

Form ADV Part 2A: Firm Brochure

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Halcyon Asset-Backed Advisors LP 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-Backed Advisors LP. 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-Backed Advisors LP 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 2005, Halcyon Asset-Backed Advisors LP (also referred to as Halcyon Asset-Backed Advisors or we), a distressed asset-backed security advisor, is an investment advisory services firm affiliated with Halcyon Asset Management LLC, a leading global asset management firm for private investment funds. Halcyon Asset-Backed Advisors' regulatory assets under management are estimated to be \$2,578,424,005 as of December 31, 2013. Halcyon Asset-Backed Advisors 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 Group'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-Backed Advisors is headquartered in New York. It has been registered with the United States Securities and Exchange Commission (referred to as the SEC) since 2006. Joseph Wolnick is Chief Investment Officer and a Managing Principal of Halcyon Asset-Backed Advisors, and James Coppola and Joseph Godley are Portfolio Managers and Managing Principals. Halcyon Asset-Backed Advisors' owners include the Managing Principals, along with Halcyon Holdings LLC and Halcyon Structured Asset Management LP, each of which owns over 25% of Halcyon Asset-Backed Advisors. The Halcyon Group draws on the skills and experience of approximately 110 employees, approximately 50 of whom are investment professionals.

Halcyon Asset-Backed Advisors is active in the secondary markets for distressed, non-investment grade, and investment-grade structured finance products with a main concentration on asset-backed securities. We seek to identify specific sectors and securities that present the most attractive combination of current income and principal performance. This approach generally focuses on out-of-favor and/or undervalued sectors and/or issuers. Halcyon Asset-Backed Advisors uses a disciplined investment and risk management process which emphasizes rigorous fundamental research and analysis framework. Halcyon Asset-Backed Advisors seeks to build a portfolio carefully on a bottom-up basis, choosing and sizing individual positions based on their relative risk/reward profiles, and employs an active management approach that emphasizes flexibility in the allocation of assets across a wide range of asset classes.

We tailor advisory services to the individual needs and specified investment mandate of our sole advisory fund client, structured as a master-feeder complex consisting of two directed feeder funds and one master fund that Halcyon Asset-Backed Advisors sponsors and controls (referred to as the Halcyon Asset-Backed Funds). We adhere to the investment strategy set forth in each Halcyon Fund'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 the Halcyon Asset-Backed Funds. For our unaffiliated, managed account client (referred to as the Managed Account), we entered into an advisory agreement that contains a description of the

investment objectives, mandate for the account, and investment restrictions that were agreed upon with that client.

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

2. Fees and Compensation

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

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

Our Managed Account pays quarterly asset-based fees (pro-rated for periods less than a full quarter) and performance-based compensation at the end of the relevant performance period. An unaffiliated third party deducts these fees from the Managed Account assets.

The Halcyon Asset-Backed 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 Asset-Backed 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 Account bears investment expenses similar to those borne by the Halcyon Asset-Backed Funds subject to the provisions in the Managed Account agreement. When Halcyon Asset-Backed Advisors 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 Asset-Backed Advisors receives performance-based compensation from all of its advisory clients.

4. Types of Clients

Our fund client is a private investment fund. Our Managed Account client is a state pension plan. The Halcyon Asset-Backed 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 Asset-Backed Advisors 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 Asset-Backed Advisors seeks to provide its clients with attractive risk-adjusted returns by executing its value-oriented investments in specific structured finance product strategies. We concentrate on seasoned, stressed and distressed asset-backed securities. These investments may range in credit from unrated to “AAA.” Our investment approach is driven by our focus on strong value-oriented philosophy and the identification of specific sectors and securities that present the most attractive combination of current income and principal performance. This bottom-up approach generally focuses on out-of-favor and/or undervalued sectors and/or issuers.

The analytical process concentrates on credit research, debt-instrument structure and covenant protection. Generally, when investing in below-investment-grade debt, we seek to identify securities within asset classes that we believe are likely to experience stable or improving conditions. Specific factors considered in the research process may include general industry trends, cash flow generation capacity, asset valuation, other debt maturities, collateral value, and priority of payments.

In managing our clients’ portfolios, Halcyon Asset-Backed Advisors employs an active management approach that emphasizes the flexibility to allocate assets across a wide range of asset classes and thereby provides the advantages of a widely diversified portfolio. Our research team searches a broad array of asset categories and sectors to identify the most attractive relative value prospects. Halcyon Asset-Backed Advisors strategically utilizes asset-backed securities, mortgage-backed securities, and other structured finance vehicles. Halcyon Asset-Backed Advisors attempts to anchor the portfolio with defensive, lower-risk, less volatile investments within its investment universe, and generally secured investments that pay current interest/cash payments and then add higher-return investments that have less correlation to overall equity and credit markets. Halcyon Asset-Backed Advisors seeks to overlay a quantitative and qualitative top-down risk management framework.

- B. Halcyon Asset-Backed Advisors’ 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 and other assets 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:

Asset-backed securities. Asset-backed securities and mortgage-backed securities are affected by interest rate changes, credit risk, prepayment risk, and risks related to the collateral, including regulatory risks relating to repossession and consumer protection laws.

Non-investment-grade investments. Our strategies often call for us to invest in debt 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 Asset-Backed Advisors 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 Asset-Backed Advisors may make investments in securities or other assets that are not readily marketable or that cease to be readily marketable after Halcyon Asset-Backed Advisors makes its investment. This could make it difficult to realize the value Halcyon Asset-Backed Advisors ascribes to an investment if we are forced to dispose of it in an inactive market.

Valuation. Investors in the client funds that Halcyon Asset-Backed Advisors 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 Asset-Backed Advisors determines that such quotations inadequately represent the fair value of the assets, Halcyon Asset-Backed Advisors 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 Asset-Backed Advisors to inflate the determination of fair value because Halcyon Asset-Backed Advisors 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.

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

Fund structure: limited liquidity and transparency. An investor's investment in any fund that Halcyon Asset-Backed Advisors manages is subject to the structure and terms of the fund. These include rights to liquidity and transparency that are more restricted than may 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 Asset-Backed Advisors 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 our judgment. This brochure contains information about how Halcyon Asset-Backed Advisors manages these conflicts.

The Private Placement Memoranda for the Halcyon Asset-Backed Funds contains 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 Asset-Backed Advisors 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 Asset-Backed Funds

Halcyon Asset-Backed Advisors manages the following Halcyon Asset-Backed Funds: Halcyon Offshore Asset-Backed Master L.P. and its two directed feeder funds, Halcyon Asset-Backed Value Fund L.P. and Halcyon Offshore Asset-Backed Value Fund Ltd.

Halcyon Asset-Backed GP LLC, which is under common ownership and control with Halcyon Asset-Backed Advisors, acts as the general partner of each of the Halcyon Asset-Backed Funds that is structured as a partnership. None of the compensation, liquidity, or other terms of the Halcyon Asset-Backed Funds is negotiated at arm's length. However, Halcyon Asset-Backed Advisors 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.

The Halcyon Asset-Backed Funds that are feeder funds invest in the same portfolio through Halcyon Offshore Asset-Backed Master LP. As a result, there is no actual or potential conflict of interest relating to the allocation of investment opportunities among these Halcyon Asset-Backed Funds. Allocation conflicts could arise as a result of our management of a separate Managed Account, which does not trade through the master account used by the Halcyon Asset-Backed Funds. Theoretically, to the extent our Managed Account has different performance compensation provisions than the Halcyon Asset-Backed Funds, Halcyon Asset-Backed Advisors 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 Asset-Backed Advisors 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 Asset-Backed Advisors 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 Asset-Backed Advisors seeks to act fairly when allocating investment opportunities and valuing client assets. Halcyon Asset-Backed Advisors 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 use services of an independent administrator to value interests in the Halcyon Asset-Backed Funds. See also Section 9: Trade Aggregation and Allocation.

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 advisory clients 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.

On rare occasions, Halcyon Asset-Backed Advisors may determine that a sale of positions between our advisory clients is in the best interests of both accounts. While these related party transactions are expected to expand the universe of opportunities available, our advisory clients may not necessarily derive a benefit from each of these transactions, as they may have divergent interests. Where required by applicable law or in other appropriate circumstances as determined by Halcyon Asset-Backed Advisors, we will seek client consent to engage in transactions in which the accounts may have divergent interests. However, buying interests in or selling positions to another fund or account managed by Halcyon Asset-Backed Advisors or its affiliated management companies where Halcyon Asset-Backed Advisors has verified the valuation of the interests and the purchase or sale is in the best interests of each client will generally not be subject to client approval.

Affiliated Investment Advisers

Halcyon Asset-Backed Advisors is affiliated with the following management companies, which are Halcyon Asset-Backed Advisors' related persons: Halcyon Asset Management LLC, Halcyon Loan Management LLC, Halcyon Long/Short Management LP, and Halcyon Liquid Strategies IC Management LP. Each of these entities is separately registered with the SEC as an investment adviser, and information concerning each of these entities, including its relying advisers (if any) is included in its own Form ADV Part 1 and Part 2 on file with the SEC. Our investment professionals participate in managing the portfolios of more than one advisory client. As a result, they do not devote their exclusive attention to any single advisory client.

Halcyon Asset-Backed Advisors entered into an administrative support agreement with Halcyon Asset Management LLC pursuant to which Halcyon Asset Management LLC provides office space, trading desk, prime broker identification and contracting services, and various other middle- and back-office services, including financial accounting and reporting, employee payroll, trade execution, clearing and settlement, client support and communications, marketing, tax accounting, compliance, IT services, insurance coordination and legal support. Halcyon Asset Management LLC is responsible for supervision of these services. Halcyon Asset-Backed Advisors compensates Halcyon Asset Management LLC for these services, and the clients do not bear the cost of any such services.

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

- A. Halcyon Asset-Backed Advisors has adopted a Code of Ethics in accordance with legal requirements. The Code of Ethics is designed to ensure that the interests of Halcyon Asset-Backed Advisors (including personal securities transactions) and its affiliated management companies' partners and other 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 Asset-Backed Advisors and its employees owe a fiduciary duty to its 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 Asset-Backed Advisors, and (iii) conduct their personal securities transactions in full compliance with the Code of Ethics. Policies adopted by Halcyon Asset-Backed Advisors 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 Asset-Backed Advisors with duplicate confirmations and periodic statements of personal transactions. Halcyon Asset-Backed Advisors provides a copy of its Code of Ethics to any client or any investor that requests one.
- B. Employees of Halcyon Asset-Backed Advisors 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. Halcyon Asset-Backed Advisors' related persons invest personally in the Halcyon Asset-Backed 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. To mitigate the risks of these potential conflicts, Halcyon Asset-Backed Advisors has adopted written policies and procedures governing the allocation of investment opportunities among clients in a fair and equitable manner.

- C. Halcyon Asset-Backed Advisors 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 provides that all Employees (and certain related persons) are required to notify Halcyon Asset-Backed Advisors of all relevant existing personal accounts. All Employees must obtain approval from the Chief Compliance Officer 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 Asset-Backed Advisors. No Employee of Halcyon Asset-Backed Advisors may hold more than twenty positions in total in a personal account at any one time and no more than five investments in a personal account are allowed per month, subject to the maximum of twenty positions stated above. This limitation does not apply to certain exempt transactions, which do not pose a potential conflict of interest. The Chief Compliance Officer or her designee approves all relevant proposed personal transactions involving personal accounts prior to execution. The Chief Compliance Officer or her designee conducts a quarterly review of the personal accounts. These reviews examine all relevant trades executed during the previous quarter and quarter-end statements to determine whether all of these accounts are maintained in compliance with the personal trading requirements and restrictions described above. To the extent there is any finding relating to personal trading activity that is inconsistent with this policy, Halcyon Asset-Backed Advisors will investigate and, as with any breach of the firm's policies, a violation is subject to disciplinary action, including dismissal.
- D. The Code of Ethics generally provides that, subject to certain narrow exceptions, no Employee may effect a transaction in a personal account on the day before, the same day, or the day after a day when Halcyon Asset-Backed Advisors is purchasing and/or selling that same security or instrument on behalf of a Halcyon Asset-Backed Advisors advisory client. This policy is aimed in part at addressing a potential conflict of interest created by the personal transactions of Employees.

9. Brokerage Practices

In selecting broker-dealers, Halcyon Asset-Backed Advisors takes into account a number of factors. Halcyon Asset-Backed Advisors may execute trades for advisory clients with broker-dealers with whom Halcyon Asset-Backed Advisors has other business relationships, including prime brokerage relationships. We do not take client referrals into account in selecting broker-dealers.

Halcyon Asset-Backed Advisors does not utilize “soft dollar” commissions to purchase third-party research and other services.

Our Broker Review Committee meets quarterly to ensure that our obligation to seek best execution in its trading activities for the benefit of all advisory clients is being met. The Broker Review Committee, the members of which include various officers and the Portfolio Managers, reviews and approves all relevant records necessary to ensure we satisfy our fiduciary obligation to seek best execution for our clients.

Halcyon Asset-Backed Advisors does not permit clients to direct us to execute transactions through a specified broker-dealer.

Trade Aggregation and Allocation

Halcyon Asset-Backed Advisors may allocate among its advisory clients the securities and other assets in a manner which Halcyon Asset-Backed Advisors considers equitable, taking into account the size of the order placed for the clients as well as any other factors which Halcyon Asset-Backed Advisors deems relevant. In allocating investment opportunities among our clients, Halcyon Asset-Backed Advisors may receive greater fees or overall compensation from some of our clients than the fees or overall compensation paid by other clients. Halcyon Asset-Backed Advisors seeks to allocate each opportunity to purchase or sell an investment among its advisory clients on an equitable basis, taking into account factors that Halcyon Asset-Backed Advisors deems relevant, which include but are not limited to the relative size of a client’s account, investment objectives and restrictions, risk tolerance, the possibility to participate in future investment opportunities, available cash for investment, leverage limitations, and the expected capacity of the client. Halcyon Asset-Backed Advisors 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.

10. Review of Accounts

- A. Halcyon Asset-Backed Advisors has adopted policies regarding the review of advisory clients’ portfolios. The Risk Management Committee consists of certain Managing Principals and other senior members of the Halcyon Group and generally meets to review and recommend policy strategies that are consistent with the advisory clients’ investment objectives and policies. The members of the Risk Management Committee consider macro-level economic and market trends and assess the advisory client portfolios, seeking to manage risk in a manner consistent with each client’s operating agreements. This Committee reviews and adjusts limits to position size, industry exposure, capital structure, and other risk/reward metrics. The Committee considers 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 Managing Principals review our advisory clients’ portfolios on a regular basis and make day-to-day recommendations on behalf of each portfolio.

Halcyon Asset-Backed Advisors actively manages counterparty, technology, and operational risk as well as conflicts of interest through various committees, including our Risk Management Committee as well as the Halcyon Group's Pricing Review Committee, Systems and Information Technology Committee, Broker Review Committee, Client Relations Committee and Conflicts Committee.

- B. Reports are prepared for and provided to investors regularly. On a monthly basis, the administrator to the Halcyon Asset-Backed Funds provides statements for all investors in these funds, showing gains/losses for the month and year-to-date. Halcyon Asset-Backed Advisors also prepares a monthly report for investors in the Halcyon Asset-Backed Funds containing portfolio information and estimated performance results for the month and year to date. At the conclusion of each calendar quarter, Halcyon Asset-Backed Advisors 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, at the end of the last quarter of a client's fiscal year, independent certified public accountants audit the books and records of each Halcyon Fund. Halcyon Asset-Backed Advisors 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 client with financial information as may be agreed with respect to the account.

11. Client Referrals and Other Compensation

- A. Halcyon Asset-Backed Advisors does not, nor do any Employees of Halcyon Asset-Backed Advisors, receive any economic benefit from non-clients for providing advisory services to our clients.
- B. Halcyon Asset-Backed Advisors may enter 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 Asset-Backed Advisors ultimately bears any placement agent fees unless a client or an investor specifically agrees to bear a placement agent fee. If a placement agent solicits client accounts, the placement agent will advise the prospective clients of the arrangement between Halcyon Asset-Backed Advisors and the agent and of any fees associated with the arrangement as required pursuant to applicable regulations.

12. Custody

Due to Halcyon Asset-Backed Advisors' access to advisory client funds and securities as general partner or manager of the Halcyon Asset-Backed Funds and our authority to deduct fees and other expenses from their 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 Asset-Backed Advisors 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 any of the Halcyon Asset-Backed Funds, with the exception of certain uncertificated privately offered securities. We also ensure that the qualified custodian maintains these funds in accounts that contain only the Halcyon Asset-Backed Funds' assets and securities, under our name as agent or trustee for the Halcyon Asset-Backed Funds. 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 the Halcyon Asset-Backed Funds within 120 days of the end of the clients' fiscal year for limited partnerships and offshore companies.

Our Managed Account established its own accounts with its own qualified custodians. This client receives account statements directly from its qualified custodians. We do not have any actual or constructive custody of the Managed Account's assets. We urge our Managed Account client to carefully review the statements it receives from its qualified custodians and compare them with the periodic reports we send them.

13. Investment Discretion

Scope of Authority

Halcyon Asset-Backed Advisors 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 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 Asset-Backed Advisors is committed to adhering to the investment strategy and program set forth in the Halcyon Asset-Backed Funds' Private Placement Memoranda. Halcyon Asset-Backed Advisors' discretion over the Managed Account is generally limited by investment guidelines negotiated with the Managed Account. Halcyon Asset-Backed Advisors 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 Committee reviews 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 Asset-Backed 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 any Halcyon Fund, each investor consents to the terms and conditions in the operating agreements that give Halcyon Asset-Backed Advisors complete authority to manage our clients' investments in

accordance with the Private Placement Memorandum and the operating agreements. Prior to providing investment advice to the Managed Account, we required the client to appoint us as agent and attorney-in-fact for 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 Asset-Backed Advisors rarely invests in equities and as a result, even though Halcyon Asset-Backed Advisors does have authority to vote proxies on behalf of its advisory clients, it rarely (if ever) has a chance to do so. In the event Halcyon Asset-Backed Advisors votes any proxies, it will do so in accordance with the written policies applicable to the Halcyon Group, which generally require communications between the portfolio managers or their designees making the voting decision, the Operations Manager and the Chief Compliance Officer, and contain procedures for addressing conflicts.

Recordkeeping

Halcyon Asset-Backed Advisors 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; records of proxy votes cast on behalf of our clients; records of written requests from clients and investors in the Halcyon Asset-Backed 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 Asset-Backed Advisors does not require nor do we solicit prepayment of more than \$1,200 in fees from clients, six months or more in advance. Halcyon Asset-Backed Advisors is not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients. Halcyon Asset-Backed Advisors has never been the subject of a bankruptcy petition.