

**Brochure**  
(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Salus Capital Partners, LLC (“SCP”) and Salus Capital Partners II, LLC (“SCP II”) (collectively, “Salus”). If you have any questions about the contents of this brochure, please contact Robert Kuppens, Chief Compliance Officer, at 617-420-2665 or [rkuppens@saluscapital.com](mailto:rkuppens@saluscapital.com).

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 Salus also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

May 17, 2013

**Item 2: Material Changes**

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**Annual Update**

This Item 2 is not applicable.

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

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##### **A: Firm Description**

Salus Capital Partners, LLC (“SCP”) is a Delaware limited liability company formed on November 10, 2011. Salus Capital Partners II, LLC (“SCP II”) is a Delaware limited liability company formed on November 21, 2012. SCP II is wholly owned by SCP and both are principally owned indirectly through private intermediate subsidiaries by Harbinger Group Inc., a Delaware corporation that is publicly held. SCP and SCP II are referred to collectively herein as “Salus.”

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##### **B: Types of Advisory Services**

Salus provides investment advisory services on a discretionary basis only to private pooled investment vehicles not registered under the Investment Company Act of 1940, as amended (the “1940 Act”). Initially, Salus’s clients are one or more collateralized loan obligations (each, a “CLO,” and collectively, the “CLOs”) and may include other private funds (any private funds, together with the CLOs, the “Clients” and each, a “Client”). Salus may in the future provide advisory services to one or more separately managed accounts.

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##### **C: Tailored Services**

Salus tailors its advisory services to the needs of Clients. Under certain circumstances, Clients may impose restrictions on investing in certain types of assets. Salus cannot tailor its investment advisory services to meet the individual investor needs of the investors in its CLOs because each CLO has discrete investment guidelines and requirements that Salus must follow.

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##### **D: Wrap Fee Programs**

Salus does not participate in any wrap fee programs.

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##### **E: Client Assets Under Management**

As of April 1, 2013, Salus currently manages \$229,971,962 of regulatory assets under management on a discretionary basis. Salus does not currently manage any regulatory assets under management on a non-discretionary basis.

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

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### **A. Description and B. Fee Billing**

SCP II acquires on behalf of each CLO secured and unsecured loans and other debt instruments (collectively, the “Collateral Obligations”). SCP II acts as collateral manager for each CLO and seeks current income and return of principal for CLO investors by acquiring, holding and disposing on behalf of each CLO loans and other assets. Target Client investments include loans originated for borrowers in the corporate middle market and asset-based loans for purposes ranging from traditional working capital to growth capital, acquisitions, refinancings and late-stage turnarounds.

Salus is currently focused on providing capital solutions across a wide range of industries with a core competency in retail and consumer products. Each CLO issues senior and subordinated notes to investors meeting suitability qualifications specified in such CLO’s indenture.

As compensation for the performance of its obligations as collateral manager to Salus CLO 2012-1, Ltd., a Cayman Islands exempted limited company and Salus CLO 2012-1, LLC, a Delaware limited liability company (collectively, the “Initial CLO”), pursuant to the Collateral Management Agreement between SCP II and the Initial CLO, SCP II is entitled to receive on each payment date, subject to available cash flow, a fee in an amount equal to the sum of:

(a) a senior management fee (the “Senior Collateral Management Fee”) equal to 0.20% per annum of the “fee basis amount” measured as of the beginning of the due period preceding such payment date; and

(B) a subordinated management fee (the “Subordinated Collateral Management Fee”) and together with the Senior Collateral Management Fee, the “Base Collateral Management Fee”) equal to 0.30% per annum of the fee basis amount measured as of the beginning of the due period preceding such payment date.

As used herein, the term “fee basis amount” for any payment date means the sum of the daily average aggregate Collateral Obligation commitment amount and the daily average balance of cash on deposit in the principal collection subaccount for the collection period related to such payment date. More information about the fee basis amount is available in the offering circular for the Initial CLO.

In addition to the Base Collateral Management Fee, on each payment date, SCP II is entitled to receive an incentive collateral management fee equal to a percentage of the interest proceeds and principal proceeds available for distribution to holders of the Initial CLO’s outstanding subordinated notes on and after the payment date on which the holders of the subordinated notes issued on the closing date have realized an internal rate of return of at least 10% on their subordinated notes investment (calculated from the closing date to and including such payment date) (the “Incentive Collateral Management Fee” and, together with the Base Management Fee, the “Collateral Management Fee”).

The Collateral Management Agreement further provides that if the Collateral Management Agreement is terminated, any Collateral Management Fee will be prorated for any partial periods between payment dates during which the Collateral Management Agreement was in effect and shall be due and payable on the first payment date following the date of such termination.

If amounts distributable on any payment date in accordance with the priority of payments set forth in the Initial CLO's indenture are insufficient to pay in full any of the Collateral Management Fee then due (other than as a result of a waiver or deferral of such Collateral Management Fee by SCP II), then the amount which remains unpaid on such payment date will be deferred and will accrue interest at a rate of LIBOR for the applicable period plus 3.00% per annum and will be payable on subsequent payment dates on which funds are available therefor according to the priority of payments set forth in the CLO's indenture. SCP II may, in its sole discretion (but shall not be obligated to), elect to waive all or any portion of the Collateral Management Fee payable to SCP II on any payment date. SCP and SCP II may also enter into fee arrangements with other Clients that differ from the fees described herein and may negotiate such fees.

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### **C. Other Fees and Expenses**

Each CLO generally is obligated to reimburse SCP II for all reasonable out-of-pocket costs and expenses incurred by SCP II in connection with the performance of its services and in connection therewith, including, without limitation, any and all rating agency expenses, specialty and custom third-party software expenses for the monitoring of the Collateral Obligations, due diligence costs, reasonable fees of legal counsel and consultants, and all other reasonable costs and out-of-pocket expenses at any time incurred, including, without limitation, in connection with acquisition, origination, holding, monitoring, marking to market, enforcement, amendment, default, restructuring, bankruptcy, and disposition of any collateral and investments in connection with, and administration of, and taking of actions pursuant to, the CLO transaction documents and relating to proposed investments that are not acquired (the foregoing to include, without limitation, legal, tax, accounting, appraisal, and any rating agency costs to the extent not paid directly by a CLO and any extraordinary expenses of any nature and other unusual matters).

Please refer to Item 12 for more information.

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### **D. Fees in Advance**

Pursuant to the Collateral Management Agreement, SCP II is entitled to receive Collateral Management Fees quarterly in advance from the Initial CLO. SCP and SCP II also may enter into agreements with Clients that pay fees on a monthly basis in advance.

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### **E. Securities Compensation**

Not applicable.

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

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### **Sharing of Capital Gains**

Salus's Clients, including the Initial CLO, pay Salus performance-based fees, such as the Incentive Collateral Management Fee, if earned, in accordance with the terms of the applicable collateral management agreement or other advisory agreement. Generally, Salus's Clients, including the Initial CLO, are charged both base management fees and performance-based fees, if earned. None of Salus's supervised persons manages any clients individually outside of Salus.

**Item 7: Types of Clients**

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**Description**

At the present time, Salus only provides investment advisory services on a discretionary basis to private pooled investment vehicles not registered under the 1940 Act.



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

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

SCP II acquires on behalf of each CLO secured and unsecured loans and other debt instruments. SCP II seeks to generate current income and return of principal for its CLOs by acquiring, holding and disposing on behalf of each CLO loans and other investments. Target Client investments include loans in the corporate middle market and asset-based loans for purposes ranging from traditional working capital to growth capital, acquisitions, refinancings and late-stage turnarounds. Salus is currently focused on providing capital solutions through loans across a wide range of industries with a core competency in retail and consumer products.

SCP II expects that most or all of each CLO's collateral will be originated by SCP.

As a loan originator, SCP seeks to make loans to small and mid-sized business and borrowers including loans in the corporate middle market and asset-based loan market segments. Such loans typically have floating rates tied to the prime rate or LIBOR plus a fixed spread and are designed to provide risk-adjusted returns in a low interest rate environment. In addition, such loans are typically non-negotiable instruments that are not structured to be readily tradeable, callable or transacted in the secondary market.

SCP's primary underwriting criterion is high collateral values of potential borrowers. SCP believes that conversion of assets is generally a reliable source of repayment of a defaulted loan, while creditworthiness is secondary. Therefore, SCP typically looks for a cash conversion cycle of 2-15 weeks with daily controls over cash.

SCP engages in a robust credit underwriting process, which typically involves meetings with senior management by senior partners of Salus, financial and legal due diligence, including third-party appraisals, background checks, lien searches and detailed credit memorandums. Certain borrowers are evaluated and are not approved for a loan during this underwriting process. Each loan commitment is then reviewed and approved by the investment committee of Salus and its affiliates and, for legal review, Salus's independent outside counsel.

In its lending arrangements, SCP typically assumes a first lien senior position secured primarily by working capital assets (inventory and accounts receivable). SCP enters into highly structured loan agreements that provide contractual mechanisms for early intervention to protect collateral, with the objective that values will always exceed the loan amount outstanding.

Salus typically assumes daily control over cash for each of its borrowers, through which it seeks to prevent or limit delinquencies and disruption in payment. Salus typically monitors operations on a daily basis and assess values of collateral in "real time" through risk management controls. Salus also typically receives daily reporting regarding all cash proceeds reports. In addition, Salus creates "real time" actual performance reports and compare such performance reports to financial forecasts.

Salus typically monitors the loan to collateral values with “red flag” variance indicators.

The Initial CLO managed by SCP II typically own loans ranging in original issuance amounts of between \$3 million and \$30 million, although other Clients may own loans of different amounts. SCP II expects initially to limit loans to companies located in North America, although SCP II and/or SCP may in the future evaluate and lend to non-U.S. companies.

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**B and C. Material Risks for Investment Strategies and Types of Securities:**

Investing in any of the securities issued by the CLOs managed by SCP II (the “Offered Securities”) involves a high degree of risk and is suitable only for persons having substantial financial resources who understand the consequences of, and the risks associated with such an investment. Some of those risks are summarized below. Investors should carefully consider all the risks discussed below and should consult their own legal, tax, and financial advisers about these and other risks associated with an investment in the Offered Securities. Investing in securities involves risk of loss that investors should be prepared to bear, including total loss of the invested amount. Investors and potential investors should refer to the offering circular for each CLO for a more detailed discussion of risks.

**Illiquidity in the CLO, leveraged finance and fixed income markets may affect the holders of the Offered Securities**

Recent events in the CLO, leveraged finance, fixed income and sovereign debt markets have contributed to a severe liquidity crisis in the global credit markets. The financial markets have experienced substantial fluctuations in prices for leveraged loans and limited liquidity for such obligations. During periods of limited liquidity and higher price volatility, a CLO’s ability to acquire or dispose of Collateral Obligations at a price and time that a CLO deems advantageous may be severely impaired. As a result, in periods of rising market prices, a CLO may be unable to participate in price increases fully to the extent that it is unable to acquire desired positions quickly; and a CLO’s inability to dispose fully and promptly of positions in declining markets may exacerbate losses suffered by a CLO when Collateral Obligations are sold. Furthermore, significant additional risks for a CLO and investors in the Offered Securities exist. Those risks include, among others, (i) the possibility that, after each CLO’s closing date, the prices at which Collateral Obligations can be sold by such CLO will have deteriorated from their effective purchase price, (ii) the possibility that opportunities for a CLO to sell its assets in the secondary market may be impaired, and (iii) increased illiquidity of the Offered Securities because of reduced secondary trading in collateralized loan obligation securities. These additional risks may affect the returns on the Offered Securities to investors or otherwise adversely affect holders of the Offered Securities.

In addition, the current liquidity crisis has adversely affected the primary market for a number of financial products, including asset-backed loans, which may reduce opportunities for a CLO to purchase new issuances of Collateral Obligations. The impact of the liquidity crisis on the global credit markets may adversely affect the management flexibility of SCP II in relation to the portfolio and, ultimately, the returns on the Offered Securities to investors.

**The Offered Securities will have limited liquidity and are subject to substantial transfer restrictions**

Currently, no market exists for the Offered Securities. Any placement agent referred to under Item 14 is not under any obligation to make a market for the Offered Securities. The Offered Securities are illiquid investments. There can be no

assurance that any secondary market for any of the Offered Securities will develop, or if a secondary market does develop, that it will provide the holders of the Offered Securities with liquidity of investment or will continue for the life of the Offered Securities.

**Legislative and regulatory actions in the United States and Europe may adversely affect the CLOs and the Offered Securities**

The recent turmoil in the global credit markets has created significant political support for additional legislation and regulation. Although the content and scope of new legislation or other regulatory developments remains uncertain, new legislation and regulation has occurred as a result. For example, the United States Congress has passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which will fundamentally overhaul the regulatory scheme for the financial markets in the United States. In addition, numerous United States federal agencies have proposed or enacted new or revised rules relating to financial markets. There have also been several recent legislative and regulatory initiatives in Europe and elsewhere in the world that relate to the financial markets. The effect of all of these recent regulatory changes is uncertain at this time and could, among other results, increase costs to the CLOs or SCP II, lead to a CLO's inability to purchase additional Collateral Obligations or have unforeseen legal consequences for a CLO or SCP II or have other material adverse effects on the CLOs or the holders of any notes.

**Below investment-grade Assets involve particular risks**

It is anticipated that each CLO's Collateral Obligations will consist mostly of non-investment grade loans or interests in non-investment grade loans, which are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. It is anticipated that the Collateral Obligations generally will be subject to greater risks than investment grade corporate obligations as described in the risk factors herein. These risks could be exacerbated to the extent that the portfolio is concentrated in one or more particular types of Collateral Obligations.

Prices of the Collateral Obligations may be volatile, and will generally 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 and international economic or political events, developments or trends in any particular industry, and the financial condition of the borrowers under the Collateral Obligations (the "Obligors"). The current uncertainty affecting the United States economy and the economies of other countries in which CLOs of Collateral Obligations are domiciled and the possibility of increased volatility in financial markets could adversely affect the value and performance of the Collateral Obligations. Additionally, loans and interests in loans have significant liquidity and market value risks since they are not generally traded in organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities. In addition, historically the trading volume in the loan market has been small relative to the debt securities market.

Asset based commercial lending loans (“ABL Loans”) have historically experienced greater default rates than has been the case for investment grade securities. There can be no assurance as to the levels of defaults and/or recoveries that may be experienced on the Collateral Obligations, and an increase in default levels could adversely affect payments to investors in a particular CLO.

A non-investment grade loan, bond or other debt obligation or an interest in a non-investment grade loan is generally considered speculative in nature and may become a defaulted obligation (“Defaulted Obligation”) for a variety of reasons. Upon any Collateral Obligation becoming a Defaulted Obligation, such Defaulted Obligation may become subject to either substantial workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such Defaulted Obligation. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such Defaulted Obligation. The liquidity for Defaulted Obligations may be limited, and to the extent that Defaulted Obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon. Furthermore, there can be no assurance that the ultimate recovery on any Defaulted Obligation will be at least equal to either the minimum recovery rate assumed by DBRS Inc. (“DBRS”) in rating the secured notes or any recovery rate used in connection with any analysis of the Offered Securities that may have been prepared for or at the direction of holders of any Offered Securities.

### **Credit ratings are not a guarantee of quality**

Credit ratings of assets represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality or performance. A credit rating is not a recommendation to buy, sell or hold assets and may be subject to revision or withdrawal at any time by the assigning rating agency. If a rating assigned to any Collateral Obligation is lowered for any reason, no party is obligated to provide any additional support or credit enhancement with respect to such Collateral Obligation. Rating agencies attempt to evaluate the relative future creditworthiness of an obligation and do not address other risks, including but not limited to, liquidity risk, market value or price volatility; therefore, ratings do not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an Obligor's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of any Collateral Obligation (as is also the case in respect of the secured notes) should be used only as a preliminary indicator of investment quality and should not be considered a completely reliable indicator of investment quality. Rating reductions or withdrawals may occur for any number of reasons and may affect numerous assets at a single time or within a short period of time, with material adverse effects upon the notes. It is possible that many credit ratings of assets included in or similar to the Collateral Obligations will be subject to significant or severe adjustments downward.

### **Holders of the Offered Securities will receive limited disclosure about the Collateral Obligations**

SCP II will not provide the holders of the Offered Securities with financial or other information (which may include material non-public information) it receives pursuant to the Collateral Obligations and related documents unless required to do so pursuant to the applicable indenture (the “Indenture”) or the Collateral Management Agreement. SCP II also will not disclose to any of these parties the contents of any notice it receives pursuant to the Collateral Obligations or related documents unless required to do so pursuant to the Indenture or the Collateral Management Agreement. In particular, Salus will not have any obligation to keep any of these parties informed as to matters arising in relation to any Collateral Obligations, except as may be required in connection with the regular reports (as described in Item 13.C of this Form ADV Part 2A) prepared by a CLO (or the Collateral Administrator on behalf of a CLO) in accordance with the Indenture.

The holders of the Offered Securities and the trustee of a CLO (the “Trustee”) will not have any right to inspect any records relating to the Collateral Obligations, and SCP II will not be obligated to disclose any further information or evidence regarding the existence or terms of, or the identity of any Obligor on, any Collateral Obligations, unless specifically required by the Collateral Management Agreement or the terms of the indenture. Furthermore, SCP II may, with respect to any information that it elects to disclose, demand that persons receiving such information execute confidentiality agreements before being provided with the information.

### **Lender liability considerations and equitable subordination can affect a CLO's rights with respect to Collateral Obligations**

A number of judicial decisions have upheld judgments of borrowers against lending institutions on the basis of various evolving legal theories, collectively termed “lender liability.” Generally, lender liability is founded on the premise that a lender has violated a duty (whether implied or contractual) of good faith, commercial reasonableness and fair dealing, or a similar duty owed to the borrower or has assumed an excessive degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of the Collateral Obligations, a CLO may be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of the Collateral Obligations, the Collateral Obligations may be subject to claims of equitable subordination.

Because affiliates of, or persons related to, SCP II may hold equity or other interests in Obligors of Collateral Obligations, a CLO could be exposed to claims for equitable subordination or lender liability or both based on such equity or other holdings.

The preceding discussion is based upon principles of United States federal and state laws. Insofar as Collateral Obligations that are obligations of non-United States Obligors are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under United States federal and state laws.

#### **A CLO is subject to reinvestment risk**

The amount of Collateral Obligations purchased and the amount and timing of purchases of Collateral Obligations will affect the cash flows available to make payments on, and the return to the holders of, the Offered Securities. Reduced liquidity and relatively lower volumes of trading in certain Collateral Obligations, in addition to restrictions on investment under the indenture, could result in periods of time during which a CLO is not able to fully invest its available cash in Collateral Obligations or during which the assets available for investment will not be of comparable quality. It is unlikely that a CLO's available cash will be invested fully in Collateral Obligations at any time. Further, the longer the period such cash is invested in eligible short-term investments, the greater the adverse impact may be on the aggregate amount of interest proceeds available for distribution by a CLO since such eligible short-term investments typically provide lower yields than the yields provided by the Collateral Obligations. The associated reinvestment risk on the Collateral Obligations will be borne by the holders of the Offered Securities in the reverse of such securities' order of priority, beginning with the Subordinated Notes. Any special redemption will result in early deleveraging of a CLO and may result in a lower yield on the Subordinated Notes.

The level of earnings on reinvestments will depend on the availability of investments determined by SCP II to be appropriate investments by a CLO and the interest rates thereon. The need to satisfy the eligibility criteria and identify acceptable investments may require the purchase of Collateral Obligations having lower yields than those Collateral Obligations previously acquired by a CLO as Collateral Obligations mature, prepay or are sold or require temporary investment in eligible short-term investments. In addition, Obligors on the Collateral Obligations may be more likely to exercise any rights they may have to redeem or refinance such obligations when interest rates or spreads are declining. Any decrease in the yield on the Collateral Obligations will reduce the amounts available for distribution on the Offered Securities.

#### **Loan prepayments may affect the ability of a CLO to invest and reinvest available funds in appropriate Collateral Obligations**

Loans are generally prepayable in whole or in part at any time at the option of the Obligor thereof at par plus accrued unpaid interest thereon. Prepayments on loans may be caused by a variety of factors which are often difficult to predict. In addition, principal proceeds received upon such a prepayment are subject to reinvestment risk

during any reinvestment period. Any inability of a CLO to reinvest payments or other proceeds in Collateral Obligations with comparable interest rates that satisfy the eligibility criteria specified herein may adversely affect the reinvestment period under the Indenture, the timing and amount of payments received by the holders of Offered Securities, the yield to maturity of the secured notes and the distributions on the Subordinated Notes. There is no assurance that a CLO will be able to reinvest proceeds in assets with comparable interest rates that satisfy the eligibility criteria or (if it is able to make such reinvestments) as to the length of time before such investments are made. The rate of prepayments, amortization and defaults may be influenced by various factors including:

- changes in Obligor performance and requirements for capital;
- the level of interest rates;
- lack of credit being extended and/or the tightening of credit underwriting standards in the commercial lending industry; and
- the overall economic environment, including any fluctuations in the recovery from the current economic conditions.

SCP II cannot predict the actual rate of prepayments, accelerated amortization or defaults that will be experienced with respect to the Collateral Obligations. As a result, the Offered Securities may not be a suitable investment for any investor that requires a regular or predictable schedule of principal payments.

**A CLO may not be able to acquire Collateral Obligations that satisfy the eligibility criteria**

The ability of SCP II to acquire on behalf of a CLO an initial portfolio of Collateral Obligations that satisfies the eligibility criteria at the projected prices, ratings, rates of interest and any other applicable characteristics will be subject to market conditions and availability of such Collateral Obligations. Any inability to acquire Collateral Obligations that satisfy the eligibility criteria specified herein may adversely affect the timing and amount of payments received by the holders of Offered Securities and the yield to maturity of the secured notes and the distributions on the subordinated notes. There is no assurance that any CLO will be able to acquire Collateral Obligations that satisfy the eligibility criteria.

**Investing in loans involves particular risks**

The Initial CLO acquired interests in loans directly by way of assignment from certain affiliates of SCP II. One hundred percent (100%) of the Initial CLO's loans were acquired from affiliates of SCP II pursuant to certain agreements (the "Master Sale Agreements").

The purchaser of an assignment of an interest in a loan typically succeeds to all the rights and obligations of the assigning selling institution and becomes a lender under the loan agreement with respect to that loan. As a purchaser of an assignment, a CLO generally has 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 borrower with the terms of the loan agreement, and



the right to set off claims against the borrower and to have recourse to collateral supporting the loan. Assignments are, however, arranged through private negotiations between assignees and assignors, and in certain cases the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning selling institution.

Assignments and participations are sold strictly without repayment recourse to the selling institutions, and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans. In addition, each CLO will be bound by provisions of the underlying loan agreements, if any, that require the preservation of the confidentiality of information provided by the borrower. Because of certain factors including confidentiality provisions, 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 are publicly traded securities.

### **Investing in asset-backed loans involves certain risks**

The Collateral Obligations are primarily ABL Loans. In a typical ABL Loan structure, the borrower provides security to the lenders in the form of accounts receivable, inventory and/or other assets of the borrower. The loan documentation for an ABL Loan typically requires the borrower to maintain a borrowing base measuring the ratio of the amount of collateral to the outstanding loan amount. There can be no assurance that in the event of a default by the borrower and foreclosure on the assets securing an ABL Loan in accordance with its terms, the liquidation value of the collateral will be sufficient to pay the outstanding loan amount in full. Any such shortfall and the delay risk associated with foreclosing and liquidating the collateral securing an ABL Loan would reduce amounts available to make payments on the notes. Furthermore the process associated with foreclosing on collateral securing an ABL Loan may be subject to timing delays under the loan documents and applicable law (including bankruptcy law).

### **Investing in second lien loans involves certain risks**

The Collateral Obligations may include second lien loans, each of which would likely be secured by a pledge of collateral, subordinated (with respect to liquidation preferences with respect to pledged collateral) to other secured obligations of the Obligor. Second lien loans are typically subject to intercreditor arrangements, the provisions of which may prohibit or restrict the ability of the holder of a second lien loan to (i) exercise remedies against the collateral with respect to their second liens; (ii) challenge any exercise of remedies against the collateral by the first lien lenders with respect to their first liens; (iii) challenge the enforceability or priority of the first liens on the collateral; and (iv) exercise certain other secured creditor rights, both before and during a bankruptcy of the borrower. In addition, during a bankruptcy of the Obligor, the holder of a second lien loan may be required to give advance consent to (a) any use of cash collateral approved by the first lien creditors; (b) sales of collateral approved by the first lien lenders and the bankruptcy court, so long as the second liens continue to attach to the sale proceeds; and (c) debtor-in-possession financings.

**Liens arising by operation of law may take priority over a CLO's liens on an Obligor's underlying collateral and impair a CLO's recovery on a Collateral Obligation in the event of a default or foreclosure on that Collateral Obligation**

Federal or state law may grant liens on the collateral (if any) securing a Collateral Obligation that have priority over a CLO's interest. An example of a lien arising under federal or state law is a tax or other government lien on property of an Obligor. A tax lien may have priority over a CLO's lien on such collateral. To the extent a lien having priority over a CLO's lien exists with respect to the collateral related to any Collateral Obligation, a CLO's interest in the asset will be subordinate to such lien. If the creditor holding such lien exercises its remedies, it is possible that, after such creditor is repaid, sufficient cash proceeds from the underlying collateral will not be available to pay the outstanding amount of such Collateral Obligation.

**Bankruptcy of one or more Obligors could reduce or eliminate the return to a CLO on a Collateral Obligation and so may impair payments on the Offered Securities**

There is a significant risk that one or more of the Obligors may enter bankruptcy proceedings. Such proceedings may result in, among other things, a substantial reduction in the interest rate and a substantial write down of the principal of the related Collateral Obligation(s). There are a number of significant risks inherent in the bankruptcy process. First, rulings in a bankruptcy case are the product of adversary proceedings determined by a court with equitable powers, and are beyond the control of specific creditors. Second, a bankruptcy filing may adversely and permanently affect the Obligor making such filing. The Obligor may lose its market position, key employees, relationships with important suppliers, access to the capital markets or other sources of liquidity and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason, a Chapter 11 reorganization is converted to or becomes a liquidation, the liquidation value of the Obligor may not equal the liquidation value that was believed to exist at the time of purchase of the Collateral Obligation. Third, the duration of a bankruptcy case is difficult to predict. A creditor's return on investment can be adversely affected by delays while a plan of reorganization is being negotiated, approved by parties in interest and confirmed by the bankruptcy court until it ultimately becomes effective. For example, in general, unsecured creditors' claims for interest accrued between the bankruptcy filing and a reorganization plan's consummation are not allowed. Fourth, the administrative costs of the debtor and official committees in connection with the bankruptcy case are frequently high and will be paid out of the debtor's estate prior to any return to general unsecured creditors. If the bankruptcy case involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to such administrative costs; a creditor's costs in monitoring and enforcing its investment also may substantially increase. Certain claims that have priority by law (for example, claims for taxes) also may be significant. Finally, under certain circumstances, creditors' claims against bankrupt or insolvent entities may be subject to equitable subordination or recharacterization as equity (particularly where the creditor is an insider or otherwise controls the debtor), and transfers made to creditors may be subject to avoidance and disgorgement as preferences or fraudulent conveyances.

**Collateral Obligations to non-U.S. Obligor may expose a CLO to different economic risks, legal and regulatory uncertainties and potential impairment of enforcement actions against such Obligor**

A CLO's assets may consist, in part, of Collateral Obligations to Obligor organized under the laws of, or all or substantially all of the assets of which are located in, a country other than the United States. Collateral Obligations to Obligor located outside the United States and its territories may involve greater risks than Collateral Obligations to Obligor located in the United States and its territories. These risks include (among others): (a) less publicly available information about the related Obligor; (b) varying levels of governmental regulation and supervision; and (c) the difficulty of enforcing legal rights in a foreign jurisdiction and related uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies. The economies of individual non-U.S. countries may also differ from the U.S. economy in such respects as the effect of the global recession, growth or contraction of the gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resources self-sufficiency and balance of payments position. Accordingly, Collateral Obligations to non-U.S. Obligor could face risks which would not pertain to Collateral Obligations to U.S. Obligor, which could expose a CLO to losses on such Collateral Obligations. A CLO will not provide any additional information with respect to the risks associated with purchasing a loan under an agreement governed by the laws of a jurisdiction other than a United States jurisdiction.

**Rising interest rates may render some Obligor unable to pay interest on their Collateral Obligations**

Most of the Collateral Obligations typically bear interest at floating interest rates. To the extent interest rates increase, periodic interest obligations owed by the related Obligor could also increase. As prevailing interest rates increase, some Obligor may not be able to make increased interest payments on Collateral Obligations or refinance their Collateral Obligations, resulting in payment defaults and Defaulted Obligations. Conversely if interest rates decline, Obligor may refinance their Collateral Obligations at lower interest rates which could shorten the average life of the Offered Securities.

**Balloon loans and bullet loans present refinancing risk**

A CLO's assets typically consist of Collateral Obligations that are either balloon loans or bullet loans. Balloon and bullet loans involve a greater degree of risk than other types of transactions because they are structured to allow for either small (balloon) or no (bullet) principal payments over the term of the loan, requiring the Obligor to make a large final payment upon the maturity of the Collateral Obligation. The ability of such Obligor to make this final payment upon the maturity of the Collateral Obligation typically depends upon its ability either to refinance the Collateral Obligation prior to maturity or to generate sufficient cash flow to repay the Collateral Obligation at maturity. The ability of any Obligor to accomplish any of

these goals will be affected by many factors, including the availability of financing at acceptable rates to such Obligor, the financial condition of such Obligor, the marketability of the collateral (if any) securing such Collateral Obligation, the operating history of the related business, tax laws and the prevailing general economic conditions. Consequently, such Obligor may not have the ability to repay the Collateral Obligation at maturity, and a CLO could lose all or most of the principal of the Collateral Obligation. Given their relative size and limited resources and access to capital, some Obligors may have difficulty in repaying or refinancing their balloon and bullet Collateral Obligation on a timely basis or at all.

### **Collateral Acquisition and Recharacterization**

Pursuant to the Master Sale Agreements, the Initial CLO acquired all of the Collateral Obligations from certain affiliates of SCP II (the “Sellers”). If a Seller were to become the subject of a case under the Bankruptcy Law, the trustee in bankruptcy (which includes the debtor as the debtor in possession), or other party in interest could assert that Collateral Obligations acquired from such Seller are collateral pledged to secure loans by a CLO and not sales (and therefore such Collateral Obligations are property of the bankruptcy estate of the Seller). Property that a Seller has pledged or assigned, or in which such entity has granted a security interest, as collateral security for the payment or performance of a debt would property of such Seller's bankruptcy estate. If a court were to conclude that the Collateral Obligations were pledged by a Seller to a CLO as collateral security for a debt and not as an absolute assignment and transfer, the distribution of payments arising from the Collateral Obligations might be subject to the automatic stay provisions of the bankruptcy law. This would delay the distribution of those payments to the holders of the notes for an uncertain period of time. The result may also be reductions in payments under the Collateral Obligations. In addition, a bankruptcy trustee would have the power to sell such Collateral Obligations if the proceeds of the sale could satisfy the amount of the debt deemed owed by the Seller to a CLO. Further, the bankruptcy trustee could also substitute other collateral in lieu of the Collateral Obligations to secure such debt.

However, property that a Seller entity has sold or absolutely assigned and transferred to another party is not property of such Seller's bankruptcy estate. Each Seller has represented and warranted that the conveyance of the Collateral Obligations by it is in each case an absolute assignment of such Collateral Obligations. In addition, in agreements conveying the Collateral Obligations, each Seller has agreed that it will treat the transactions described therein as an absolute assignment of the Collateral Obligations.

A bankruptcy trustee (including a debtor in possession) will not be bound by the representations and warranties made by a Seller, and each will review the facts before it at the time any such case commences and is pending. Therefore, each will make its own assessment of the facts and reach its own conclusion, which may result in findings of facts that are materially adverse to the holders of the Offered Securities.

## **Other Accounts**

SCP II provides investment management and advisory services to, invest in, or be affiliated with other entities organized to issue collateralized debt obligations (including the CLOs), which may be secured by any combination of high-yield loans, bonds, and other securities, and other clients and accounts (collectively "Other Accounts"), in which a particular CLO have and will have no interest. SCP II and its affiliates and their respective clients and employees may invest, or have already invested on behalf of Other Accounts, in securities or other financial instruments that are senior or junior to securities or financial instruments of the same issuer that are held or may be acquired by any particular Client (e.g., one CLO may acquire senior debt while another CLO may acquire subordinated debt). In addition, any of SCP II or its affiliates may serve as a general partner, adviser, officer, director, sponsor or manager of partnerships or companies organized to issue collateralized debt obligations secured by assets similar to the Collateral Obligations and other funds or entities that invest in such obligations. SCP II recognizes that conflicts may arise under such circumstances and will endeavor to treat all Clients fairly and equitably.

SCP II and its affiliates may also have or establish relationships with companies, including acting as sponsor, equity investor, adviser, lender or agent bank, whose equity securities or debt obligations are assets of a particular CLO, or may be considered for purchase by a particular CLO, and may now or in the future own or seek to acquire equity securities or debt obligations issued by issuers of assets owned by a particular CLO, and such securities or obligations may have characteristics or interests different from or adverse to assets owned by such CLO. SCP II and the personnel available to it will devote as much time to the management of a Client's portfolio as SCP II deems appropriate. The investment policies, fee arrangements and other circumstances applicable to a particular Client may vary from those applicable to another Client. SCP II and its affiliates may buy, sell, or hold securities or other instruments for a Client while SCP II is making different investment decisions with respect to another Client's portfolio. In addition, certain Other Accounts or affiliates of SCP II may, but are not required to, invest in investment vehicles managed by one or more of SCP II or its affiliate's choosing. SCP II and its affiliates and Other Accounts may enter into synthetic transactions referring notes issued by a CLO, the size and nature of which may change over time.

**Item 9: Disciplinary Information**

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**Legal and Disciplinary**

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

- A. Not applicable.
- B. Not applicable.
- C. Not applicable.

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

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**A. Broker-Dealer**

Not applicable.

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**B. Financial Industry Activities**

Not applicable.

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**C. Affiliations**

1. Not applicable.
2. SCP II is the collateral manager of the Initial CLO.
3. SCP and SCP II, which are related persons since they are under common control and SCP II is wholly-owned by SCP, are each investment advisers.
4. Not applicable.
5. Not applicable.
6. Not applicable.
7. Not applicable.
8. Each of Fidelity & Guaranty Life Insurance Company, a Maryland corporation, Fidelity & Guaranty Life Insurance Company of New York, a New York corporation, Front Street Re Ltd., a Bermuda limited company, and Front Street Re (Cayman) Ltd., a Cayman Islands limited company, is an insurance company that is a related person of SCP and SCP II since it is under common control with those entities. Five Island Asset Management LLC, a Delaware limited liability company, is a newly formed asset management company that is a related person of SCP and SCP II since it is under common control with these entities.
9. Not applicable.
10. Not applicable.
11. SCP II is the sponsor of the Initial CLO.

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**D. Compensation for Referrals.**

Not applicable.

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

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### **A. Code of Ethics**

Pursuant to services agreements, SCP provides to SCP II all of the employees and services that SCP II requires to perform its obligations under the collateral management agreement between SCP II and each CLO.

Salus and its supervised persons have committed to a Code of Ethics that is available for review by investors and prospective investors upon request. Each supervised person of Salus must read, sign and deliver a certificate of compliance with the Code of Ethics. In addition, Salus's access persons may only effect a personal transaction in a limited offering or initial public offering by pre-approving such transaction with Salus's Chief Compliance Officer. Each access person also must provide initial securities holdings reports and annual securities holding reports to the Chief Compliance Officer. Furthermore, each access person shall provide quarterly securities transaction reports related to personal securities transactions that are "beneficially owned" directly or indirectly by such access person.

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

The CLOs managed by SCP II acquired all of their Collateral Obligations from SCP and its affiliates. In addition, SCP and/or one or more of its affiliates have acquired certain notes issued by the CLOs (collectively, the "Collateral Manager Holders"), including some of the Class A-2 Notes, the Class C Notes and the Class E Notes and all of the Subordinated Notes issued by the Initial CLO. The Collateral Manager Holders are able to influence the voting of classes of notes of the CLOs which they hold, and thereby have an effect on certain aspects of the transaction generally. To the extent that one or more Collateral Manager Holders hold a majority of the controlling class (or, in certain cases, at least 66 2/3% of the aggregate outstanding principal amount of any other class of notes), they are able to exercise their influence to determine whether the notes are accelerated during the occurrence and continuance of certain events of default and what remedies should be taken against a CLO of the assets. The interests of the Collateral Manager Holders may not coincide with those of the other holders of the notes at all times. Any Collateral Manager Holder in its capacity as a note holder may act in its own commercial interest and need not consider whether its actions will have an adverse effect on a CLO or the other holders of the notes.

With respect to the Initial CLO, so long as SCP II remains the collateral manager for the Initial CLO and the Subordinated Notes remain outstanding, SCP and/or one or more of its affiliates shall hold at least a majority of the aggregate outstanding Subordinated Notes. Therefore, SCP and its affiliates are able to control certain matters that require the vote or consent of the holders of Subordinated Notes. In addition, because such affiliates own various classes of notes, such ownership could cause SCP to have differing interests from other noteholders.



SCP II generally discloses the potential for conflicts between SCP II and its affiliates, on the one hand, and the CLOs on the other, that it manages in the offering circulars provided to each investor in each CLO prior to investment.

#### *Fees*

As described in Item 5, certain fees payable by the Initial CLO to SCP II are payable on a senior basis, other amounts are payable on a subordinated basis, and other amounts are payable on an incentive basis. In certain circumstances, such payment arrangements could create a conflict of interest between SCP II and investors of the Initial CLO or any other CLOs.

#### *Cross Transactions*

Unless otherwise prohibited by applicable law, SCP II may, on behalf of a CLO, purchase securities from, sell securities to, or enter into any arrangement or agreement with another CLO ("cross transactions"). The terms of any such cross transactions will (i) be commercially reasonable; (ii) not be materially less favorable to either CLO than those available from the existing market; (iii) be as if negotiated on an arm's length basis; and (iv) comply with applicable law. SCP II will receive no compensation in connection with cross transactions.

#### *Financial Interest*

SCP II provides investment management and advisory services to, invest in, or be affiliated with other entities organized to issue collateralized debt obligations (including the CLOs), which may be secured by any combination of high-yield loans, bonds, and other securities, and other clients and accounts (collectively "Other Accounts"), in which a particular CLO have and will have no interest. Other Accounts may have investment objectives, programs, strategies and positions that are similar or dissimilar to or may conflict with those of a particular CLO. Also, SCP II and Other Accounts may invest in businesses that compete with, have interests adverse to, or are affiliated with the issuers of Collateral Obligations held by a CLO, which could adversely affect the performance of investments owned by such CLO. In addition, the fees payable to SCP II or any of its affiliates and the terms of fees payable by Other Accounts may differ from those relating to a particular CLO. There is no assurance that any Other Account with investment objectives, programs or strategies similar to those of a CLO will hold the same positions or perform in a substantially similar manner as such CLO. SCP II may give advice or take action with respect to the investments of Other Accounts which may differ from the advice given or the timing or nature of any action taken with respect to investments of a particular CLO. As a result of such advice or actions, the prices and availability of securities and other financial instruments in which such CLO invests or may seek to invest may differ from those available to Other Accounts, and the performance of such CLO may be adversely affected.

Certain Other Accounts may require SCP II and its affiliates to apply a different valuation methodology in valuing specific investments than the valuation methodology set forth for a particular CLO's investment guidelines. As a result of such different methodology, the value of certain investments held in such Other

Accounts may differ from the value assigned to the same investments held by such CLO.

SCP II and its affiliates and their respective clients and employees may invest, or have already invested on behalf of Other Accounts, in securities or other financial instruments that are senior or junior to securities or financial instruments of the same issuer that are held or may be acquired by any particular Client (e.g., one CLO may acquire senior debt while another CLO may acquire subordinated debt). In addition, any of SCP II or its affiliates may serve as a general partner, adviser, officer, director, sponsor or manager of partnerships or companies organized to issue collateralized debt obligations secured by assets similar to the Collateral Obligations and other funds or entities that invest in such obligations. SCP II recognizes that conflicts may arise under such circumstances and will endeavor to treat all Clients fairly and equitably.

SCP II and its affiliates may also have or establish relationships with companies, including acting as sponsor, equity investor, adviser, lender or agent bank, whose equity securities or debt obligations are assets of a particular CLO, or may be considered for purchase by a particular CLO, and may now or in the future own or seek to acquire equity securities or debt obligations issued by issuers of assets owned by a particular CLO, and such securities or obligations may have characteristics or interests different from or adverse to assets owned by such CLO. SCP II and the personnel available to it will devote as much time to the management of a Client's portfolio as SCP II deems appropriate. The investment policies, fee arrangements and other circumstances applicable to a particular Client may vary from those applicable to another Client. SCP II and its affiliates may buy, sell, or hold securities or other instruments for a Client while SCP II is making different investment decisions with respect to another Client's portfolio. In addition, certain Other Accounts or affiliates of SCP II may, but are not required to, invest in investment vehicles managed by one or more of SCP II or its affiliate's choosing. SCP II and its affiliates and Other Accounts may enter into synthetic transactions referring notes issued by a CLO, the size and nature of which may change over time.

#### *Allocation of Investments*

It is the policy of SCP II to allocate investment opportunities to all Clients fairly and equitably, to the extent practicable, over a period of time. However, SCP II may be unaware of, and will not generally take into account, investments made by or opportunities presented to any of its affiliates. SCP II will have no obligation to purchase, sell, or exchange any security or financial instrument for a Client that SCP II may purchase, sell, or exchange for any other Client managed by it if SCP II believes in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for such Client. There is no assurance that any other Client with strategies or investment objectives similar to a particular Client will hold the same assets or perform in a similar manner.

Because of the nature of the fixed income markets, as well as each specific Client's guidelines and objectives, pro rata allocation of investment opportunities by SCP II is

not feasible. Accordingly, SCP II will not prescribe one specific manner in which the securities or financial instruments will be allocated among the Clients, and SCP II may use pro rata, rotational, percentage, or other allocation methods. An allocated transaction may be modified if strict adherence to an anticipated allocation may lead to impractical or undesirable results such as odd lots or de minimis allocations. The factors that SCP II may consider in allocating investments among Clients include, but are not limited to, a Client's investment guidelines or restrictions and investment strategies, concentrations, and diversification within a Client, tax and regulatory issues, the nature and size of existing portfolio holdings and cash positions, risk/return objectives, and anticipated redemptions and subscriptions (liquidity). In certain circumstances, SCP II may give special consideration to certain Clients, such as new Clients (including those in which the SCP II or its affiliates may have an interest) with a substantial amount of available cash. The investment decisions of SCP II and its affiliates may result in different investment decisions and allocations even with respect a Client with similar investment objectives.

If SCP II determines that the purchase or sale of the same security is in the best interest of more than one Client, SCP II may, but is not obligated to, aggregate orders placed simultaneously in order to obtain best execution and reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client will generally receive the average price with transaction costs allocated pro rata based on the size of each Client's participation in the order (or allocation in the event of a partial fill) as determined by SCP II. In the event of a partial fill, allocations may be modified on a basis that SCP II deems to be appropriate, including, for example, in order to avoid odd lots or de minimis allocations. SCP II may elect not to aggregate trades. In such cases where no orders are aggregated, trades are processed in the order they are placed with the broker or counterparty selected by SCP II. As a result, certain trades in the same security or instrument for one Client (including a Client in which a SCP II or its affiliates or its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another Client and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved. SCP II generally will not aggregate orders with or otherwise coordinate the purchase or sale of investments with its affiliates.

## **Item 12: Brokerage Practices**

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### **A. Selecting Brokerage Firms**

SCP and SCP II may utilize broker-dealers to assist them in the underwriting and distribution of securities in its CLOs. SCP and SCP II consider such factors as price, the ability of the broker-dealers to distribute and underwrite such securities, their personnel, reputation, experience, particular industry knowledge, reliability, financial responsibility and financial stability. Accordingly, if SCP or SCP II determines in good faith that the fees charged by a broker-dealer are reasonable in relation to the value of the service provided by such broker-dealer, SCP, its affiliates and/or the applicable CLO may pay fees to such broker-dealer that are greater than those fees another broker-dealer might charge.

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

Neither SCP nor SCP II receives research or other products or services other than execution from a broker-dealer or a third party.

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

- a. Not applicable.
  - b. Not applicable.
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#### **3. Directed Brokerage**

- a. Not applicable.
  - b. Not applicable.
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### **B. Aggregation**

For the CLOs, generally neither SCP nor SCP II aggregates the purchase or sale of securities because the CLOs invest in illiquid securities that cannot be aggregated. If SCP II does engage in aggregation activities on behalf of its Clients, it will do so in accordance with the procedures described in Item 11 above.

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

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#### **A. Periodic Review**

Robert Kuppens, Salus's Chief Financial Officer and Chief Compliance Officer, frequently reviews the investments and performance of the CLOs.

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#### **B. Review Triggers**

Other conditions that may trigger a review are changes in applicable laws, new investment information, a default, changes in the market and changes in a particular CLO's circumstances.

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#### **C. Regular Reports**

On a monthly basis, excluding any month in which a payment date occurs, each investor in a CLO shall receive a monthly report (the "Monthly Report"), setting forth certain information with respect to the Collateral Obligations for the prior month, including certain loss and delinquency information on the Collateral Obligations and measurements of each criterion included in the eligibility criteria. On each payment date, a report containing all the information in a Monthly Report reported for the full collection period as well as setting forth, among other things, certain information as to the distributions being made on such payment date, the fees to be paid to SCP II and the trustee of a CLO and the loss and delinquency status of the Collateral Obligations (the "Distribution Report").

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

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**A. Referrals**

SCP or SCP II may hire third parties to solicit new investment advisory clients. The commissions or fees, if any, payable to such solicitors (also referred to as placement agents) with respect to solicitation of investments with SCP or SCP II will be paid solely by SCP or SCP II. Clients do not pay fees for these solicitations. In addition, to the extent permitted by law, certain placement agents and their respective affiliates may provide brokerage and certain other financial and securities services to SCP, SCP II, or their affiliates. Such services, if any, will be provided at competitive rates.

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**B. Other Compensation**

See response to Item 14.A above.

**Item 15: Custody**

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**Account Statements**

SCP II is deemed to have “custody” of client funds and securities because it has authority to obtain client funds or securities, for example, by deducting advisory fees from a client’s account or otherwise withdrawing funds from a client’s account. Therefore, SCP II is subject to Rule 206(4)-2 (the “Custody Rule”) under the Investment Advisers Act of 1940 (the “Advisers Act”). SCP II plans to comply with Rule 206(4)-2 by distributing on an annual basis audited financial statements prepared in accordance with generally accepted accounting principles by an independent public accountant that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board to all beneficial owners of the CLOs within 120 days of the end of the CLO’s fiscal year end.

**Item 16: Investment Discretion**

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**Discretionary Authority for Trading**

Salus accepts discretionary authority to manage securities on behalf of its CLOs and other Clients. A CLO does not customarily place any limitations on this discretionary authority, except as disclosed in the offering circular for such CLO or in the applicable advisory agreement for other Clients.

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**Assumption of Authority**

Each CLO currently signs a limited power of attorney by execution of a purchaser representation letter for such CLO. Other Clients typically provide such discretionary authority through the execution of an advisory agreement with Salus.



**Item 17: Voting Client Securities**

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**A. Proxy Voting**

Salus does not currently accept authority to vote securities held by Clients, due to the nature of Salus's investment activities. If Salus does accept authority to vote Client securities in the future, Salus will adopt voting policies and procedures in compliance with Rule 206(4)-6 under the Advisers Act.

B. Not applicable.

**Item 18: Financial Information**

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**A. Balance Sheet**

Not applicable.

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**B. Financial Condition**

Not applicable.

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**C. Bankruptcy Petition**

Not applicable.