for actual sales.

***Risk of Lower Rated Securities.*** As part of its investment in portfolio assets, the Alternative Investment may invest in portfolio assets rated below B-/B3 or similar unrated securities. These portfolio assets may include securities of issuers that are involved in bankruptcy or insolvency proceedings. Risks of investment in such assets are generally exacerbated in connection with these lower rated or unrated securities, which are often riskier, and could include: limited liquidity and secondary market support, substantial market price volatility, subordination to the prior claims of other creditors as determined during bankruptcy or insolvency proceedings, declining creditworthiness and potential for insolvency of such Obligor not already subject to such conditions, resulting in a total loss of the investment.

***Asset-Backed Securities.*** The Alternative Investment may invest in Senior Secured Debt that includes senior classes of issues of asset-backed securities ("Asset-Backed Securities"). Asset-Backed Securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from, or market value of, a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities. In addition, the Alternative Investment may invest in collateralized debt obligations, credit linked notes and indices.

The holders of Asset-Backed Securities, collateralized debt obligations, credit linked notes and indices also bear various additional risks, including credit risks, operational risks, structural risks and legal risks, all of which affect the price and liquidity of the market with respect to those assets and the valuation of these assets upon settlement.

***Withholding Tax on Portfolio Assets.*** The portfolio assets are required to not be subject to withholding tax unless the issuer thereof is required to make "gross-up" payments. With respect to portfolio assets that are not subject to withholding tax at the time of their inclusion in the portfolio, however, there can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on such portfolio assets might not in the future become subject to U.S. or other withholding tax. In the event that any withholding should become applicable to payments on any portfolio asset which is not compensated for by a "gross-up" provision under the terms of such portfolio assets, such tax would reduce the amounts available to make payments.

***Liquidity of Portfolio Assets.*** Any portfolio assets rated below investment grade will generally have greater liquidity risks than investment grade portfolio assets. In addition, certain portfolio assets may be subject to restrictions on transfer. There can be no assurance that a liquid market exists for portfolio assets. To the extent that the portfolio assets are affected by market illiquidity, the ability to dispose of such assets at prices and times may be limited. These risks may be more pronounced, and the Alternative Investment may be affected by widening bid-offer spreads or more volatile trading prices, if the Alternative Investment is required to liquidate its positions to generate cash in order to redeem Notes or meet other obligations. Such liquidations may lead to the need for the Alternative Investment to incur capital losses in connection with dispositions of assets to meet such cash requirements. Even in the absence of default with

respect to a portfolio asset, market volatility could cause the market value of a portfolio asset to vary over time, and to vary substantially, from its initial purchase price. A disruption in the secondary markets for the Alternative Investment's assets may cause market value declines for any number of its assets. Any such decline, even if temporary, could have a material adverse effect upon value.

***Non-Emerging Market Obligors.*** As discussed herein, the Alternative Investment may acquire Loans made to, and Debt Securities issued by, (a) Obligors headquartered in the United States (including its territories and possessions) or Canada (collectively, "U.S. Obligors") and (b) Obligors which are not U.S. Obligors and which are headquartered in Non-emerging market countries ("Non-Emerging Market Obligors"). In general, since Non-Emerging Market Obligors may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. Obligors, there may be less publicly available information about these entities than about U.S. Obligors. Volume and liquidity in most non-U.S. trading markets is less than in the United States and, at times, price volatility can be greater than in the United States. Fixed commissions in non-U.S. markets are generally higher than negotiated commissions in United States markets, although the Alternative Investment will endeavor to achieve the most favorable net results on its portfolio transactions. There is generally less governmental supervision and regulation of financial markets, brokers and listed entities in non-U.S. markets than in the United States. Napier Park believes, however, that U.S. Dollar denominated Loans to and Debt Securities of entities organized in United States territories and possessions (such as Puerto Rico) and in Canada generally present no material incremental political, exchange control or accounting risks as the relevant laws and accounting standards are substantially similar to those of the United States. Loans to and Debt Securities of non-U.S.-based entities will in some cases be issued by a special purpose vehicle formed under United States law by a non-U.S. entity that does not have a substantial operation in the United States and/or Canada but has significant operations outside North America. These assets may carry additional risks similar to those of Non-Emerging Market Obligors.

The economies of other countries may differ favorably or unfavorably from the United States economy. Nationalization, expropriation or confiscatory taxation, currency control, political changes, government regulation, political or social instability or diplomatic developments could adversely affect the economy of a non-U.S. country or the Alternative Investment's investment in such country. In the event of nationalization, expropriation or other confiscation, the Alternative Investment could lose all or a substantial portion of any portfolio assets in the country involved. In addition, laws in other countries governing business organizations, bankruptcy and insolvency may provide less protection to creditors such as the Alternative Investment than that provided by United States laws.

***Insolvency Considerations With Respect to Loans.*** Various laws enacted for the protection of creditors may apply to portfolio assets issued by U.S. Obligors (each, a "U.S. Security"). Portfolio assets consisting of obligations issued by Non-Emerging Market Obligors may be subject to various laws enacted in the home countries of their issuance for the protection of creditors. Insolvency considerations will differ depending on the country in which each Obligor is located and may differ depending on whether an Obligor is a non-sovereign or sovereign entity. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an Obligor of a U.S. Security, such as a trustee in bankruptcy of an Obligor, were to find that such



Obligor did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the U.S. Security and, after giving effect to such indebtedness, such Obligor (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such Obligor constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine (a) to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, (b) to subordinate such indebtedness to existing or future creditors of such Obligor or (c) to recover amounts previously paid by such Obligor in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an Obligor would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether an Obligor was "insolvent" after giving effect to the incurrence of the indebtedness constituting the U.S. Security or that, regardless of the method of valuation, a court would not determine that such Obligor was "insolvent" upon giving effect to such incurrence. In addition, in the event of the insolvency of an Obligor of a U.S. Security, payments made on such U.S. Security could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year and one day) before insolvency.

In general, if payments on a U.S. Security are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Alternative Investment) or from subsequent transferees of such payments (such as an investor in an Alternative Investments). To the extent that any such payments are recaptured from the Alternative Investment, the resulting loss will be borne in the first instance by the investors in the Alternative Investment. However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from a investors in the Alternative Investment only to the extent that such court has jurisdiction over such holder or its assets. Moreover, it is likely that avoidable payments could not be recaptured directly from an investor that has given value in exchange for its investment, in good faith and without knowledge that the payments were avoidable. Nevertheless, since there is no judicial precedent relating to certain structured transaction, there can be no assurance that an investor will be able to avoid recapture on this or any other basis.

See also "*General Risks*" below.

### ***Event Driven Strategies***

#### ***Investment Strategy and Method of Analysis:***

Event driven strategies are designed to invest in securities of companies that are undergoing or may undergo significant corporate activity or other internal or external catalytic events. These events may include, without limitation, announced or anticipated mergers and acquisitions, tender offers, restructurings, reorganizations, spin-offs/split-offs, asset sales, liquidations, bankruptcies, public offerings, rights issues, legal or regulatory changes or any other events that may be expected to impact the absolute or relative value of securities. When companies are

involved in such events, their securities can become mispriced, and this strategy seeks to capitalize on the opportunities created by these mispricings.

The strategy invests primarily in listed global public equities, with a current focus on developed markets. Investments may also be made in any other financial instruments, including without limitation swaps, options, futures and any other derivatives, convertible securities, privately placed securities, and notes, loans and any other debt instruments, as Napier Park deems appropriate to pursue the strategy. The investment process involves finding situations that provide investment opportunities Napier Park believes offer adequate compensation for the risks to be taken. Napier Park seeks to understand and estimate the risks and rewards of a given investment situation, including the possible range of outcomes, the likelihood of each, and their economic impacts. These assessments are then compared to the actual price of the relevant securities to help Napier Park determine whether a particular event has or is likely to create an attractive opportunity.

The strategy is intended to generate positive absolute returns independent of market direction.

### ***Strategy Risks:***

***Unanticipated Events or Outcomes.*** Event driven investing requires the investor to make judgments about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. The principal risks associated with event driven investments are that anticipated events fail to occur, and that the market or actors involved in or affected by the event react differently than expected to the anticipated occurrence. In any such case, investments made in expectation of a particular outcome may result in losses. The consummation and outcome of expected events or transactions, such as mergers, tender and exchange offers, can be prevented or delayed by a variety of factors, including: (i) intervention of a federal or state regulatory agency; (ii) compliance with any applicable federal or state securities laws; (iii) market conditions resulting in material changes in securities prices; (iv) inability to obtain adequate financing; and, in the case of mergers or tender and exchange offers, (v) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (vi) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; and in the case of a merger, (vii) failure to obtain the necessary stockholder approvals.

***Transaction failure risk.*** Substantial transaction failure risks are involved in companies that are the subject of mergers, takeovers, bankruptcies, reorganizations, spin-offs or other special situations. Certain transactions are dependent on one or more factors to become effective, such as market conditions that may lead to unexpected positive or negative changes in a company profile, shareholder disapproval, regulatory and various other legal and third party constraints, changes in earnings or business lines or shareholder activism as well as many other factors. In addition, the investments utilized in implementing such strategies may include derivatives, such as options, that are themselves inherently volatile in the context of specific market movements.

***Competition for Opportunities.*** Event driven trading is extremely competitive. Napier Park competes with a large number of firms, many of which may have substantially greater financial resources dedicated to this strategy, as well as larger research and trading staffs than are

available here. Competitive investment activity by other firms reduces opportunities for profit by reducing the magnitude as well as the duration of the market inefficiencies which the strategy seeks to exploit.

***Cyclical nature of corporate events.*** Event driven strategies are affected by the overall volume of global corporate activity, which has historically been cyclical in nature. During periods when the activity is low, it may be difficult or impossible to identify opportunities for profit or to identify a sufficient number of such opportunities to provide balance among potential event driven transactions.

***Relative Value Strategy.*** Napier Park may utilize relative value trading strategies, which generally seek to exploit anomalies in the pricing of related securities. The success of relative value trading depends, among other things, on Napier Park's ability to identify unjustified or temporary discrepancies between the fundamental value and the market price of an asset or between the market prices of two or more assets whose prices are expected to move in relation to each other, and to exploit those discrepancies to derive a profit to the extent that Napier Park is able to anticipate in which direction the relative values or prices will move to eliminate the identified discrepancy. Identification and exploitation of such investment opportunities that may be pursued involves a high degree of uncertainty. For example, Napier Park may see a price or value discrepancy in particular securities and perceive this as unjustified or temporary, and therefore see an investment opportunity, when the difference actually represents a fundamental change. Napier Park may also incorrectly anticipate the direction in which the relative prices or values will move to eliminate a discrepancy. If Napier Park has incorrectly evaluated the nature or extent of an expected spread relationship, so that, for example, the value of long positions appreciates at a slower rate than the value of short positions in related assets taken as part of a relative value trade, then the expected returns will not materialize, and the strategy may sustain significant losses.

***Dependence on Market Inefficiencies.*** The discrepancies that Napier Park seeks to identify and turn into profit opportunities for the Alternative Investment may arise due to a variety of circumstances. Some may be due to uneven flows of information to the relevant markets, with the market for one asset reflecting the impact of specified items of information before or after the same information has an impact on the market for a related asset. Others may be the result of regulatory or legal restrictions applicable to one type of asset, but not to a functionally equivalent asset (which occurs, for example, when regulations prohibit an investor from buying a particular type of asset, but permit the investor to take positions via derivative arrangements that provide substantially similar exposure to the performance of the same asset). A reduction in the volatility and market inefficiencies that create the opportunities in which Napier Park may seek to invest, as well as other market factors, will reduce the scope for the Alternative Investment's investments and may limit opportunities for profit.

***Merger Arbitrage.*** Napier Park may engage in merger arbitrage strategies. Merger or "risk" arbitrage strategies attempt to exploit merger activity to capture (or sell short) the spread between current market values of securities and their values after successful completion of a merger, restructuring or similar corporate transaction. Merger arbitrage investments often result in significant losses when anticipated merger or acquisition transactions are not consummated. The consummation of mergers, tender offers and exchange offers can be prevented or delayed by a variety of factors, including: (i) regulatory and antitrust restrictions; (ii) political motivations; (iii) industry weakness; (iv) stock-specific events; and (v) failed financings. Merger arbitrage

positions also are subject to the risk of overall market movements. To the extent that a general increase or decline in equity values affects the stocks involved in a merger arbitrage position differently, the position may be exposed to loss. Merger arbitrage strategies also depend for success on the overall volume of merger activity, which historically has been cyclical in nature.

***Expedited Transactions.*** Taking advantage of an event driven investment opportunity may require investment analyses and decisions to be undertaken on an expedited basis. In such cases, the information available at the time of an investment decision may be limited, and Napier Park may not have access to the detailed information necessary for a thorough evaluation of the investment opportunity.

***Special Situations.*** Investments involving companies undergoing work-outs, liquidations, reorganizations, bankruptcies or other similar events carry the risk that the contemplated event either will be unsuccessful, will take considerable time or will result in a distribution of cash or new securities of lesser value than the security or instrument in respect of which the distribution is made. Similarly, if an anticipated transaction does not in fact occur, the Fund may be required to sell its investment at a loss.

***Common Stock.*** The strategy invests primarily in exchange listed global public equities, including common stock. Although common stock has historically generated higher average total returns than fixed-income securities over the long term, common stock also has experienced significantly more volatility in those returns.

***Investments in Undervalued Assets.*** The Alternative Investment may seek to invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. The Alternative Investment may be forced to sell, at a substantial loss, assets identified as undervalued, if they are not in fact undervalued. In addition, the Alternative Investment may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of the Alternative Investment's capital would be committed to the assets purchased, potentially preventing the Alternative Investment from investing in other opportunities.

See also “*Illiquidity of Investments*”, “*Options and Derivative Transactions*”, “*Swaps*”, “*Short Sales*”, “*Government Regulation – Short Sales and Swaps*”, above.

See also “*General Risks*” below.

### ***Municipal Bond Strategies***

#### ***Investment Strategy and Method of Analysis:***

Municipal Bond Strategies seek to generate an absolute return from municipal securities via (i) current income, (ii) relative value trading opportunities and (iii) the potential for longer-term capital appreciation should municipal/taxable yield ratios recover from currently distended levels and revert towards historical averages.

The strategy may trade both tax-exempt and taxable municipal bonds. Napier Park may also seek to exploit relative value trading opportunities created by differences in issuer geography (e.g., state, city), bond structure (e.g., coupon), placement along the yield curve, and arbitrage possibilities between municipal securities and taxable instruments. These trading opportunities may be achieved by means of long and/or short positions in municipal securities or derivatives.

The duration of a portfolio will depend on the relative value along the municipal yield curve, as well as the relative steepness of the municipal to taxable yield curves. Napier Park may utilize interest rate swaps, credit default swaps and other municipal-related derivative instruments, including BMA swaps, MMD rate locks, municipal total return swaps, and any other derivatives linked to municipal bonds or bond indices. Napier Park may seek to hedge interest rate risk within the portfolio as appropriate. Napier Park may utilize LIBOR swaps, swaptions, Treasuries, Treasury futures, and other interest rate derivatives.

The strategy will seek to generate alpha by capitalizing on relative value opportunities in the municipal market by capturing relative value by managing specific municipal bond positions.

As noted above, the municipal bond market is fragmented with thousands of municipal issuers and a variety of structures and maturities. These features provide ample opportunity to capture relative value in the municipal market. The relative value decisions Napier Park will make will be based on several factors, including those described below.

Maturity – The municipal curve, due to technical factors and sympathetic moves to the treasury market, provides opportunity to capture value as spreads between certain maturities of municipal bonds tighten and widen. The differing investment objectives of typical municipal investors has varying effects on the municipal yield curve potentially creating opportunities for the Investment Manager to strategically purchase maturities that offer the most relative value.

U.S. State – The municipal market can be broken down to a large degree by U.S. State. Individual states may have a positive or negative technical outlook completely different from that of the overall market. The performance of specific states relative to others and the overall market creates relative value opportunities.

Structure – The structure of municipal bonds provides relative value opportunities. The coupon and call spreads of specific bonds vary depending on overall rates and the relative attractiveness of each structure to different municipal buyers. The determination of what structure is in demand by municipal bond investors can lead to opportunities in capturing relative performance.

Credit – The vast array of issuers in the municipal market space creates a complex credit spectrum. The fact that such a large percentage of municipals are held by retail investors creates the need to understand how retail investors value specific credits in the market. Local general obligation bonds and local revenue bonds may trade tighter or wider depending on the local view of the particular municipal issuer. The knowledge of nuances in credit spreads at such a detailed level is attained only through extensive trading experience.

Liquidity – Liquidity in the municipal market is cyclical and is typically driven by factors such as the supply of new bonds, the characteristics of the bonds in the marketplace and how they appeal to various municipal buyers. To the extent there is a large supply of new bonds in the

marketplace and high interest from municipal buyers for such bonds, there is likely to be a high degree of liquidity in the municipal market. The liquidity inherent in any security is a factor in an investor's ability to extract relative value.

***Strategy Risks:***

***Reliance on Technology.*** Napier Park's trading strategy is dependent upon various computer and telecommunications technologies. While Napier Park intends to deploy such technology and programs correctly and effectively, there can be no assurance that it will prove successful in doing so. The successful deployment of these strategies, the implementation and operation of these strategies and any future strategies, and various other critical activities of Napier Park could be severely compromised by telecommunications failures, power loss, software related "system crashes," fire or water damage, or various other events or circumstances. Napier Park will make efforts to protect against such events, but does not provide comprehensive and foolproof protection against all such events (whether because it believes such to be impractical or prohibitively expensive in terms of financial expenditures and/or schedule delays, or for other reasons), and does not expect to secure such comprehensive or foolproof protection. Any event that interrupts Napier Park's computer and/or telecommunications operations, however, could result in, among other things, the inability to establish, modify, liquidate, or monitor the Alternative Investment's investments and, for those and other reasons, could have a material adverse effect on the operating results, financial condition, activities and prospects of the Alternative Investment.

***Municipal Market Securities Risk.*** Various factors may adversely affect the value and yield of municipal securities. These factors include imbalances in demand, potential legislative changes as well as uncertainties related to the tax status of municipal bonds or the rights of others holding these securities. Any of these factors could cause losses for the Alternative Investment. In addition, unlike other financial markets, the municipal bond market has no centralized exchange and suffers from inconsistent disclosure. As liquidity becomes scarce, these factors put downward pressure on prices (upward on yields) as buyers seek to obtain the necessary data to understand and evaluate the bond's current credit fundamentals and performance.

***Recent Market Conditions; Rating Agencies; Bond Insurers.*** The Alternative Investment is subject to the risk that the issuers of, as well as the insurers of, municipal bonds or other instruments in which the Alternative Investment invests may default on their obligations under such instruments, or that the credit quality of those issuers or insurers may decline significantly. This risk has been further magnified in light of recent events in the credit market.

The market's perception of the creditworthiness of the monoline bond insurers affects the pricing of municipal bonds. Monoline insurers guarantee the timely repayment of principal and interest by municipal bond issuers. The major monoline insurance companies were recently reviewed and continue to be reviewed by one or more of the Nationally Recognized Statistical Rating Organizations ("NRSROs") for possible downgrades. Downgrades and other adverse ratings actions with respect to these monolines will likely exacerbate current market conditions and further increase illiquidity and negatively impact pricing in the municipal bond market. For example, due to a lack of confidence in the creditworthiness of the monoline insurers in early

2008, many municipal bonds were trading at prices as if they were uninsured, effectively discounting the monoline insurance completely.

Changes in the NRSROs' capital models and rating methodology with respect to the monoline insurers may lead to a requirement of increased capital reserves for specified credit risks in the monolines' insured portfolio. The current market has already precipitated changes in capital models and rating methodology, causing the monoline insurers to raise additional capital from the market. There can be no assurance that capital will be available to the monoline insurers on favorable terms and conditions, or if capital will be available at all, and the failure to raise such capital could have a material adverse impact on their business, results of operations and financial condition, possibly creating a further devaluation of, and increased credit risk in, the municipal bond issuances that they insure.

Additionally, credit ratings of debt securities such as municipal bonds and other instruments in which the Alternative Investment invests represent the opinions of the applicable NRSRO only and are not a guarantee of quality. NRSROs may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be worse than a particular credit rating indicates.

***Margin Calls.*** Under certain circumstances, a broker-dealer or counterparty may unilaterally demand an increase in the collateral that secures the Alternative Investment's obligations and if the Alternative Investment were unable to provide additional collateral, the broker-dealer or counterparty could liquidate assets held in the account to satisfy the Alternative Investment's obligations to the broker-dealer or counterparty. Liquidation in that manner could have extremely adverse consequences to the Alternative Investment.

***Municipal Bonds Are Not General Government Obligations.*** Even though municipal bonds are issued by state and local governments or their agencies and authorities, none of the municipal bonds will constitute a general obligation of any of the municipalities issuing such bonds nor is the general taxing power of any government pledged to the payment of principal or interest on the municipal bonds, unless otherwise stated in the bond documents.

***Possible Increases in State and/or Federal Regulation.*** The monoline financial guarantee insurance industry has historically been, and will continue to be, subject to the direct and indirect effects of a variety of U.S. governmental regulation, including insurance laws, securities laws, tax laws and legal precedents affecting asset-backed securities and municipal debt obligations, as well as changes in those laws and regulations. Failure to comply with applicable laws and regulations could expose the monolines to fines, the loss of their insurance licenses and/or the inability to engage in certain business activity. Additionally, any changes to such laws and regulations could subject the monolines to increased reserving and capital requirements and/or more stringent regulation generally, which could materially adversely affect their ability to make payments under their insurance policies. This inability, or perceived inability, to make such payments may negatively impact the municipal bonds insured by such monoline insurers.

***Failures in the Auction-Rate Preferred Securities Market.*** Many municipalities also issue debt through investments known as auction-rate preferred securities. In February of 2008 auctions for these securities began to fail en masse. The failure in the auction-rate preferred market forced

many investment funds holding municipal bonds to liquidate large portions of their portfolios to satisfy their obligations to pay penalty interest rates due to such failed auctions. This forced selling has had the effect of driving the yields on municipal debt to high levels, making it very expensive for municipalities to issue new debt, which is an increasing concern as tax revenues are beginning to reflect the overall market slowdown. If municipalities begin defaulting on their obligations, this will adversely affect the value of the Alternative Investment's investment portfolio.

***Reimbursement Agreements.*** The Alternative Investment will enter into reimbursement agreements with various third party financial institutions which will require the Alternative Investment to reimburse the financial institutions for payments made by the financial institutions under certain conditions. These agreements will also require that the Alternative Investment post collateral, in the form of cash or securities, to secure the Alternative Investment's reimbursement obligation to the financial institutions. Any collateral posted would be pledged to such financial institutions and may not be available to investors in the Alternative Investment in the event the Alternative Investment failed to perform under its reimbursement agreement with a financial institution. Further, the Alternative Investment will likely be required to post collateral to the financial institutions at a time when either interest rates have risen or the value of the municipal securities underlying certain of the Alternative Investment's investments have declined in value. While the Alternative Investment expects to be able to perform under the reimbursement agreements and expects to be able to post collateral as required by the reimbursement agreements, there can be no guarantee that the Alternative Investment will in fact be able to perform its obligations under the reimbursement agreements. Failure of the Alternative Investment to perform under the reimbursement agreements could result in the financial institutions liquidating the collateral posted by the Alternative Investment and exercising legal remedies against the Alternative Investment for the payment of amounts due. Such actions would likely have an adverse effect on the Alternative Investment's financial performance.

***Imperfect Hedges.*** The pricing relationship between the municipal bonds controlled directly or indirectly by the Alternative Investment and the hedging strategies used by the Alternative Investment will be imperfect. An absence or imperfect level and/or application of hedges could result in losses. This may occur, for example, where the price of a debt security falls as a result of an increase in interest rates and such price loss is not offset by an increase in the related hedge position. Moreover, Napier Park may choose not or determine that it is economically unattractive to hedge certain risks -- either in respect of particular positions or in respect of the Alternative Investment's overall portfolio. This could result in various portions of the directional market risks remaining unhedged and in subsequent losses for the Alternative Investment.

***Short Sales.*** Although it is not practicable to "short" municipal bonds directly, the Alternative Investment's ability to take short positions through municipal bonds derivatives and taxable instruments is essentially unrestricted. A short sale involves the sale of a security that the Alternative Investment does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. In addition, a short sale involves the risk that borrowed securities will have to be returned to the lender at a time when such securities cannot be borrowed from other sources, potentially requiring the Alternative Investment to close a short sale transaction under disadvantageous circumstances.



***Derivative Risks.*** The Alternative Investment will use derivative fixed-income instruments for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the degree of leverage often embedded in such instruments and the possibility of counter party non-performance and/or disputes over the terms of the contract as well as material deviations between the performance of the derivative and the instrument hedged by the derivative. In addition, the markets for certain derivatives may be characterized by limited liquidity, which may make it difficult as well as costly for the Alternative Investment to close out positions. As well, since many derivatives are valued on the basis of dealers' pricing of these instruments, the price at which a dealer values a particular derivative and the price at which the same dealer executes may be materially different. This can result in an overstatement of the Alternative Investment's net asset value, or result in requiring the Alternative Investment to meet more onerous collateral provisions to secure such derivative position(s) than would be the case otherwise.

***Credit Default Swaps.*** The "buyer" in a credit default swap contract is obligated to pay the "seller" a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred (a "credit event"), in return for a contingent payment upon the occurrence of a credit event with respect to the underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay, obligation acceleration or modified restructuring. A seller receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the "par value" (full notional value) of the reference obligation. The contingent payment may be either a cash settlement or physical delivery of the reference obligation in return for payment of the face amount of the obligation. A buyer, if no credit event occurs, will lose its investment and recover nothing. However, if a credit event occurs, the buyer will receive the full notional value of the reference obligation that may have little or no value. Credit default swap agreements may involve greater risks than those associated with a direct investment in the reference obligation. Credit default swap agreements are subject to general market risk, liquidity risk and credit risk.

***Futures Contracts.*** Trading in futures contracts may involve substantial risks. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for futures contracts or options purchased or sold, and the Alternative Investment may be required to maintain a position until exercise or expiration, which could result in losses.

Futures positions may be illiquid because, for example, most U.S. exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent Napier Park from promptly liquidating unfavorable positions and subject the Alternative Investment to substantial losses. In addition, Napier Park may not be able to execute futures contract trades at favorable prices if trading

volume in such contracts is low. It is also possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that may be held in particular instruments. Trading in futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks.

***Portfolio Concentration.*** Because the Alternative Investment's investment portfolio may not necessarily be widely diversified, the portfolio may be subject to more rapid changes in value than would be the case if the Alternative Investment were required to maintain a wide diversification among different types of regions, markets and/or securities and other instruments. Losses in one or more large positions, or a downturn in a region's municipal securities or market sector in which the Alternative Investment is concentrated, could materially adversely affect the Alternative Investment's performance in a particular period and could have a material adverse effect on the Alternative Investment's overall financial condition.

***Relative Value Trading Risks.*** Although the Alternative Investment's focus on a relative value strategy is considered to have a lower risk profile than a directional trading strategy, it is by no means without risk. The success of such a strategy will depend on Napier Park's ability to exploit relative inter- and intra-market opportunities. Mispricings, even if correctly identified, may not converge within the time frame in which the Alternative Investment maintains its positions. A relative value strategy is also subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of valuation models belonging to the Alternative Investment or third parties. Market disruptions may also force the Alternative Investment to close out one or more positions prematurely. Any of these factors could cause losses for the Alternative Investment.

Please also refer to "*General Risks*" below.

### ***India Investment Business:***

#### ***Investment Strategy and Method of Analysis:***

The investment strategy for this business generally seeks to take advantage of the robust demand for, and the constrained supply of, infrastructure assets in India. A key component of the investment strategy is to utilize a disciplined investment process that has been implemented numerous times in prior investments. The third party advisor engaged by Napier Park employs an investment process that typically consists of five stages which combine comprehensive analyses, detailed asset-level due diligence and creative structuring/documentation. In stage one, the third party advisor seeks to source an investment by leveraging its existing relationships with promoters, developers, and other third parties. In stage two, the third party advisor determines whether an investment is potentially consistent with the funds' investment objectives. Upon such a determination, the investment would be subject to further investigation, which would typically involve additional meetings with the developer and internal research. During stage three, a detailed financial model reflecting the risk and return profile of the deal is prepared. Possible options for structuring would also be assessed. The members of the investment committee receive a brief write-up regarding each new deal after the deal team is satisfied that it has cleared all previous hurdles. During stage four, comprehensive due diligence are carried out

to confirm that the opportunity is compelling. The findings of the due diligence process are then presented to the investment committee for further consideration. The final structure of the deal would be crafted to address any issues raised by the investment committee. During stage five, the third party advisor monitors key milestones and seeks to add value to the investment/portfolio company.

### ***Strategy Risks:***

***Investments.*** The Alternative Investments focus their investments in securities of Indian or other non-United States portfolio companies with underlying assets in India. Such investments may present a variety of risks not presented by investments in United States portfolio companies. Such risks may include: (i) increased risk of nationalization or expropriation of assets or confiscatory taxation, (ii) greater social, economic and political uncertainty, including war and terrorism, (iii) higher dependence on exports and the corresponding importance of international trade, (iv) greater volatility, less liquidity and smaller capitalization of securities markets, (v) greater volatility in currency exchange rates, (vi) greater risk of inflation, (vii) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars, (viii) increased likelihood of governmental involvement in and control over the economies, (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economy, (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers, (xi) less extensive regulation of the securities markets, (xii) longer settlement periods for securities transactions and less reliable clearance and custody arrangements, and (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and protection of investors.

***Potential Taxation of Capital Gains by India.*** It is expected that the benefits of certain tax treaties will be available with respect to the funds' investments in India, and thus, gain from the sale of any such investment is not expected to be subject to tax in India. However, there can be no assurance that the Alternative Investments will continue to qualify for benefits under the tax treaties, particularly upon enactment of the proposed Direct Taxes Code Bill, 2010 (the "DTC"). Among other things, the DTC provides for certain situations in which the provisions of Indian law would override the treaty. Thus, there is a possibility that the tax treaties would no longer apply to eliminate the capital gains tax imposed by India, which could result in the imposition of tax on capital gains.

***Applicability of Tax Treaties to Avoid Taxation of Capital Gains by India.*** There is a risk that the Indian tax authorities could claim that the Alternative Investments' activities result in a permanent establishment in India. If the Indian tax authorities succeeded in that claim, then the income of the funds (or their subsidiaries), to the extent attributable to the permanent establishment, would be subject to tax in India. In its comments to the OECD Model Tax Convention/Commentary in 2008, as an observer member, India has expressed a view that mere participation in investment negotiations may be sufficient to conclude that an agent has exercised authority to conclude contracts. In addition, Indian tax authorities are of the view that an agent who negotiates essential elements of the contract but not all elements and details, can be said to conclude contracts, thereby creating a permanent establishment. The Alternative Investments and their subsidiaries intend to take the position that there is no permanent establishment in

India. However, there can be no assurance that this position will be respected by the Indian tax authorities.

***Business Connection.*** Under current law, if the Indian tax authorities are able to establish that the Alternative Investments have a business connection in India, any income of the Alternative Investments that accrues or arises, whether directly or indirectly through or from such business connection will be subject to taxation in India. The term “business connection” includes any business activity carried out through a person acting on behalf of a non-resident if such person has, and habitually exercises in India, an authority to conclude contracts on behalf of the non-resident. Because the Alternative Investments do not intend to make any direct investment in India or to grant any agent the authority to conclude contracts on behalf of the Alternative Investments in India, the Alternative Investments are not anticipated to have a business connection in India under current law. Nevertheless, a risk remains that the Indian tax authorities could seek to establish a business connection between the Alternative Investments and India.

***Currency, Inflation and Foreign Exchange Risks.*** Many of the assets of the Alternative Investments will be denominated in Indian rupees or other foreign currencies, whereas distributions from the Alternative Investments will be made in U.S. dollars. Therefore, the Alternative Investments’ distributions may be adversely affected by reductions in the value of foreign currencies relative to the U.S. dollar. Accordingly, a change in the value of the Indian rupee (or other foreign currencies) against the U.S. dollar may result in a corresponding change in the value of the interests. Further, although inflation in India was relatively modest over the last ten years, there has been a sharp increase over the last year and there is no assurance that inflation rates will be stable.

The Alternative Investments may (but are not obligated to) choose to hedge against currency exposure, but there can be no assurance that such hedging, if undertaken, will insulate the Alternative Investments and their investments from currency risk. The values of the Alternative Investments’ investments may also be affected by developments relating to exchange control regulations. In the past, the Indian government has imposed substantial obstacles to the ability to repatriate income and capital. Repatriation of certain forms of income by the Alternative Investments may currently require governmental consents. Delays in or refusal to grant any such approval, or a revocation or variation of consents granted prior to investments being made in any particular country may adversely affect the Alternative Investments’ investments. There can be no assurance that future restrictions on the ability to exchange Indian rupees or other foreign currency into U.S. dollars and to repatriate income and capital will not adversely affect the ability of the Alternative Investments to repatriate their income and capital. In the past, exchange rates have been subject to significant fluctuations and there can be no assurance that they will be stable.

***Ability to Enforce Legal Rights.*** Because the relative effectiveness of the judicial systems in India varies, the Alternative Investments (or any portfolio companies) may have difficulties in successfully pursuing claims in the courts of India, as compared to the United States or other developed countries. Furthermore, to the extent that the Alternative Investments or portfolio companies may obtain judgments but are required to seek enforcement in the courts of India or other countries, there can be no assurance that such courts will enforce such judgments.

An elaborate and extensive judicial and quasi-judicial system exists in India with courts being the judicial authority and regulators like SEBI being quasi-judicial authorities. A separate civil and criminal system exists in each state with the highest court for each state being the High Court. Appeals from the High Courts are made to the Supreme Court of India, which is the highest judicial authority of the country. A framework for arbitration, through the Arbitration and Conciliation Act, 1996 also exists and provides for minimum court intervention in the arbitral process. Arbitration is generally preferred to courts as a means of dispute resolution as the backlog of cases in courts is often a cause of delays.

While Indian laws provide for specific performance of contractual obligations as well as claims for damages in the event of breach of contract, and property rights may be enforced through the aforementioned judicial system, laws regarding the rights of creditors and the obligations of purchasers or lessees of property are generally significantly less developed in India than in the United States and may be less protective of rights and interests of non-Indian investors and owners of property in general. It may be difficult to obtain swift and equitable enforcement of such laws or to obtain enforcement of an arbitral award or a judgment in a local court. In addition, if a dispute arises between the Alternative Investments and Indian joint venture partners, the ability to achieve final resolutions and timely and effective enforcements of judgments or arbitral awards in favor of the Alternative Investments may be limited by one or more of the following factors: (a) delays in pursuing claims and/or enforcing judgments or arbitral awards through the Indian judicial system; (b) the unenforceability of certain types of shareholder arrangements under Indian law; and (c) public policy considerations that may disfavor the claims of the Alternative Investments.

***Political Stability Risks.*** Political, economic and social factors, changes in Indian law or regulations and the status of India's relations with other countries may adversely affect the values of the Alternative Investments' assets. In addition, the Indian economy may differ favorably or unfavorably from other economies in several respects, including the rate of growth of its gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency, and balance of payments position.

India is a country that comprises diverse religious and ethnic groups. Border disputes have, however, given rise to ongoing tension in the relations between India and Pakistan, particularly over the region of Kashmir. In addition, cross-border terrorism could weaken regional stability in South Asia, thereby hurting investor sentiment. Certain developments (such as the possibility of nationalization, expropriations or taxation amounting to confiscation, political changes, governmental regulation, social instability, diplomatic disputes or other similar developments), which are beyond the control of the Alternative Investments could adversely affect the Alternative Investments' performance.

While fiscal and legislative reforms have led to economic liberalization and stabilization in India, the possibility that these reforms may be halted or reversed could significantly and adversely affect the value of investments in India. The investments could also be adversely affected by changes in laws and regulations or the interpretations thereof, including those governing the acquisition of land, the formation of joint ventures and foreign direct investment, anti-inflationary measures, laws governing rates and methods of taxation, and restrictions on currency conversion, imports and sources of supplies. More generally, although India has experienced

significant growth and is projected to undergo significant growth in the future, there can be no assurance that such growth will continue.

***Financial Instability in Other Markets.*** The economic developments and volatility in securities markets in other countries directly impact the Indian economy and its securities market. The Indian market may be adversely affected by the investors' reactions to developments in one country. Worldwide financial instability could also have a negative impact on the movement of exchange rates and interest rates in India. The Indian financial markets and the Indian economy may also be influenced by economic and market conditions in emerging market countries in Asia and Latin America.

***Property Rights Risks.*** Legal and political developments in India may affect the ability of the Alternative Investments, third parties with which the funds have contracts, or portfolio companies in which the Funds have invested to enforce property rights. India has a history of internal political unrest, including peasant-based and communist-led movements to forcibly seize and expropriate privately-owned land. Such movements have in the past made use of violent methods to seize and expropriate land, and investors should be aware of the risks that portfolio companies in which the Alternative Investments invest may suffer economic losses associated with land seizures. Likewise, Indian courts, legislative bodies or executive branch entities may modify or weaken the legal regime of property rights in the country. In the event of changes in the terms and conditions of property rights in India, the funds may suffer major financial losses.

Further, India lacks a fully computerized system of land records. Due to a heavy reliance on hand-recorded transactions, land transactions in which the funds engage may take unexpectedly long or result in unanticipated errors. As a result, the title to the properties owned directly or indirectly by the Alternative Investments may not be clear or may be subject to competing claims.

More generally, the right to own property in India is subject to restrictions that may be imposed by the Government of India. In particular, the government has the right to acquire any land or a part thereof if such acquisition is for a 'public purpose' after paying the owner some compensation. However, this compensation may not be the rate that such a property might have obtained had it been sold in the market.

***Utilities and Infrastructure Risks.*** The Alternative Investments anticipate making investments in portfolio companies that depend on local utilities to supply electricity, water and similar services. Many major Indian cities experience regular disruptions in services provided by utilities companies. Such disruptions include power cuts, power surges, water shortages and water contamination. Disruptions in utilities' services may impair portfolio companies' ability to operate, leading to reduced earnings or even the complete loss of investments. Similarly, portfolio companies may depend on local, regional, national or international transportation facilities. The Alternative Investments cannot guarantee that highways, airports, railways, ports, canals and shipping routes will always function properly. Weaknesses in, or impairments to, transportation facilities within or outside of India may affect the operation and profitability of portfolio companies.

***Real Estate Investment Risk.*** Real estate investments, like many other types of long-term investments, have historically experienced significant fluctuations in value, and specific market

conditions and cycles may result in occasional or permanent reductions in the value of the Alternative Investments' investments. Property cash flows and the marketability and value of real property will depend on many factors beyond the control of the Alternative Investments, including, without limitation: adverse changes in international, national, regional and local economic and market conditions; changes in interest rates or financial markets; fluctuating local real estate conditions and changes in local laws and regulations; competition from other available properties; changes or promulgation and enforcement of governmental regulations relating to land use and zoning, environmental, occupational and safety matters; changes in real estate tax rates and other operating expenses; existence of uninsured or uninsurable risks; and natural disasters, acts of war or terrorism.

Investments of the Alternative Investments may be subject to the risks incident to a passive investment in income-producing real estate properties in the particular markets in which the Alternative Investments operate. Generally, there will be no readily available market for a substantial amount of the Alternative Investments' investments. Market illiquidity could prevent the Alternative Investments from effecting dispositions of their properties at desired times or require the Alternative Investments to accept "in kind consideration" and consequently result in distributions "in kind" to investors, all of which could negatively impact the internal rate of return achieved on such investments.

***Real Estate Legal Risks.*** In India, certain lands are earmarked as agricultural lands, on which only agricultural activities may be carried out. In order for anyone to carry out non-agricultural activities, prior permission is required from the local authority of that particular area. Land use in India is also subject to various municipal legislation and zoning laws which sometimes contradict each other or are subject to revision and change from time to time. Therefore, land held or acquired by the Alternative Investments may be adversely impacted by such restrictions, reducing the value of such investments.

No formal title insurance policies comparable to those typically available in the United States or other Western countries are currently available in India. The Alternative Investments will conduct due diligence and use other appropriate measures to determine whether they are obtaining good titles to any of the properties they acquire, consistent with market practices in India. Property litigation in India is generally time-consuming, complicated and pervasive. If any property in which the Alternative Investments have invested is subject to litigation, there could be adverse impacts, financial or otherwise to the Alternative Investments.

The Alternative Investments may acquire direct or indirect interests in undeveloped land or underdeveloped real estate assets, with either a freehold or leasehold interest in such property. To the extent the funds invest in such assets, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the reasonable control of the funds, such as weather or labour conditions or material shortages) and the availability of both construction and financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities. Changes in market conditions during the course of development may also lead to an erosion of value of such development.

***General Risks Associated with Infrastructure Assets.*** Investments in infrastructure and infrastructure-related assets, will be subject to substantial governmental regulation, and governments have considerable discretion in implementing regulations that could impact the business of the portfolio companies. In addition, the operations of portfolio companies may rely on government permits, licenses, concessions, leases or contracts. Government entities generally have significant influence over such companies in respect of the various contractual and regulatory relationships they may have, and these government entities may exercise their authority in a manner that causes delays in the operation of the business of the portfolio companies, obstacles to pursuit of the portfolio companies' strategy or increased administrative expenses, all of which could materially and adversely affect the business and operations of the Alternative Investments.

Where the ability to operate an infrastructure asset owned by a portfolio company is subject to a concession or lease from the government, the concession or lease may restrict the operation of such asset, including the portfolio company's ability to operate the business in a way that maximizes cash flows and profitability. Leases or concessions may also contain clauses more favourable to the government counterparty than would a typical commercial contract (for example, enabling the government to terminate a lease or concession in certain circumstances without paying adequate compensation). If an infrastructure asset owned by a portfolio company fails to comply with any regulation or contractual obligation, such asset, the portfolio company that owns it, or the funds could be subject to monetary penalties, loss of the right to operate affected businesses, or both. Furthermore, government permits, licenses, concessions, leases and contracts are generally very complex and may result in a dispute over interpretation or enforceability. In addition to any contractual rights they may enjoy, government counterparties may also have the independent discretion to implement or change laws or regulations affecting the operations of infrastructure investments. Further, the ability to grow future businesses will often require consents of numerous government regulators. These consents may be costly to seek, and portfolio companies or the Alternative Investments may be unable to obtain them. The Alternative Investments' ability to achieve their investment strategy could be adversely affected if they fail to obtain any required consents.

Infrastructure assets may be subject to rate regulation by government agencies because of their unique position as the sole or predominant providers of services that are often essential to the community. As a result, certain investments into portfolio companies might be subject to unfavorable price regulation by government agencies. For example, infrastructure companies engaged in businesses with monopolistic characteristics, such as electricity distribution, could face caps placed by regulators on allowable returns. Often these price determinations are final with limited or no right of appeal. Given the public interest aspect of the services that infrastructure assets provide, political oversight of the sector is likely to remain pervasive and unpredictable and, for political reasons, governments may attempt to take actions which may negatively affect the operations, revenue, profitability or contractual relationships of portfolio companies, including through expropriation.

Certain portfolio companies may need to use public ways or may operate under easements. Under the terms of agreements governing the use of public ways or easements, government authorities may retain the right to restrict the use of such public ways or easements or to require portfolio companies to remove, modify, replace or relocate their facilities at the portfolio



company's expense. If a government authority exercises these rights, the portfolio company could incur significant costs and its ability to provide service to its customers could be disrupted, which could adversely impact the performance of the relevant portfolio company.

**Capital Expenditures.** There is a risk that unforeseen factors may require capital expenditures in excess of forecasts and a risk that new or additional regulatory requirements, safety requirements or issues related to asset quality and integrity may result in the need for additional capital expenditure for replacement or reinforcement of infrastructure assets. While the Alternative Investments intend to reasonably ensure that their purchased assets are in good condition and appropriate ongoing maintenance is provided for, no guarantee can be given that capital expenditures in excess of the anticipated levels will not be required.

**Bypass Risk.** Bypass risk arises where a change could occur in the way an infrastructure service or product is delivered, rendering it obsolete and allowing a competitor or user of such service or product to bypass it. If the portfolio companies are subject to bypass, they may lose revenues and cash flows may be adversely impacted. Further, if a change were to occur that made any infrastructure assets obsolete, such infrastructure assets would be likely to have few, if any, alternative revenue-generating uses.

**Strategic Assets Risk.** Investments in public infrastructure may be in assets that constitute significant strategic value to public and/or governmental bodies. The very nature of these assets could generate additional risks not common in other industry sectors. Given the national or regional profile and/or their irreplaceable nature, such strategic assets may constitute a higher-risk target for terrorist acts or political actions. Given the essential nature of the services provided by public infrastructure assets, there is also a higher probability that the services provided by such assets will be in constant demand. Should an owner of such assets fail to make such services available, users of such services may incur significant damage and may, due to the characteristics of the strategic assets, be unable to replace the supply or mitigate any such damage, thereby heightening any potential loss from third-party claims against the Alternative Investments for such failures.

**Potential Environmental Liabilities.** Under Indian laws, an owner of real estate or infrastructure assets may be liable for the costs of removal or remediation of certain hazardous or toxic substances on, in or released from, such assets. The Indian environmental laws often impose a strict liability without regard to whether the owner had knowledge of, or was directly responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. While the Alternative Investments will exercise reasonable care to ensure that the assets forming part of the funds' investments do not present a material risk of such liability, environmental liabilities may arise as a result of a large number of factors, including changes in laws or regulations, accidental releases, and the existence of conditions that were unknown at the time of acquisition. The extent of the responsibility, if any, for the costs of abating environmental hazards may be unclear when the funds are considering a potential investment, and thus any liability resulting from non-compliance or other claims relating to environmental matters could have a material adverse effect on the Alternative Investments' performance. In addition, portfolio companies can have a substantial environmental impact. As a result, community and

environmental groups may protest about the development or operation of such assets, and these protests may induce government action to the detriment of the owner of the assets.

Please also refer to the “General Risks” below.

### ***General Risks***

Alternative Investments entail a high degree of risk. Investors should give careful consideration to the following risk factors and conflicts of interest detailed in this Item 8 and other product-specific information provided by the product or Napier Park in evaluating the merits and suitability of any Alternative Investment products. The following does not purport to be a comprehensive summary of all the risks and conflicts of interest associated with Alternative Investments. As used in this Item 8, “Alternative Investments” means the Funds, and the Managed Accounts.

### **Redemption of Citi Investments**

Citi will redeem all Citi investments prior to July 21, 2014 according to the following schedule: 25% will be redeemed as of June 30, 2012, an additional 30% will be redeemed as of December 31, 2013 and the remaining 45% will be redeemed as of June 30, 2014. Following the redemption of all or a substantial part of the Citi investment, funds may have a significantly reduced asset base, which could have a material negative impact on the fund's ability to participate in certain investment opportunities, diversify its investment portfolio, and achieve its investment objective. Additionally, the reduction of a fund's asset base caused by the redemption of Citi investments may result in the applicable investment manager's determination to dissolve the fund. Consequently, the redemption of the Citi investment could have a material adverse effect on a fund and any investment in the fund, including, without limitation, on the value of the shares/interests and on the ability of investors to redeem their interest in a fund.

### **General Economic Conditions and Recent Events**

Over the past few years, various sectors of the global financial markets have experienced an extended period of adverse conditions following serious disruptions in the U.S. residential mortgage market. Market uncertainty in the United States increased dramatically during this time, and adverse market conditions in the United States have expanded to other markets. These conditions have resulted in reduced liquidity, greater volatility, general widening of credit spreads and a lack of price transparency. These difficult global credit market conditions have adversely affected the market values of equity, fixed-income and other securities and these circumstances may continue or even deteriorate further. The short- and longer-term impact of these events is uncertain, but they have had and are likely to continue to have a material effect on general economic conditions, consumer and business confidence and market liquidity worldwide. Investments made by any Alternative Investment may be sensitive to the performance of the overall economy. A negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of investments made by any Alternative Investment and these or similar events may affect the Alternative Investment's ability to execute its investment strategy.

### Deterioration of the Credit Market

The recent global slowdown and the weakening of the credit market, along with a widening of credit spreads, a deterioration of the sub-prime and global debt markets, and a rise in interest rates, have reduced investors' demand for high yield debt and senior bank debt, which in turn has led some investment banks and other lenders to be unwilling to finance new investments or to only offer committed financing for these investments on unattractive terms. The ability of any fund to generate attractive investment returns for its investors may be adversely affected to the extent the Alternative Investment may or its investments are unable to obtain favorable financing terms. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of global economies. Such an economic downturn could adversely affect the financial resources of operating partners and investment projects in which any fund intends to participate, and may result in the inability of such partners and projects to make principal and interest payments on outstanding debt when due, and may also restrict the ability of any Alternative Investment may to sell or liquidate investments at favorable times or for favorable prices.

### Investment in General

Any prospective client must be able to bear the risks involved and must meet the suitability requirements of the Alternative Investments. Some or all alternative investment strategies employed by the Alternative Investments may not be suitable for certain investors. No assurance can be given that the Alternative Investments' investment objectives will be achieved. Investments in hedge funds, private equity funds, and other types of private investment funds are typically speculative and involve a substantial degree of risk. Past results of the Alternative Investments or any other private investment funds managed are not necessarily indicative of future performance of any Alternative Investment and the performance of such Alternative Investment may be volatile. Such past performance may not be an accurate indicator of future returns. Investment results may vary substantially on a monthly, quarterly or annual basis. The establishment and use of an Alternative Investment does not constitute a complete investment program. A prospective client must realize that it could lose all or a substantial amount of its investment in an Alternative Investment.

Napier Park expects that certain Alternative Investments may underperform or experience financial difficulties, which difficulties may never be overcome. Certain Alternative Investments may be highly illiquid and/or permit redemptions infrequently and under very restrictive terms. Investment Managers may utilize highly speculative investment techniques, including extremely high leverage, highly concentrated portfolios, workouts and startups, control positions and illiquid investments. No assurance can be given that an Alternative Investment will achieve its goals or investment objectives.

### Government Regulation – Financial Stability Legislation.

The recently enacted Financial Reform Act includes significant alterations to the regulations applicable to financial institutions and investment advisors, including the Alternative Investment and Napier Park. The Financial Reform Act modifies registration requirements for private investment funds, modifies the standard to qualify as an accredited investor, and modifies a number of restrictions applicable to covered financial companies. The Financial Reform Act

requires advisers to private funds to maintain certain records and reports pertaining to the following items, which are subject to SEC inspection: amount of assets under management; use of leverage; counterparty exposure; trading and investment positions; valuation policies and practices; types of assets held; side arrangements or side letters; trading practices and other information deemed necessary by the SEC. Additionally, the Financial Reform Act imposes regulatory changes with respect to covered financial companies relating to the operation, capital maintenance and activities of systemically important nonbank financial companies, and would restrict such entities from engaging in proprietary trading, investing in or sponsoring certain private funds and engaging in transactions with affiliates. The Financial Reform Act includes a number of additional regulatory requirements with respect to entering into derivative and swap transactions, capital and margin requirements for swap transactions and obtaining approvals for swap transactions. Federal, state, and other governments, their regulatory agencies, or self regulatory organizations may enact further legislation and/or rules which impact the management of the Alternative Investment and the instruments in which Alternative Investment invests in ways that are unforeseeable. The U.S. Congress specifically delegated rule making authority necessary to implement certain provisions of the Financial Reform Act to a range of governmental regulators which wield discretionary authority, such as the SEC, the CFTC, the Board of Governors of the Federal Reserve System, and the to-be-established Financial Stability Oversight Council. Such legislation or regulation could limit or preclude the Alternative Investment's ability to achieve its investment objective.

#### Market Disruption and Political Risk

The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of asset prices, liquidity, interest rates and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Volatility, illiquidity, governmental action, currency devaluation, or other events in global markets in which the Alternative Investments directly or indirectly hold positions could impair the Alternative Investments' ability to achieve their investment objectives and could cause the Alternative Investments to incur substantial losses.

#### Business and Regulatory Risks

The industry of hedge funds, real estate funds and other private investment funds has been and is expected to continue to be subject to increased regulation and public scrutiny. Legal, tax and regulatory changes are expected to occur that may adversely affect the Alternative Investments. The regulatory environment for hedge funds, private equity funds, real estate funds and other private investment funds is evolving globally, and changes in the regulation of private investment funds may adversely affect the value of investments held by the Alternative Investments and the ability to obtain the leverage the Alternative Investments might otherwise obtain or the ability of the Alternative Investments to pursue certain trading strategies. The effect of any future regulatory change on the Alternative Investments could be substantial and adverse.

#### Illiquidity of the Alternative Investments

Some Investment Managers may withhold such consent for any reason or no reason. Interests in the Alternative Investments will be offered without registration under the Securities Act, in reliance upon an exemption contained in Section 4(2) of the Securities Act and/or Regulation D

under the Securities Act. There will be no public market for such interests in the Alternative Investments and, for a variety of regulatory reasons, no such market will be permitted to exist. The only source of liquidity lies in an investor's right to redeem from the Alternative Investments (if any such right even exists). Redemptions from the Alternative Investments, may be subject to various restrictions, including prior notice and minimum redemption requirements, lock-up periods of one year or more, side-pocketed investments, and the right of the Alternative Investments to reduce the amount of redemptions in accordance with a redemption gate. In addition, in the event of a complete redemption from an Alternative Investment, a portion of the redemption proceeds may be retained by such Alternative Investment until the completion of such Alternative Investment's annual audit. The Alternative Investments may have discretion to further defer payment of redemption proceeds, to suspend redemptions indefinitely and to satisfy redemptions in kind. In addition, redemption payments from certain Alternative Investments may be based on inaccurate/or estimated data, and may be subject to a return of any overpayments by the investor.

#### Lack of Regulation of Alternative Investments

The Alternative Investments are generally not subject to many provisions of the federal securities and commodities laws that are designed to protect investors in pooled investment vehicles offered to the public in the United States. The interests in Alternative Investments generally are not offered pursuant to registration statements effective under the Securities Act. In addition, the Alternative Investments generally are not subject to the periodic information and reporting provisions of the Exchange Act, nor in most cases will those Alternative Investments be registered as investment companies under the Investment Company Act. Similarly, the Investment Managers of Alternative Investments that trade in commodity interests may be exempt from the disclosure, reporting and record-keeping requirements of the Commodity Exchange Act of 1936, as amended.

#### Valuation Risks

Valuations of assets of the Alternative Investments' directly or indirectly held positions may involve uncertainties and require the application of business judgment. If such valuations should prove to be incorrect, the net asset value of an Alternative Investment could be adversely affected. Valuation of assets of the Alternative Investments is generally based on the net asset value of Alternative Investments reported by Napier Park in accordance with its practices and policies.

#### Risk Management

Napier Park's risk analysis team includes professionals with technical expertise in analyzing the risks of investing in Alternative Investments. Where applicable, Napier Park believes that risk management for a fund of funds requires an understanding of market risk and leverage, at both the Alternative Investment level. Accordingly, Napier Park's risk analysts maintain a proprietary risk management system that provides processes and tools designed for the complex strategies used by Alternative Investments. No risk management process is fail-safe, and no assurances can be given that Napier Park's risk management process will achieve its objective. From time to time, Napier Park may modify or change its risk management system in its sole discretion.

### Leverage

The Alternative Investments are generally authorized to borrow funds in order to employ leverage, to manage liquidity and for any other purpose (as specified in their respective account documentation and governing documents). Such borrowings may be secured by a pledge of assets to the lender. Borrowing money to purchase securities may provide an opportunity for greater capital appreciation by permitting greater economic exposure to profitable positions. At the same time, leverage increases the Alternative Investments' exposure to capital risk and higher current expenses through greater exposure to losses, interest charges, fees imposed by lenders and transaction costs.

### Effect of Substantial Redemptions

Substantial redemptions by investors within a short period of time could require an Investment Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the value of the Alternative Investment's assets. The resulting reduction in the Alternative Investment's assets could make it more difficult to generate a positive rate of return or to recoup losses due to a reduced equity base. Because substantial redemptions may be funded by liquidating the more liquid assets in the portfolio, such redemptions may cause the remaining portfolio to be substantially less liquid overall.

### Effects of In-Kind Redemptions

Proceeds of an in-kind redemption may be distributed to an investor directly or indirectly through a distribution of, without limitation, interests in one or more special purpose vehicles holding assets owned by an Alternative Investment or participations therein. To the extent an investor is distributed interests in one or more special purpose vehicles holding participation interests in the assets of such Alternative Investment, an investor may continue to be at risk of such Alternative Investment's business until all such assets are sold. The value of proceeds distributed in kind may increase or decrease before they can be sold either by an investor, if received directly, or by Napier Park of such Alternative Investment, if held through a special purpose vehicle. In the case of interests in special purpose vehicles, an investor will share a proportionate portion of the operating and other expenses borne by such vehicle, including possibly fees to Napier Park. Additionally, proceeds distributed in kind, either directly or indirectly, may not be readily marketable. The risk of loss and delay in liquidating these assets will be borne by investors. Furthermore, to the extent that an investor receive interests in one or more special purpose vehicles, such investor will generally have no control over when and at what price the assets in which such vehicles have an interest are sold.

### Dependence on Key Personnel

The success of any Alternative Investment depends in substantial part on the skill and expertise of the key members of the investment team. There can be no assurance that the key members of any investment team will continue to be employed by Napier Park or its affiliates throughout the life of the Alternative Investment. The loss of the services of one or more of such officers or employees could have a material adverse effect on the performance and operation of the Alternative Investment. In the event that the services of any such personnel are lost, the Alternative Investment may not be able to successfully recruit new personnel with the requisite skills, knowledge, relationships or experience.

### Reliance on Management

Although Napier Park seeks to monitor the performance of each investment, an Alternative Investment will rely upon management to operate the portfolio companies on a day-to-day basis. There can be no assurance that such management, or any new management, will continue to operate successfully.

### Bankruptcy of Portfolio Companies

An Alternative Investment may make investments in portfolio companies that may experience financial difficulties and become insolvent or file for bankruptcy protection. Various U.S. federal and state and non-U.S. laws in connection with such bankruptcy proceedings could operate to the detriment of such Alternative Investment. There is also a risk that a court may subordinate the investment to other creditors or require the Alternative Investment to return amounts previously paid to it by a portfolio company that became insolvent or files for bankruptcy, a risk that could increase if the Alternative Investment has management rights in such portfolio company.

### Investment Selection

Napier Park will select investments on the basis of information and data prepared by the issuers of such securities or made directly available to Napier Park by the issuers of the securities and other instruments or through sources other than the issuers. Although Napier Park evaluates available information and data and seek independent corroboration when it consider it appropriate and when it is reasonably available, Napier Park is not in a position to confirm the completeness, genuineness or accuracy of such information and data.

### Investment in Foreign Securities

The Alternative Investments may, either directly or indirectly take positions in non-U.S. securities. Investment in non-U.S. securities may be subject to greater risks than purely domestic investments because of a variety of factors, including currency controls and the fluctuation of currency exchange rates, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. In addition, there may be less publicly available information about non-U.S. issuers than about U.S. issuers, and non-U.S. issuers are not subject to uniform accounting, auditing and financial reporting standards and requirements comparable to those of U.S. issuers.

### Counterparty Risk

The Alternative Investments are subject to the risk of the failure or default of any counterparty to the transactions of the Alternative Investments. The institutions, including brokerage firms and banks, with which the Alternative Investments do business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of an Alternative Investment. Hedging transactions, margin trading and other financial mechanisms designed to implement various trading strategies involve counterparty risk elements that may be impossible or impractical to eliminate or may create unforeseen exposures. If there is a failure or default by the counterparty to such a transaction, the contractual and other legal remedies available may be limited or inadequate. Counterparty

risk may be reduced but not eliminated through the selection of financial institutions and types of transactions employed.

#### Correlation Risk

In many cases, the strategy will be based on an assumption that historical pricing correlations accurately represent future correlations. In contexts where a strategy is based on identifying apparent pricing anomalies based on historical correlations, a short- or long-term change in those correlations could adversely affect the anticipated market gain achievable from trading on the basis of the strategy.

Historical pricing patterns do not necessarily predict future relationships, particularly at times of serious market disruption or during unusual trading periods or market events. Consequently, the adoption of certain strategies will not necessarily eliminate or modulate market risk. Since many strategies assume a continuation of historical pricing patterns, any substantial deviation from those patterns can result in volatility and losses.

#### No Current Income

An Alternative Investment's investment policies should be considered speculative, as there can be no assurance that Napier Park's assessments of the short-term or long-term prospects of investments in the Alternative Investments will generate a profit. In view of the fact that there may be no assurance the Alternative Investments will make distributions, that such distributions may be infrequent and that investors may have limited rights to redeem from the Alternative Investments, an investment in an Alternative Investment is not suitable for investors seeking current income for financial or tax planning purposes.

#### No Manager Liability Beyond Investment Assets

Subject to Napier Park's fiduciary responsibility to investors in an Alternative Investment, such Investment Manager shall have no personal liability to an investor for the return of any investment in such Alternative Investment, it being understood that any such return shall be made solely from such Alternative Investment's assets.

#### Indemnification; Return of Redemptions and Distributions.

Napier Park and other persons retained by an Alternative Investment are entitled to indemnification and/or exculpation for liability and losses incurred or arising out of their performance of services, except under certain circumstances, from the respective Alternative Investment as set forth in more detail in the respective account documents. An Alternative Investment may also enter into indemnification arrangements and other arrangements that impose limitations on liability with its service providers and other parties

#### Early Termination

In the event of the early termination of an Alternative Investment, it is possible that, at the time of such sale or distribution, certain securities held by the Alternative Investment would be worth less than the initial cost or previously reported value of such securities, resulting in a loss to investors.

#### Limited Operating History



Some Alternative Investments may be newly established and have no or limited operating history. The past performance of the principals of, or entities associated with, the Investment Managers may not be construed as an indication of the future results of an investment in such Alternative Investments.

#### Limited Voting Rights

The documents governing the Alternative Investments will generally provide that investors have no voting rights except in limited circumstances. Generally, investors will have no right to vote on many matters affecting the Alternative Investments, including, without limitation, the election and dismissal of directors, most amendments, supplements or other modifications to the governing documents of the Alternative Investments or the merger and/or consolidation of the Alternative Investments or the liquidation of the Alternative Investments.

#### Defaulting Investors; Exclusion from Investments

Upon the failure of an investor in an Alternative Investment to fund required capital contributions, such investor will be in default. The amount of such default will accrue interest. In addition, a number of remedies may be exercised against such investor including (i) causing the defaulting investor to forfeit a portion of future distributions made by the Alternative Fund and (ii) causing the defaulting investor to be excluded from participating in future investments. In addition, the defaulting investor may have no rights to make capital contributions to the Fund.

If investors fail to fund significant subscription obligations or to make required capital contributions when due, such failure could limit an Alternative Investment's opportunities for investment diversification and could adversely affect returns as well as the Alternative Investment's ability to implement its investment strategy or otherwise continue operations. The general partner (or similar party) of the Alternative Investment will have the right in its discretion to take certain actions in order to cover shortfalls arising from the default of the investor or the exclusion or excuse of the investor as the general partner deems appropriate under the circumstances. The general partner may, for example, (i) require an increase in the capital contributions of all other investors or (ii) obtain the agreement of another investor or a third party to cover all or a portion of the shortfall. If the general partner elects to have the other investors cover the shortfall, such investors will have an increased share in such investments in proportion to their respective capital commitments, and accordingly in the risks associated with such investments.

An investor may be excluded or excused from participating in any portfolio investment if the general partner determines in its discretion that such participation might otherwise have certain materially adverse effects on a portfolio company, the Alternative Investment, other investors or any of their respective affiliates, including if such participation would be likely to result in violations of law or the imposition of a material regulatory or legal burden, or as a result of certain circumstances relating to such investor.

#### Involuntary Sale of Interest

The general partner of an Alternative Investment may cause an investor to sell its interest if the general partner determines that the continued participation of such investor would have a material adverse effect on the general partner, the Alternative Investment, any portfolio company, any other investor or any of their respective affiliates.

### Tax Risks

Tax consequences to investors from an investment in an Alternative Investment are complex. There may be changes in tax laws or interpretations of such tax laws adverse to the Alternative Investment or its investors. There can be no assurance that the structure of an Alternative Investment or of any investment will be tax-efficient to any particular investor. Prospective investors are strongly urged to consult their own tax advisers with reference to their specific tax situations, including any applicable U.S. state or local or non-U.S. taxes and, in the case of U.S. tax exempt and non-U.S. investors, with reference to any special issues that investment in an Alternative Investment may raise for such investors. For example, there can be no assurance that an Alternative Investment will have sufficient cash flow to permit it to make annual distributions in the amount necessary to pay tax liabilities resulting from investors' ownership of interests such Alternative Investment.

### Political Risks and Catastrophic Events

Depending on the country in which a portfolio company is located, there may exist the risk of adverse political developments, including nationalization, confiscation without fair compensation or war. Portfolio investments may also be subject to catastrophic events and other force majeure events, such as fires, earthquakes, adverse weather conditions, changes in law, eminent domain, riots, terrorist attacks and similar risks. These events could result in the partial or total loss of a portfolio investment or significant down time resulting in lost revenues, among other potentially detrimental effects.

### Substantial Fees and Expenses

The Alternative Investments are required to meet certain fixed costs, including organizational and offering expenses, investment-related expenses, and ongoing administrative and operating expenses (such as fees payable to the service providers). These fees and expenses may be substantial and are payable regardless of whether any profits are realized by the Alternative Investments.

### Side Letters and Other Agreements

Some Alternative Investments may enter into separate agreements with certain investors, such as those affiliated with the Investment Managers or those deemed to involve a significant or strategic relationship, to waive certain terms, or to allow such investors to invest in separate classes of interests with different terms than those of the other investors, including, without limitation, with respect to fees, liquidity or depth of information provided to such investors concerning the Alternative Investment. Under certain circumstances, these agreements could create preferences or priorities for such investors with respect to other investors of the Alternative Investment. In addition, Napier Park may specifically allocate capacity with respect to some of the Alternative Investment's investments to clients or investors who desire increased exposure to such investments. New classes of interests of the Alternative Investment may be established without the approval of the existing investors.

Some Alternative Investments may offer certain investors additional or different information and reporting than that offered to other investors. Such information may provide the recipient greater insights into the Alternative Investment's activities than is included in standard reports to investors, thereby enhancing the recipient's ability to make investment decisions with respect to the Alternative Investment.

**The foregoing list of risk factors is not a complete explanation of the risks involved in an investment in an Alternative Investment.**

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

To the best of our knowledge, currently there are no legal or disciplinary events that may be material for a client or prospective client to disclose.

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

Many of the officers and employees that will be transferred to Napier Park who will make investment decisions, have in the past held, and will continue to hold, similar positions as officers and employees of affiliates of Napier Park, including Napier Park Global Capital Ltd. Napier Park may share resources, other employees and management, as well as investment ideas and opportunities, with any or all affiliates engaged in similar activities.

Napier Park may recommend that its clients invest in investment funds in which Napier Park or one of its affiliates is a managing or non-managing general partner (or equivalent).

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

##### Code of Ethics

Napier Park as part of CCA has adopted a Code of Ethics that memorializes Napier Park's fundamental duties as a fiduciary. The Code of Ethics includes standards of business conduct and incorporates a personal investments policy. Each employee receives a copy of the Code of Ethics upon hiring and annually thereafter and must sign an attestation that such employee has read and understood such Code of Ethics.

Napier Park's Code of Ethics requires each employee to prioritize the interests of the client, to avoid conflicts of interest, to never abuse such employee's position of trust and responsibility and to comply with all federal securities laws. Employees are required to safeguard material non-public information in such employee's possession and are prohibited from using such information to such employee's personal benefit. Each employee must treat information belonging to clients as confidential and take care to protect such information from unauthorized access by third parties.

To avoid any potential conflict of interest involving personal transactions, Napier Park requires each employee to notify compliance upon opening a personal account, to pre-clear personal transactions and disclose all potential conflicts of interest with regard to such a personal transaction before engaging in the transaction. Employees are also subject to a restricted list and blackout periods. In addition, access persons (defined as employees with access to non-public information regarding Napier Park's purchase or sale of securities and directors, officers and

partners) will (i) upon starting employment, provide a complete record of his or her securities holdings to compliance and annually thereafter (ii) must arrange to have duplicate confirmations sent to compliance unless such information has been provided through other measures. All employees are required to inform compliance of any violation of the Code of Ethics that comes to his or her notice.

A copy of Napier Park's Code of Ethics will be provided to any client or prospective client upon request.

### Trading Practices

*Participation and Interest in Client Transactions.* Napier Park as part of CCA has implemented policies and procedures that address affiliated transactions. Therefore, from time to time, Napier Park or its affiliates may effect a securities transaction between one or more Funds. In such case, one Fund will purchase securities held by another Fund. Napier Park effects these transactions only (i) when it deems the transaction to be in the best interests of both client accounts and (ii) at a price that Napier Park has determined by reference to independent market indicators, which Napier Park believes to constitute "best execution" for both accounts. Neither Napier Park nor its affiliates will receive any compensation, directly or indirectly, for arranging such a transaction. To the extent that Napier Park or its affiliates engage in principal agency, agency cross transactions or cross trades, such transactions will be consummated in accordance with Section 206(3) of the Advisers Act and, as applicable, Rule 206(3)-2 promulgated thereunder.

*Aggregation of Transactions.* If a portfolio manager believes that the purchase or sale of a security is in the best interests of more than one client, the portfolio manager may, but is not obligated to, aggregate the securities to be sold or purchased, to the extent permitted by applicable law and regulations. In such event, the transactions, as well as the expenses incurred in such transactions, will be allocated by the portfolio manager consistent with fiduciary duties to ensure that all clients are treated fairly. The portion of an aggregated order to be allocated to each client's account will be specified contemporaneously with the execution of the trade.

### Interest in Client Transactions

Napier Park may recommend securities in which it and/or its affiliates directly or indirectly have a financial interest. Napier Park affiliates also may buy and sell securities that Napier Park recommends to advisory clients for purchase and sale. Napier Park may give advice and take action in the performance of its duties to clients which differs from the advice given, or the timing and nature of action taken, with respect to the accounts of its affiliates and/or the accounts of other clients.

In certain instances, affiliates of Napier Park may acquire investments in an issuer on a side-by-side basis with an investment vehicle managed by Napier Park. Such investments may provide the vehicle with access to investments that it could not otherwise have obtained. However, this practice may give rise to potential conflicts of interest. Napier Park and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, investment

opportunities between or among funds and its affiliates and other investment accounts. Please see Item 12 “Brokerage Practices”, - Allocation of Investment Opportunities for more details.

Temporary investments in which an account’s assets may be invested include instruments issued, or funds managed by, an affiliate of Napier Park, in which case such affiliate will receive fees or other compensation in connection with such investment. Such fees will be in addition to the advisory fees and other compensation paid to Napier Park.

### Inside Information

In addition, Napier Park as part of CCA has adopted procedures to guard against insider trading. In the event that Napier Park obtains material, non-public information about an issuer, it may be prohibited from trading the issuer’s securities until the information becomes public or is no longer material. Napier Park’s investment flexibility may be constrained as a consequence of Napier Park’s inability to use such information for investment purposes.

### Other Conflicts of Interest

Napier Park or any of its respective affiliates or directors may have an interest in a Fund or in any transaction effected with or for it, or a relationship of any description with any other person, which may involve a potential conflict with their duties to the Fund, and none of them will be liable to account for any profit or remuneration derived from doing so. If Napier Park has, or may have, in relation to a proposed transaction for the Fund, a material interest or a relationship that gives or may give rise to a conflict of interest, Napier Park will not knowingly advise, or deal in the exercise of discretion in relation to that transaction, unless it takes reasonable steps to ensure fair treatment for the Fund.

For example, such potential conflicts may arise because:

- (a) Napier Park or its affiliates undertake business for other clients;
- (a) a director or employee of Napier Park or its affiliates is a director of, holds or deals in securities of, or is otherwise interested in, any company the securities of which are held by or dealt in on behalf of the Fund;
- (b) the transaction relates to an investment in respect of which Napier Park or one of its affiliates may benefit from a commission, fee, mark-up or mark-down payable otherwise than by the Fund;
- (c) Napier Park or one of its affiliates may act as agent for the Fund in relation to transactions in which it is also acting as agent for the account of other clients of Napier Park or its affiliates; or
- (d) a transaction of the Fund may be in units or shares of a collective investment scheme or any company in relation to which Napier Park or one of its affiliates is the manager, operator, adviser or trustee.

Affiliates of Napier Park engage in a broad spectrum of activities, including financial advisory activities, and managing private investment funds, and other activities, and may from time to time present potential conflicts of interest with, Napier Park's clients. Many of these potential conflicts of interest arise in connection with the other investment management activities of Napier Park affiliates. In these cases, these relationships or proprietary investment activities may result in a Fund or Managed Account not being permitted to pursue certain investment opportunities. Accordingly, no assurances can be given that all potentially suitable investment opportunities will be offered to any given Fund or Managed Account.

Napier Park affiliates may provide services to, invest in, advise, sponsor and/or act as investment manager to investment vehicles and other persons or entities (including prospective investors in the Funds and Managed Accounts which may have similar structures and investment objectives and policies to those of the Funds and, Managed Accounts, and which may compete with the Funds, and Managed Accounts for investment opportunities and which may co-invest with the Funds and Managed Accounts, in certain transactions. In addition, Napier Park affiliates and their respective clients may themselves invest in securities that would be appropriate for the Funds and Managed Accounts and may compete with the Funds and Managed Accounts for investment opportunities.

Napier Park affiliates may provide advisory and other services to parties entering into transactions with entities advised by Napier Park. In such instances, steps will be taken to ensure that the investment decision-making process on behalf of the Napier Park-advised entity is insulated from any investment banking considerations.

Generally speaking, the officers and employees of Napier Park will devote such time as the general partners of their various Funds or Managed Accounts deem necessary to carry out the operations of the Funds and Managed Accounts. However, officers and employees of Napier Park are not necessarily required to devote full time to a given fund's business and they may have conflicts of interest in allocating their time between such fund and other related or unrelated activities.

It is also possible that Napier Park professionals will be permitted to co-invest in certain investment opportunities in which a given client fund invests as a further incentive and means of aligning such professionals' interests with the interests of the fund's investors.

Investors in Napier Park's various Funds are expected to include entities and persons located in various jurisdictions, who may have conflicting investment, tax and other interests with respect to their various fund investments. As a result, conflicts of interest may arise in connection with decisions made by Napier Park or its affiliates that may be more beneficial for one type of investor than another type of investor. Napier Park will follow the investment objective and standards for resolving such conflicts set forth in each of its fund's governing documents—e.g., by focusing on the pre-tax investment objectives of a fund as a whole.

In certain situations, Napier Park may be restricted or precluded from pursuing an investment with respect to a given property due to certain regulatory considerations arising under ERISA, section 17 of the Investment Company Act of 1940, or similar laws.

## Procedures for Resolving Conflicts of Interest

On any issues involving actual conflicts of interest, Napier Park will be guided by its legal obligations, including but not limited to the contractual requirements governing such situation, as well as its good faith judgment as to a client's best interests. Napier Park may refer the matter to a committee designed to monitor fiduciary relationships. Subject to the applicable investment management agreement and other governing documents, Napier Park may take such actions as it may deem necessary or appropriate to ameliorate the conflict.

### **Item 12      Brokerage Practices**

#### Brokerage Discretion

Napier Park generally is not limited in its authority to select broker-dealers for trade execution.

In selecting an unaffiliated broker-dealer for trade execution, Napier Park uses its best judgment to select a broker-dealer that provides prompt and reliable execution at favorable securities prices and reasonable commission rates. Ordinarily, the best net price, giving effect to brokerage commissions and other costs, is the determining factor, but a number of other factors also may enter into the decision. These factors may include: the nature of the security being traded; the size and complexity of the transaction; the desired timing of the transaction; the existing and expected activity in the market for particular securities; confidentiality; and the execution, clearance, and settlement capabilities and financial condition and other relevant and appropriate services of the broker-dealer.

Napier Park may choose to participate in seminars or conferences, or other types of capital introduction service programs (collectively referred to as "Cap Intro Programs") held by affiliated and/or non-affiliated prime brokers for their current or prospective clients that are hedge fund or investment managers that manage funds or other types of investment vehicles or who are otherwise eligible to invest in Napier Park products. Napier Park may have an incentive to select or recommend a broker-dealer based on its interests in receiving client referrals or invitations to participate in such Cap Intro Programs.

#### Research and Other Soft Dollar Arrangements

Napier Park does not utilize client's agency commission dollars to purchase research and other services i.e. soft dollars.

#### Allocation of Investment Opportunities

Affiliates of Napier Park and other proprietary investment accounts managed by Napier Park may co-invest with a client advised by Napier Park on a side-by-side basis from time to time. Clients may, from time to time, compete with such other investors for access to potential investments. Napier Park and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, such investment opportunities between or among the funds and its affiliates and other proprietary investment accounts. However, such allocation will not necessarily be made pro rata based on available assets. There can be no assurance that a particular investment opportunity which comes to the attention of Napier Park's affiliates will be

referred to Napier Park and the funds it manages. Napier Park is not obligated to refer any specific investment opportunity to a client.

In the event that two or more Napier Park clients or portfolios managed by Napier Park officers through affiliates (including proprietary portfolios) have cash available for investment at the same time and an investment opportunity arises that may be appropriate for each client and the affiliated portfolio but whose availability to Napier Park and its affiliates is limited, Napier Park and its affiliates will seek to fairly and equitably allocate such investment opportunity between or among such funds, taking into account such factors as each fund's investment objective, industry and sector focuses, size and available cash.

### Aggregation of Transactions

If a portfolio manager believes that the purchase or sale of a security is in the best interests of more than one client, the portfolio manager may, but is not obligated to, aggregate the securities to be sold or purchased, to the extent permitted by applicable law and regulations. In such event, the transactions, as well as the expenses incurred in such transactions, will be allocated by the portfolio manager consistent with fiduciary duties to ensure that all clients are treated fairly. The portion of an aggregated order to be allocated to each client's account will be specified contemporaneously with the execution of the trade.

## **Item 13      Review of Accounts**

### ***Review of Accounts***

#### *Market Strategies Product and Managed Accounts:*

Fiduciary committees consisting of senior Napier Park professionals including legal, risk and compliance meet quarterly to review client accounts, fund performance and any significant events.

*India Investment Business:* The funds relating to this business typically hold annual meetings with investors to review and discuss the funds' investment activities and portfolio. Valuation committee meetings are held quarterly to review the valuation of underlying investments.

### ***Client Reports***

*Market Strategies Fund Products:* Napier Park will report performances on at least a quarterly basis.

*India Investment Business:* Napier Park's clients are funds, not the funds' underlying investors. Napier Park will provide each fund's general partner with periodic reports concerning the fund's investments. While the funds' underlying investors are not advisory clients of Napier Park and will not receive periodic reports from Napier Park as advisory clients, such investors will be provided by the funds with annual audited financial statements of the applicable fund and quarterly investor reports.

*Managed Accounts:* With respect to the Managed Accounts Napier Park's clients are the holders of the Managed Account. The relevant advisory agreement and related account documentation



will specify the reports to be provided to the client, but generally holders of Managed Accounts receive at least a quarterly statement.

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

Napier Park does not receive any economic benefits from non-clients for providing investment advice or other advisory services to clients.

Napier Park may enter into agreements with its employees, and/or third parties to solicit clients for Napier Park's investment advisory services. Under such agreements, persons may refer or solicit clients and receive compensation for such services. The structure of any agreement with a third party, including the compensation payable to the solicitor, will be disclosed fully to the client as required by applicable law. Different solicitors, including affiliates, may receive varying amounts of compensation for their services.

Napier Park also may enter into agreements to refer clients to its affiliates. Under such arrangements, Napier Park would receive compensation for such referrals.

#### **Item 15 Custody**

Napier Park does not provide custodial services to its clients. Client assets are held with banks, registered broker-dealers, or other qualified custodians.

Napier Park will cause its Funds, Managed Accounts and any related special purposes vehicles to maintain its funds and securities with a qualified custodian, which includes a U.S. bank, an SEC-registered broker-dealer, a CFTC-registered futures commission merchant, and a foreign financial institution that segregates client assets.

In addition, each Fund, Managed Account or special purpose vehicle is required to be audited at least annually and to provide audited financial statements to its investors within 120 days after the end of its fiscal year, or 180 days in the case of funds of funds. (Otherwise, the relevant fund custodian will send each such fund investor a quarterly account statement showing such fund's quarter-end positions and NAV, and the fund's aggregate account transactions during the quarter. In addition, a surprise examination of the relevant fund will be conducted by a qualified independent accountant.)

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

Napier Park has the authority to determine, without obtaining specific client consent, the investments and temporary investments. A Fund will acquire, subject in each case to the limitations and restrictions described in the funds' offering materials and governing documents (in the case of the funds) and the investment advisory agreements. A fund or account may receive distributions in kind in the form of securities of portfolio companies, some of which may be illiquid or restricted securities. With respect to such distributions, Napier Park may have the discretion to sell such securities and distribute the cash proceeds, distribute such securities in kind or offer the funds' investors the option, subject to Napier Park's consent, either to receive the securities in kind or have the fund sell them and distribute the cash proceeds. While Napier Park will use reasonable efforts in such instances to sell or to distribute marketable securities promptly, investors will bear any associated costs or market risks during the disposition process.

*Managed Accounts.* The relevant advisory agreement and related account documentation will specify the investment authority (including limitations on it) granted to Napier Park by the holder of the Managed Account.

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

Napier Park has been delegated the authority to vote investment proxies on behalf of certain of its clients and has adopted written policies that are reasonably designed to ensure proxies are voted in the best interest of its clients and to resolve conflicts of interest (the “Policies”). The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any, in a manner that serves the best interests of client accounts, as determined by Napier Park in its discretion. Clients may request a copy of the Policies and the proxy voting record relating to their account by contacting Napier Park.

#### **Item 18      Financial Information**

All client fees owed to Napier Park are either paid in arrears or paid less than six months in advance. Under relevant SEC rules, this means that Napier Park is not required to disclose information about its financial position or balance sheets. Nonetheless, we confirm that we believe that Napier Park has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.