

Form ADV Part 2A: Firm Brochure

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Halcyon Asset Management LLC is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Halcyon Asset Management LLC. If you have any questions about the contents of this brochure, please contact us at (212) 303-9498. 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 Halcyon Asset Management LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

This is an annual update of our brochure. There have been no material changes since our last filing.

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1. Advisory Business

Founded in 1981, Halcyon Asset Management LLC (collectively with its wholly owned subsidiaries discussed below, and to the extent required by context individually, referred to as Halcyon or we) is a leading global asset management firm for private investment funds. Halcyon's regulatory assets under management, including assets managed by its relying advisers discussed below, are estimated to be \$3,955,740,602 as of December 31, 2013. Halcyon and its affiliates (referred to as the Halcyon Group) manage approximately \$12.5 billion in client assets as of March 1, 2014, for a diverse group of advisory client funds whose investors include leading public and private pension funds, endowments, foundations, financial institutions, insurance companies, funds of hedge funds, and high-net-worth individuals. Halcyon's advisory client funds have investors in the United States, Canada, Latin America, the United Kingdom, Continental Europe, the Middle East, Asia, and Australasia.

Halcyon Asset Management LLC, along with its wholly owned subsidiaries and relying advisers, Halcyon Offshore Asset Management LLC and Halcyon Long Term Strategies LP, is headquartered in New York. It has been registered with the United States Securities and Exchange Commission (referred to as the SEC) since 1997, and its London subsidiary Halcyon Asset Management (UK) LLP, is authorized and regulated by the Financial Conduct Authority (referred to as the FCA) in the United Kingdom since 2007. Halcyon is privately owned primarily by 16 active partners, who average 14 years of experience at Halcyon. The Halcyon Group draws on the skills and experience of approximately 110 employees, approximately 50 of whom are investment professionals. John M. Bader serves as Chairman and Chief Investment Officer, and Kevah Konner, as Vice Chairman. Mr. Bader, Mr. Konner, and Jason Dillow serve as Portfolio Managers for Halcyon Asset Management LLC and its subsidiaries. Additionally, for litigation and liquidations focused advisory client accounts managed by Halcyon Long Term Strategies LP, John Greene serves as a Portfolio Manager. Halcyon Management Partners LP is the principal owner of Halcyon, and Mr. Bader owns more than 25% of interests in Halcyon Management Partners LP.

Halcyon's multi-strategy accounts focus on credit, merger, and special situations strategies, primarily in North America and Western Europe. The Halcyon Group also manages specialized strategies focused on stressed/distressed and undervalued asset-backed securities; strategies focused on senior secured bank loans; long/short equity strategies; and energy, power and infrastructure investment strategies. In periods when the economy and credit markets are strong, Halcyon tends to focus less on distressed opportunities and more on credit opportunities, stressed debt, high-yield with an event-driven bias, and structured opportunities.

Halcyon's mission is to provide our investors with excellent risk-adjusted returns relative to the S&P 500, with less volatility than the S&P 500, relatively low drawdowns, and relatively low correlations to public debt and equity markets. Halcyon Long Term Strategies LP focuses on a longer-duration tailored investment approach. We are committed to conservative, rigorous, and disciplined processes; to industry best practices; and, at the same time, to adaptability.

We tailor advisory services to the individual needs and specified investment mandates of our advisory clients. For advisory client funds that Halcyon or our affiliates sponsor and control (referred to as the Halcyon Funds), we adhere to the investment strategy set forth in each such client's Private Placement Memorandum. The investment management agreement with each Halcyon Fund does not require us to tailor our services to the needs of specific underlying investors of these hedge funds. For our managed account clients (referred to as the Managed Accounts), which may be structured as single-investor funds or funds with only a limited number of investors, we enter into advisory and/or operating agreements that contain a description of the investment objective and mandate for each account and investment restrictions that we agree upon with those clients.

We do not participate in wrap fee programs. We manage client assets only on a discretionary basis.

2. Fees and Compensation

Halcyon typically receives compensation from each of its advisory clients calculated as a percentage of the assets Halcyon manages and on performance achieved for each client's account or specific interests in client accounts. The governing documents of the Halcyon Funds permit us to negotiate different fees with investors in the Halcyon Funds separately and to waive the fees for certain of our affiliates, principals, and employees. Neither Halcyon nor any of our partners or employees receives any transaction-based compensation for the sale of securities or other investment products.

Halcyon deducts one-twelfth of the asset-based fee described above from the multi-strategy Halcyon Funds monthly in advance. Because investors in the Halcyon Funds may not make intra-month withdrawals of their capital, investors in these funds do not pay a management fee in excess of what they owe for the entire month. Halcyon generally deducts performance-based compensation described above from the multi-strategy Halcyon Funds' accounts at the end of each year, or a shorter period coinciding with an earlier withdrawal date with respect to the withdrawn amount.

For Managed Accounts, Halcyon's fees are negotiable. Halcyon's Managed Accounts also pay periodic asset-based fees (typically, monthly or quarterly) and performance-based compensation (typically, annually or with respect to other periods specified in the Managed Account documentation). An unaffiliated third party deducts such amounts from Managed Account assets, except with respect to single-investor funds or funds with only a small, limited number of investors for which Halcyon's affiliate acts as the general partner and has the authority to deduct such amounts.

The Halcyon Funds bear all costs and expenses directly related to portfolio investment or prospective investments, including brokerage commissions, interest on debit balances or borrowings, custodial fees, and legal and consultant fees. The Halcyon Funds also bear all out-of-pocket expenses incurred in obtaining or maintaining systems, research and other information utilized in the funds' investment programs together with out-of-pocket costs of administration including accounting, audit, administrator and legal expenses, costs of any

litigation or investigation involving the funds' activities, costs associated with reporting and providing information to existing and prospective investors, and the costs of liability insurance. The Managed Accounts generally bear investment expenses similar to those borne by the Halcyon Funds and any other expenses set forth in their governing documents. When Halcyon incurs expenses on behalf of multiple client accounts, we allocate the expenses among the applicable clients in a fair and reasonable manner.

For more information on brokerage transactions and costs, please see Section 9: Brokerage Practices.

3. Performance-Based Fees and Side-By-Side Management

Halcyon receives performance-based compensation from all but one of its advisory clients. We do not receive performance-based compensation from Halcyon Multiple Strategies, L.P., which invests only into other Halcyon Funds and does not compete for investment opportunities with those clients.

4. Types of Clients

All of our advisory clients are private investment funds or similar private investment entities for one or more investors. Halcyon Funds have a diverse group of investors, including leading pension funds, endowments, foundations, financial institutions, insurance companies, hedge funds of funds, and high-net-worth individuals throughout the world. Halcyon generally requires investors that are US persons to be "accredited investors" and "qualified purchasers" or "knowledgeable employees" (as defined in applicable federal securities laws and regulations).

5. Method of Analysis, Investment Strategies, and Risk of Loss

- A. Halcyon engages in credit, merger, and special situation strategies, primarily in North America and Western Europe. Halcyon Long Term Strategies LP has a longer-duration-oriented tailored investment approach. Our investment process has its foundation in a research paradigm and a dynamic approach to risk management that serves to put different types of positions within different strategies on equal footing for evaluation purposes. This approach results in better situation comparison and selection and better portfolio construction. The Halcyon partners are incentivized based on overall fund performance rather than the performance of a particular strategy.

Halcyon builds portfolios on a "bottom-up" basis with a top-down overlay, choosing individual positions based on their absolute downside risk and their probabilistic relative attractiveness. At the same time, we take into consideration macroeconomic factors in managing the funds and impose portfolio-based risk constraints designed to mitigate drawdowns and volatility, including, among others, limits on leverage, cross-correlation, equity and bond market exposure, industry, and geographic concentration. The funds are diversified in that they hold positions in many companies in different industries and also because the types of situations are varied and have limited correlation with one another.

We may hedge against exposure to high-yield and equity markets, currency risk, individual companies, and commodity markets. Market-based hedges, if any, are typically somewhat out of the money.

Teams led by one or more senior analysts research individual positions, then discuss each position with the Portfolio Managers in an iterative fact-finding process. Research includes extensive proprietary qualitative and quantitative analysis and is supplemented by reports from sell-side firms, independent analysts, and industry consultants; fundamental due diligence with companies and their partners, customers and competitors; and event-oriented discussions with attorneys, lenders, accountants, investment bankers, and other investors. For more information, please see Section 10: Review of Accounts.

- B. Halcyon's dedication to the rigorous management of risk within and across subsets of its portfolios is designed to identify and address appropriately the sorts of risk inherent in the types of transactions in which we participate. However, despite our risk management process, investing in any securities or other assets (e.g., bank debt) involves a risk of loss that our clients and the investors in our clients must be prepared to bear.

Examples of potential areas of risk associated with the types of investment strategies in which we engage are:

Non-investment-grade investments. Our strategies often call for us to invest in debt of companies experiencing financial distress or stress, and our credit investments often are unsecured or subordinated. Our strategies and the success of our accounts depend upon our ability to gather all relevant information about each investment and to assess it accurately, not only at the time of investment but through our holding period until Halcyon disposes of the investment. Our expectations regarding the favorable outcome of any investment can be adversely affected by numerous factors beyond our control, including our receipt of incomplete or inaccurate data, our failure to assess it accurately, and unpredictable changes in circumstances, including unforeseeable macroeconomic circumstances unrelated to our analysis of the specific investment.

Illiquidity. Halcyon may make investments in securities or other assets that are not readily marketable or that cease to be readily marketable after Halcyon makes its investment. This could make it difficult to realize the value Halcyon ascribes to an investment if we are forced to dispose of it in an inactive market.

Valuation. Investors in the client funds that Halcyon manages purchase and redeem interests in the funds based on a determination of the fair value of the assets and liabilities of the fund. In addition, our management fees and incentive allocations are determined by reference to these valuations. To the extent market quotations are unavailable or Halcyon determines that such quotations inadequately represent the fair value of the assets, Halcyon may value such positions in good faith (subject to periodic review of certain positions by an independent investment bank). Investors may be adversely affected in connection with subscriptions or redemptions to the extent the values so determined are incorrect. Investors are also subject to a conflict of interest with respect to Halcyon to inflate the determination of fair value because Halcyon is entitled to

compensation based on the assets under management, as well as on the unrealized gains and losses.

Competition. The success of investments typically depends on our ability to identify or exploit opportunities more efficiently than other market participants. The ability to do so may be adversely affected as a result of the highly competitive nature of the asset management industry.

Short sales. Our strategies call for short sales not only for hedging purposes but also occasionally to take advantage of situations in which Halcyon believes an investment has been overvalued by market participants. If our assessment of these situations is incorrect, there is risk that Halcyon could incur a potentially unlimited amount of loss from the short sale.

Leverage. Halcyon generally has the discretion to use borrowing and other forms of leverage in our strategies. While the use of leverage may amplify the profit on successful investments, it may also amplify the losses incurred on unsuccessful investments.

Fund structure: limited liquidity and transparency. An investor's investment in any fund that Halcyon manages is subject to the structure and terms of the fund. These include rights to liquidity and transparency that are more restricted than would be the case for a Managed Account held by a custodian in the investor's name or for the personal account of the investor in its own name.

Conflicts of interest. As described elsewhere in this brochure, Halcyon is subject to various conflicts of interest as a result of our management of multiple accounts, the nature of our compensation arrangements, our affiliated management companies and other accounts managed by them, and the use of our fund structure. The existence of these conflicts of interest may influence the independence of Halcyon's judgment. This brochure contains information about how Halcyon manages these conflicts.

The Private Placement Memorandum for each of the Halcyon Funds and the Managed Account documents each contain discussions of various risk considerations that are more extensive in scope and depth than the foregoing summary.

6. Disciplinary Information

There have been no legal or disciplinary events involving Halcyon or any of our Managing Principals or executive officers that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

7. Other Financial Industry Activities and Affiliates

Relationships with the Halcyon Funds

Halcyon and Halcyon Offshore Asset Management LLC manage the following Halcyon Funds: Halcyon Fund, L.P.; Halcyon Offshore Fund Limited; Halcyon Partners LP;

Halcyon Partners Offshore Ltd; Halcyon Diversified Fund, L.P.; Halcyon Multiple Strategies, L.P.; and Halcyon Master Fund L.P. Halcyon Master Fund L.P. may pursue specialized investment strategies or opportunities through dedicated subsidiaries managed by Halcyon and/or its affiliates, provided that no such entities pay any additional compensation to Halcyon and/or its affiliates.

Halcyon Asset LLC, which is under common ownership and control with Halcyon, acts as the general partner of each of the multi-strategy Halcyon Funds. None of the compensation, liquidity, or other terms of the Halcyon Funds is negotiated at arm's length. However, Halcyon discloses to prospective investors the terms of all of its general fees and performance-based compensation, as well as the other terms of an investment, in detail in the Private Placement Memorandum relating to each Halcyon Fund.

Halcyon Offshore Asset Management LLC also manages HCN LP, a single-investor fund for which HCN GP LLC, an affiliate of Halcyon Offshore Management LLC, acts as the general partner.

Halcyon Long Term Strategies LP manages the following funds, each formed for the benefit of one institutional investor or a group of related institutional investors: HLTS Fund II LP, HLF LP, and HLTS Fund III SPC on behalf of Special Opportunities Segregated Portfolio and on behalf of Special Opportunities Segregated Portfolio F. HLTS GP LLC, an affiliate of Halcyon Long Term Strategies LP, acts as the general partner of HLTS Fund II LP. HLF GP LLC, an affiliate of Halcyon Long Term Strategies LP, acts as the general partner of HLF LP.

The Halcyon Funds, managed by Halcyon and Halcyon Offshore Asset Management LLC (with the exception of Halcyon Multiple Strategies, L.P., which invests in other Halcyon Funds), typically invest in the same portfolio through the same master account. In certain instances, the Halcyon Funds may instead invest through special-purpose vehicles. As a result, there is no actual or potential conflict of interest relating to the allocation of investment opportunities among these Halcyon Funds. Allocation conflicts could arise as a result of our management of other funds and separate accounts which do not trade through the master account used by the Halcyon Funds. Theoretically, to the extent our Managed Accounts have different performance compensation provisions than the Halcyon Funds but pursue the same or similar strategies or subsets of such strategies, Halcyon could arguably have an interest in favoring the clients that are most likely to pay the highest compensation. The potential to earn performance-based compensation could also provide an incentive to invest client assets in an aggressive or speculative manner. Halcyon seeks to minimize this potential conflict by taking a disciplined approach to portfolio risk management. Performance compensation is based in part on unrealized gains and losses, so Halcyon may theoretically have an incentive to inflate the value of client assets through fair valuation determinations. Mindful of the presence of these potential conflicts of interest, Halcyon seeks to act fairly when allocating investment opportunities and valuing client assets. Halcyon has adopted written policies and procedures that are designed to ensure fair allocations over time and consistent valuation methodologies. In particular, our policy prevents us from taking into account fee or other compensatory differences in allocating an investment opportunity. We also utilize services of an independent

administrator to value assets and interests in our fund clients. See also Section 9: Trade Aggregation and Allocation.

On rare occasions, Halcyon may determine that a sale of positions from one advisory client to another is in the best interests of both accounts. While these transactions with related parties are expected to expand the universe of opportunities that are available to our clients, not all advisory clients will necessarily derive a benefit from each of these transactions, and the advisory clients may have divergent interests. Moreover, there may be uncertainties regarding the valuation of investments that are subject to these transactions. Where required by applicable law or in other appropriate circumstances as determined by Halcyon, we will seek client consent to engage in transactions in which participating accounts may have divergent interests. However, the following transactions generally will not be subject to any approval: (i) buying interests in or selling positions to another fund or account managed by Halcyon or its affiliated management companies where Halcyon has verified the valuation of the interests and the purchase or sale is in the best interests of each client, and (ii) actual or synthetic ownership or support of the bank debt owned by our client or a client of an affiliated management company. Halcyon may determine to aggregate the bank debt or other investments to be purchased by one of our advisory clients with the bank debt or other investments to be purchased by other funds or accounts managed by Halcyon and its affiliates. In such event, an affiliated entity would purchase the bank debt and would then enter into participation agreements or other similar arrangements with the other funds and accounts, allowing the other funds and accounts to participate in the economic performance of the bank debt or other investments without actually owning the bank debt or other investments directly. In pricing any such participations, Halcyon faces a theoretical conflict of interest. In these situations, Halcyon acts in a manner that it believes will serve the best interests of the client who issues the participations and will price the participations at the price paid by the client for the bank debt. Under the terms of participation arrangements, advisory clients may be required to make future payments to another Halcyon advisory client. If any other fund or account were to default on its respective obligations to the issuing client, that advisory client could be adversely impacted. In addition, if the issuing client were to act as the lender of record with respect to any purchase of bank debt or other investments, it may have greater exposure to third-party claims than the other funds and accounts.

Affiliated Investment Advisers

Halcyon is affiliated with the following management companies, which are Halcyon's related persons: Halcyon Asset-Backed Advisors LP, Halcyon Loan Management LLC, Halcyon Long/Short Management LP, and Halcyon Liquid Strategies IC Management LP. Each of these entities is separately registered as an investment adviser with the SEC, and information concerning each of these entities and its relying advisers is included in its own Form ADV Part 1 and Part 2. Halcyon Offshore Asset Management LLC, Halcyon Long Term Strategies LP and Halcyon Asset Management (UK) LLP are relying advisers with respect to Halcyon's registration with the SEC. In addition, Halcyon Asset Management (UK) LLP is authorized and regulated by the FCA. Halcyon is also affiliated with Halcyon Structured Asset Management L.P. and HJS Management LP. Our investment professionals participate in managing the portfolios of more than one advisory client and

may work simultaneously for Halcyon and one or more of its affiliated management companies. As a result, they do not devote their exclusive attention to any single advisory client.

The investment activities of one or more advisory clients of the Halcyon Group may result in the imposition of restrictions on the flexibility of other client accounts. For example, if the Halcyon Group obtains material non-public information concerning a company on behalf of an advisory client fund in connection with a privately negotiated transaction, other advisory clients may be unable to trade in securities of the same company in the public markets.

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

- A. Halcyon has adopted a Code of Ethics in accordance with legal requirements. The Code of Ethics is designed to ensure that the interests of Halcyon partners and other Halcyon employees (referred to as Employees) do not conflict with the interests (including transactions) of our clients. The Code of Ethics is based on the principle that Halcyon and its Employees owe a fiduciary duty to our clients and their individual investors. Thus, Halcyon Employees must, among other things, (i) place the interests of our clients and their investors first, (ii) avoid taking inappropriate advantage of their positions within Halcyon, and (iii) conduct their personal securities transactions in full compliance with the Code of Ethics. Policies adopted by Halcyon with which all Employees (and, in certain circumstances, members of their families and other related persons) must comply include, but are not limited to, preapproval of certain personal securities transactions by the Chief Compliance Officer or her designee, annual certification of compliance with the Code of Ethics and requiring brokers to provide Halcyon with duplicate confirmations and periodic statements of personal transactions. Halcyon provides a copy of its Code of Ethics to any client or any investor that requests one.
- B. Employees of Halcyon do not recommend to advisory clients, nor do they buy or sell for clients, securities or other instruments in which they have a material financial interest (notwithstanding the foregoing, our related person, Halcyon Asset LLC, acts as the general partner of certain Halcyon Funds as more fully described in Section 7 in which Halcyon Multiple Strategies L.P. invests). In addition, Halcyon's related persons invest personally in Halcyon Funds. These investments could theoretically pose a conflict of interest with our other advisory clients because Employees may be motivated to allocate time, attention, and/or investment opportunities to the funds in which they invest at the expense of other clients. Halcyon has adopted written policies and procedures governing the allocation of investment opportunities among clients in a fair and equitable manner.
- C. Halcyon has a comprehensive set of procedures in place to ensure that we address any potential conflicts that may arise between Employees and clients when investing in the same securities or instruments and to align incentives properly. The Code of Ethics generally provides that, subject to certain limited exceptions that do not pose potential conflicts of interest, no Employee may purchase or direct a purchase of securities in personal accounts. The sale of securities by an Employee is subject to preapproval from

the Chief Compliance Officer or her designee, subject to limited exceptions. The Code of Ethics also provides that all Employees must notify Halcyon of all relevant existing personal accounts and must obtain approval from the Chief Compliance Officer or her designee prior to the opening of a new personal account. Copies of confirmations of all personal transactions and any other information reflecting account or transactional activity involving personal accounts must be provided to Halcyon. In the limited circumstances in which personal trading activities are permitted, the Chief Compliance Officer or her designee approves all relevant proposed transactions involving personal accounts prior to execution. The Chief Compliance Officer or her designee also conducts a quarterly review of personal accounts to examine relevant trades executed during the previous quarter and related statements and to determine whether all the accounts are maintained in compliance with the requirements and restrictions described above. To the extent there is any finding relating to personal trading activity that is inconsistent with this policy, Halcyon will investigate and, as with any breach of the firm's policies, a violation is subject to disciplinary action, including dismissal.

9. Brokerage Practices

In selecting broker-dealers and determining the reasonableness of their commissions for our clients' transactions, Halcyon takes into account a number of factors, including the following: ability to secure future opportunities to obtain securities or assets; quality and reliability of brokerage services; commissions or other fees for executing the orders; price; the broker's or dealer's facilities; financial responsibility; the ability of the broker or dealer to effect transactions, particularly with regard to aspects such as timing, order size and execution of orders; and the research and other investment-related services provided by the broker or dealer to Halcyon to enhance its general portfolio management capabilities (notwithstanding the fact that specific clients may not be direct or exclusive beneficiaries of these services). Halcyon may execute trades for advisory clients with broker-dealers with which Halcyon has other business relationships, including prime brokerage, credit relationships and capital introduction or investments by affiliates of the broker-dealers in advisory client entities. We do not take client referrals into account in selecting broker-dealers.

Halcyon does not utilize "soft dollar" commissions to purchase third-party research and other services. We do, however, consider a broker-dealer's proprietary research in selecting broker-dealers and determining the commission rates. Accordingly, Halcyon may cause a client to pay a commission for effecting a transaction for the advisory client in excess of the amount another broker or dealer would have charged for effecting that transaction, where it determines in good faith that this commission is reasonable in relation to the value of the brokerage and/or research services the broker or dealer provides to Halcyon. Halcyon does not put a specific dollar value on the research or brokerage services of any broker or dealer or allocate the relative costs or benefits of research, because Halcyon believes that the research received is, in the aggregate, of assistance in fulfilling Halcyon's overall responsibilities to its advisory clients.

Halcyon's Broker Review Committees meet quarterly to ensure that Halcyon's obligation to seek best execution in its trading activities for the benefit of all advisory clients is being

met. The Broker Review Committees, the members of which include various executive officers, partners and others, review internally generated records and externally prepared reports bearing on the selection of broker-dealers. Such documents include: the approved list of executing brokers; best execution worksheets completed by traders; commission reports; gift and entertainment log; report of the cancellation and rebooking of trades; report analyzing Halcyon's use of broker-dealers and; a report containing the results of a broker vote by certain Halcyon investment professionals. The research services that broker-dealers might provide include written information and analyses concerning specific investments, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants. In many cases, research services that are generated by third parties may be provided by or through the brokerage firm to which commissions are paid. Using client transactions to obtain research and other benefits creates incentives that theoretically could result in conflicts of interest between advisers and their clients. When Halcyon uses client markups or markdowns to obtain research products and services, it receives a benefit because it does not have to produce or pay for the research products and services. The availability of these benefits creates the potential that we might be influenced to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the products and services rather than on our clients' interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those charged by other broker-dealers. To mitigate risks of conflicts of interest, Halcyon does not permit clients to direct us to execute transactions through a specified broker-dealer.

Trade Aggregation and Allocation

The Halcyon Group has adopted comprehensive policies regarding trade aggregation and allocations of investments. Where appropriate, transactions for our advisory clients may be aggregated for execution purposes. This aggregation does not ordinarily adversely affect commissions charged and execution prices on the transactions. In addition, Halcyon's advisory client accounts may be included in the aggregated orders with clients of Halcyon's affiliated advisers. Halcyon generally effectuates aggregated orders for all accounts according to a pre-determined allocation methodology whereby clients receive an average price and are assessed a fixed commission charge.

Circumstances may arise whereby Halcyon may determine that, while it would be both desirable and suitable that a particular security or other investment be purchased or sold for more than one advisory client, there is a limited supply or demand for the security or other investment. If all of these orders cannot be fully executed under prevailing market conditions, Halcyon may allocate among its clients the securities, bank debt, claims and other instruments traded in a manner which Halcyon considers equitable, taking into account the size of the order placed for the clients as well as any other factors which Halcyon deems relevant. In allocating investment opportunities among our clients, Halcyon may receive greater fees or overall compensation from some of our clients than the fees or overall compensation paid by other clients. Where an investment opportunity is suitable for two or more advisory clients, allocations of investment opportunities will be

made among advisory clients in a fair and equitable manner. In determining such allocations, the following factors, among others, will be considered: account liquidity (including an account's cash availability, other liquidity obligations of the account such as investor redemptions, commitments to other investments, and availability of leverage); written investment restrictions contained in applicable investment management or other relevant agreements; investment strategies and time horizons; applicable legal and regulatory restrictions; whether or not an account is deemed to be "plan assets" under ERISA; risk tolerance; advisory client approval (in the case of Managed Accounts or other accounts for which investors retain a degree of investment discretion); tax considerations; applicable limitations on credit, clearing and custody; rounding to multiples of trading lot sizes or the avoidance of creating odd-lots; adjustments for accounts in ramp-up or wind-down phases; and, with respect to investment ideas generated by other Halcyon Group managers, the manager responsible for generating the respective idea. Halcyon is not required to ensure equality of treatment among any of our clients and, therefore, there can be no assurance that a purchase or sale opportunity that would be suitable for one advisory client will not be allocated to another client.

The same principles apply to the allocation of investment and divestment opportunities among clients of Halcyon and its affiliated management companies.

10. Review of Accounts

- A. Halcyon has adopted policies regarding the review of advisory clients' portfolios. The Risk Management Committees review client portfolios and confer with the relevant Investment Committee on an informal basis frequently throughout each business day. In addition, on a regular basis, each research analyst provides input on the positions for which he or she is responsible to independent risk analysts. By independently verifying estimates provided by the research team, the risk analysts offer a "market reality check."

The Risk Management Committees consist of numerous partners. The Risk Management Committees generally meet weekly to review and recommend policy strategies that are consistent with the advisory clients' investment objectives and policies. The Risk Management Committees consider macro-level economic and market trends, and assess the advisory client portfolios, managing risk in a manner consistent with each client's Private Placement Memorandum or Managed Account policies. The Risk Management Committees review and adjust limits to position size, industry exposure, commodity risk, systemic risks, and other considerations. The Risk Management Committees consider the strategy mix and the biggest risks among the holdings, taking into account macro-economic conditions, the regulatory framework, the political climate, and the potential for decline within companies and/or specific industries.

The Investment Committees consist of certain investment professionals. The Investment Committees review our investments on a bottom-up basis each day and make day-to-day recommendations on behalf of each portfolio.

Halcyon also actively manages counterparty, technology, and operational risk as well as conflicts of interest through various committees, including our Risk Management

Committees, Pricing Review Committee, Systems and Information Technology Committee, Investment Committees, Broker Review Committees, Client Relations Committee and Conflicts Committee.

- B. Reports are prepared for and provided regularly to investors in the Halcyon Funds. On a monthly basis, the administrator to the Halcyon Funds provides statements for all investors in these funds, showing performance for the month and year-to-date. Halcyon also prepares a monthly report for investors in the Halcyon Funds containing portfolio information and estimated performance results for the month and year-to-date. At the conclusion of each calendar quarter, Halcyon prepares a report for each Halcyon Fund and investors which discusses the fund's portfolio and performance for the quarter and year-to-date. On an annual basis, independent certified public accountants audit the books and records of each Halcyon Fund. Halcyon additionally prepares an annual report including, among other things, the balance sheet for each Halcyon Fund, a statement showing the net gains or net losses of the client, the closing capital account (or net asset value of interests) of every investor in the client (and the manner of the calculation thereof), and the opening capital account (or the net asset value of interests as of the beginning of the year) and ownership percentage of every investor in each entity.

We provide our Managed Account clients with financial information as may be agreed with respect to each account. Managed Accounts that are structured as funds are typically subject to an annual audit.

11. Client Referrals and Other Compensation

- A. Halcyon does not, nor do any Employees of Halcyon, receive any economic benefit from non-clients for providing advisory services to our clients.
- B. Halcyon has entered into arrangements with third-party placement agents, each of which is a registered broker-dealer, unless marketing is done outside of the United States by a non-United States person. Halcyon ultimately bears any placement agent fees, unless a Managed Account client or an investor specifically agrees to bear a placement agent fee. If a placement agent solicits client accounts for Halcyon, the placement agent will advise the prospective clients of the arrangement between Halcyon and the agent and of any fees associated with the arrangement as required pursuant to applicable regulations.

12. Custody

Due to Halcyon's access to advisory client funds and securities as general partner or manager of the Halcyon Funds and certain Managed Accounts structured as funds controlled by Halcyon or its affiliates as well as our authority to deduct fees and other expenses from these client accounts, we are deemed to have constructive custody of their funds and securities within the meaning of Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended. Halcyon utilizes the services of unrelated financial institutions or other qualified custodians (as defined in Rule 206(4)-2) to hold all funds and securities of the Halcyon Funds and Managed Accounts with respect to which Halcyon is deemed to have custody, with the exception of certain uncertificated privately offered securities. We

also ensure that the qualified custodian maintains these funds in accounts that contain only these funds' assets and securities, under our name as agent or trustee for the relevant fund. We also comply with the requirements of Rule 206(4)-2 with respect to the annual audit of customer accounts (performed in accordance with generally accepted accounting principles by an independent auditor), and the distribution of audited financial statements to investors in these funds within 120 days of the end of the clients' fiscal year for limited partnerships and offshore companies.

Some of our Managed Accounts establish their accounts with their own qualified custodians, and neither Halcyon nor any of our affiliates have authority to deduct fees or other expenses from these Managed Accounts. These clients receive account statements directly from their qualified custodians. We urge our clients to carefully review the statements they receive from their qualified custodians and compare them with the periodic reports we send them.

13. Investment Discretion

Scope of Authority

Halcyon accepts discretionary authority to manage advisory clients' assets. We have the authority to determine, without obtaining specific client consent, which securities or other investments to buy or sell, the amount of securities or other investments to buy or sell, the broker through which we effect trades, if any, and the commission rates at which we effect trades. While we have been given this broad authority, Halcyon is committed to adhering to the investment strategy and program set forth in the Private Placement Memorandum of each Halcyon Fund. Halcyon's discretion over the Managed Accounts is generally limited by investment guidelines negotiated with each Managed Account client. Halcyon has processes and procedures in place to verify that it is complying with client-imposed restrictions and adhering to each client's investment strategy and objectives. In particular, as discussed in more detail in Section 10, our Risk Management Committees review client accounts regularly to ensure that we are observing our clients' investment strategies and objectives.

Procedures for Assuming Authority

Before accepting their subscriptions for interests, we provide all investors in the Halcyon Funds with a Private Placement Memorandum and governing documents that set forth, in detail, our investment strategy and program and the terms of investment for investors, including the scope of our investment authority. By completing the subscription documents to acquire an interest in a Halcyon Fund, each investor consents to the terms and conditions in the operating agreements that give Halcyon complete authority to manage our clients' investments in accordance with the Private Placement Memorandum and the operating agreements. Prior to providing investment advice to our Managed Accounts, we require each client to appoint us as agent and attorney-in-fact of each portfolio that we manage for them. This gives us complete discretionary authority to buy and sell any securities and other instruments in the amounts and at the prices that we determine.

14. Voting Client Securities

Proxy Voting Policy

Halcyon's policy is to review each proxy or information statement on an individual basis and to base its voting or consent decision on its judgment about what will best serve the interests of its advisory clients. In determining how or whether to vote proxies or provide consents, Halcyon will not subordinate the economic interests of its advisory clients to the interests of other persons or to Halcyon's self-interest. Decisions will be made by relevant Portfolio Managers and based on the financial interest of each advisory client in light of the specific applicable investment strategy. Each proxy proposal will be considered on its own merits, and an independent determination will be made whether to support or oppose management's position. Additionally, in certain circumstances, Halcyon may determine that it is in the best interests of its advisory clients not to vote or consent or that a vote or consent is not required, for example, where the clients' holdings are *de minimis*, when the proxy vote covers only routine corporate business, or where the advisory clients' positions were liquidated between the record date and the vote deadline.

Halcyon's Operations Manager or his designee notifies relevant Research Analysts of pending corporate actions involving the advisory client portfolios. The Research Analyst assigned to the transaction or security consults with a member of the Investment Committee who is responsible for the ultimate determination regarding the proper vote or consent and with the Chief Compliance Officer. If in reviewing the corporate action, the Chief Compliance Officer (in consultation with the Investment Committee or others) determines that a material conflict may exist between Halcyon's interests and those of its advisory clients, the Chief Compliance Officer will inform the Conflicts Committee of such potential material conflict. The Conflicts Committee will evaluate the potential or actual conflict and, in consultation with the member of the Investment Committee, will determine if a material conflict of interest exists, and if so will determine the appropriate course of action to resolve the conflict in the interests of its advisory clients. If a conflict cannot be resolved, the affected clients will be informed of the conflict and explicit voting instructions will be solicited.

If no material conflict exists, or has been resolved, a member of the Investment Committee will, in accordance with Halcyon's fiduciary duties, make a determination as to how to vote the proxy and communicate the decision to the Research Analyst. The Research Analyst will then communicate the decision by the member of the Investment Committee to the Operations Manager, typically prior to the close of business on the day prior to the vote deadline. The Operations Manager utilizes the website www.proxyvote.com to transmit the proxy vote or consent, and receives confirmation of the vote or consent from the website. Upon receipt of said confirmation, the Operations Manager forwards the confirmation to the Chief Compliance Officer or her designee. The Chief Compliance Officer or her designee retains this information for five years from the date the proxy vote or consent is executed.

Recordkeeping

Halcyon maintains the following records relating to proxy voting: copies of our proxy voting policies and procedures and any amendments; proxy statements received for client securities and other assets; records of proxy votes cast on behalf of our clients; records of written requests from clients and investors in the Halcyon Funds for proxy voting information and our written responses to any written or oral requests; and any documents that our Employees prepared that were material to deciding how to vote proxies or that memorialize the basis for a proxy vote. Upon request, any of our clients or any of the investors in our clients can obtain (1) a copy of our proxy voting policies and procedures and (2) information concerning proxy votes on its behalf.

15. Financial Information

Halcyon does not require nor do we solicit prepayment of more than \$1,200 in fees from clients, six months or more in advance. Halcyon is not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients. Halcyon has never been the subject of a bankruptcy petition.