

**FIFTH STREET MANAGEMENT LLC**

777 West Putnam Avenue, 3rd Floor

Greenwich, Connecticut 06830

Tel: (203) 681-3600

Fax: (203) 681-3879

Website: <http://www.fifthstreetfinance.com>

**PART 2A OF FORM ADV: FIRM BROCHURE**

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**Dated: November 14, 2014**

**This brochure provides information about the qualifications and business practices of Fifth Street Management LLC. If you have any questions about the contents of this brochure, please contact us at (203) 681-3600 or [legal@fifthstreetfinance.com](mailto:legal@fifthstreetfinance.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Fifth Street Management LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Being a “registered investment adviser” or describing ourselves as being “registered” does not imply a certain level of skill or training.**

**THIS BROCHURE DOES NOT CONSTITUTE AN OFFER TO SELL OR THE  
SOLICITATION OF AN OFFER TO BUY ANY SECURITY.**

**Item 2 MATERIAL CHANGE**

The Part 2A brochure has been updated to disclose the initial public offering of Fifth Street's indirect parent company and the related restructuring.

**Item 3 TABLE OF CONTENTS**

<b><u>ITEM</u></b>	<b><u>PAGE</u></b>
<b>ITEM 1 COVER PAGE .....</b>	<b>1</b>
<b>ITEM 2 MATERIAL CHANGE .....</b>	<b>2</b>
<b>ITEM 3 TABLE OF CONTENTS .....</b>	<b>2</b>
<b>ITEM 4 ADVISORY BUSINESS .....</b>	<b>3</b>
<b>ITEM 5 FEES AND COMPENSATION .....</b>	<b>4</b>
<b>ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>6</b>
<b>ITEM 7 TYPES OF CLIENTS .....</b>	<b>6</b>
<b>ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</b>	<b>6</b>
<b>ITEM 9 DISCIPLINARY INFORMATION .....</b>	<b>37</b>
<b>ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....</b>	<b>37</b>
<b>ITEM 11 CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>38</b>
<b>ITEM 12 BROKERAGE PRACTICES .....</b>	<b>39</b>
<b>ITEM 13 REVIEW OF ACCOUNTS .....</b>	<b>42</b>
<b>ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION .....</b>	<b>43</b>
<b>ITEM 15 CUSTODY .....</b>	<b>43</b>
<b>ITEM 16 INVESTMENT DISCRETION .....</b>	<b>43</b>
<b>ITEM 17 VOTING CLIENT SECURITIES .....</b>	<b>43</b>
<b>ITEM 18 FINANCIAL INFORMATION .....</b>	<b>44</b>
<b>ITEM 19 REQUIREMENTS FOR STATE REGISTERED ADVISERS .....</b>	<b>44</b>

#### **Item 4      ADVISORY BUSINESS**

Fifth Street Management LLC (“Fifth Street”) is a Delaware limited liability company formed in 2007 that is in the investment management business. Leonard M. Tannenbaum is the founder of Fifth Street.

Effective November 4, 2014 (the “Effective Date”), Fifth Street Asset Management Inc. (“FSAM”) completed its initial public offering of common stock (Nasdaq:FSAM). As part of the restructuring in connection with the initial public offering, FSAM became the general partner of Fifth Street Holdings L.P. (“Holdings”) and the proceeds of the initial public offering were used to repurchase interests in Holdings from certain minority holders. As of the Effective Date, Fifth Street is wholly owned by Holdings, and FSAM holds a minority interest in Holdings. The majority of interests in Holdings is held by employees of affiliates of Fifth Street, including Leonard M. Tannenbaum.

Fifth Street provides investment advice to private funds and certain specialty finance companies operating as business development companies (“BDCs”). Currently, Fifth Street advises two private funds, Fifth Street Opportunities Fund, L.P. (formerly known as Fifth Street Credit Opportunities Fund, L.P.) (“FSOF”) and Fifth Street Senior Loan Fund I Operating Entity, LLC (“FSSLF”). In addition, Fifth Street also advises two BDCs, Fifth Street Finance Corp. (“FSC”) and Fifth Street Senior Floating Rate Corp. (“FSFR”, and together with FSC, the “Fifth Street BDCs”). Fifth Street makes all investment decisions on behalf of clients, including, without limitation, identifying, reviewing and selecting investment opportunities for each client.

The investment objective of FSOF is to generate income and long-term capital appreciation. Fifth Street intends to achieve this investment objective by primarily investing opportunistically in various credit-related instruments and in publicly-traded equity and equity-linked securities. Fifth Street’s investment approach with respect to FSOF is a “best ideas” approach, which is intended to limit the number of issuers in which FSOF invests and considers various liquidity, spread and financing risk factors. FSCO GP LLC (the “FSCO GP”), an affiliate of Fifth Street, serves as general partner of FSOF, and provides certain administrative and management services to FSOF. FSCO GP is also wholly owned by Holdings.

The investment objective of FSSLF is to generate leveraged returns through an investment strategy focused on the acquisition of a portfolio of senior, secured term loan debt of middle market companies. A wholly-owned subsidiary of FSSLF, Fifth Street Senior Loan Fund I, LLC (the “Warehouse Subsidiary”), currently holds the portfolio investments. The acquired portfolio of debt currently provides and it intends continue to provide eligible collateral for warehouse financing and it is expected to provide eligible collateral for securitization financing, which FSSLF employs (in the case of warehouse financing) and is expected to (in the case of securitization financing) employ to enhance the size of its investment portfolio and magnify returns generated from the portfolio. Fifth Street serves as manager and investment manager to FSSLF and as collateral manager to the Warehouse Subsidiary.

There can be no assurance that either FSOF or FSSLF will achieve its investment objective, and investment results may vary substantially.

Fifth Street currently does not provide investment advisory services to clients other than FSOF, FSSLF and the Fifth Street BDCs, although it, or one or more affiliates, may do so in the future.

As of November 14, 2014, Fifth Street had approximately \$3,136,828,218 in regulatory assets under management, all managed on a discretionary basis. Due to difficulties in obtaining current information from third parties, the amount of regulatory assets under management with respect to the Fifth Street BDCs has been calculated as of March 31, 2014, and with respect to FSOF and FSSLF (both of which commenced operations in 2014), as of June 30, 2014.

Please see Items 8 (Methods of Analysis, Investment Strategies and Risk of Loss), 10 (Other Financial Industry Activities and Affiliations) and 14 (Client Referrals and Other Compensation).

## **Item 5 FEES AND COMPENSATION**

### **FSOF**

#### **Management Fee**

Fifth Street receives a quarterly management fee from FSOF, calculated and payable in advance at an annualized rate ranging from 1.0% to 1.5% of the value of an investor's investment in FSOF. Capital contributed or withdrawn from FSOF during a quarter is charged a ratable portion of the management fee for the period invested.

Fifth Street and/or FSCO GP may waive, reduce or rebate the management fee attributable to any interest held by or on behalf of any other party. Fifth Street, in its sole and absolute discretion, may also pay a portion of the management fee to certain investors in FSOF and/or other third parties.

#### **Performance Allocation**

FSCO GP is entitled to receive an annual performance allocation from FSOF, ranging from 15% to 20% of the increase in value of an investor's investment, if any, subject to a loss carryover. Pursuant to the loss carryover, no performance allocation will be charged on an investor's investment unless the value of such investment (net of any losses, for all years since admission) exceeds the higher of the following amounts: (i) the highest value of such investment through the close of any year since admission; and (ii) the value of such investor's investment on the date of admission. The performance allocation is generally calculated and allocated at the end of each fiscal year or upon a withdrawal occurring prior to the end of any fiscal year. Withdrawals by an investor will result in a proportional reduction of any loss carryover.

FSCO GP may waive, reduce or rebate the performance allocation attributable to any investor in FSOF. FSCO GP, in its sole and absolute discretion, may also pay a portion of the performance allocation to certain investors in FSOF and/or other third parties.

## Other Expenses

FSOF bears certain operating expenses, including, without limitation, the management fee, administrative expenses, custodial expenses, legal expenses, compliance and regulatory expenses, accounting expenses, audit and tax preparation expenses, interest, taxes, costs, offering expenses and all other expenses associated with the operation of FSOF. FSOF also bears certain investment expenses associated with its investment program, including, without limitation, (i) brokerage and trading expenses, custodial fees, escrow expenses, insurance costs, third party research, interest and borrowing expenses, bank, broker and dealer service fees, consulting, advisory, investment banking and other professional fees, expenses relating to risk reporting services and trading management systems and all other research expenses (including, without limitation, travel expenses related to research); (ii) the fees and expenses charged by the BDCs that are managed by unaffiliated managers and in which FSOF invests (“Underlying BDCs”) and/or by such unaffiliated managers (“BDC Managers”); and (iii) any fees and expenses incurred in connection with any credit facility established by FSOF.

FSCO GP will initially pay all of FSOF’s organizational expenses and will be reimbursed by FSOF. FSOF may amortize its organizational expenses for accounting purposes over a period of 60 months from the date it commences operations, or such other period of time as determined by FSCO GP, in its sole and absolute discretion.

## **FSSLF**

### Management Fee

Fifth Street receives a quarterly management fee, calculated and payable in arrears pursuant to a “waterfall” structure. Under this “waterfall” structure, Fifth Street is generally entitled to receive a senior collateral management fee at an annualized rate of 0.25% and a subordinated collateral management fee at an annualized rate of 0.15%, in each case to the extent there are sufficient funds available for distribution at the applicable level in the hierarchy. The management fee is currently paid by the Warehouse Subsidiary pursuant to the “waterfall” contained in the loan and security agreement under which the related warehouse financing is provided. If Fifth Street ceases to be the investment manager to FSSLF during a quarter, it will be entitled to any accrued but unpaid management fees through the date of its removal.

Fifth Street may waive or reduce all or a portion of the management fee attributable to any investor in FSSLF.

### Other Expenses

FSSLF bears all of its organizational and offering expenses and may also bear the organizational and offering expenses of its subsidiaries (to the extent such expenses are not borne by the applicable subsidiary). Operating expenses include, without limitation, administrative expenses, investment-related expenses, legal fees and expenses, professional fees and expenses, accounting, auditing and tax preparation fees and expenses, insurance expenses, all expenses incurred in connection with FSSLF’s or a subsidiary’s liquidation, as applicable, dissolution and winding-up, and all fees and reimbursements to be paid to Fifth Street. Fifth Street bears its rent, general office overhead, employee compensation and other expenses that are not related to the

formation, operation, investment, asset management, trading and financing activities of FSSLF and FSSLF's subsidiaries.

FSSLF, in the sole discretion of Fifth Street, may amortize its organizational expenses over a period of 60 months from the date it commences operations.

### **General**

None of Fifth Street or its principals, members, managers, directors (or other persons occupying a similar status or performing similar functions), or employees (if any), or any other person who provides investment advice on Fifth Street's behalf and is subject to Fifth Street's supervision or control (collectively, "Supervised Persons") accepts any compensation for the sale of securities or other investment products, including interests in FSOF or FSSLF.

Please see Items 6 (Performance-Based Fees and Side-By-Side Management), 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

### **Item 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Fifth Street manages FSOF and the Fifth Street BDCs, which are subject to asset-based management fees and performance-based fees. FSSLF and the Warehouse subsidiary are subject to asset-based management fees only. Please see Item 5 (Fees and Compensation) above. Fifth Street does not currently manage any funds or other accounts that are subject to any other type of fee. However, Fifth Street may, in the future, manage additional funds or accounts with higher or lower fees, and different fee structures, than those applicable to FSOF, FSSLF, or the Fifth Street BDCs.

### **Item 7 TYPES OF CLIENTS**

Currently, Fifth Street only advises FSOF, FSSLF and the Fifth Street BDCs, although it may provide investment advice to other clients in the future, including other pooled investment vehicles and separately managed accounts.

An investor generally is required to subscribe for at least \$1 million of interests in FSOF.

### **Item 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **Methods of Analysis and Investment Strategies**

Depending on conditions and trends in the securities markets and the economy in general, Fifth Street may use other methods of analysis than those described below. There can be no assurance that Fifth Street's methods of analysis will achieve profitable results.

#### **FSOF**

The investment objective of FSOF is to generate income and long-term capital appreciation. Fifth Street intends to achieve the investment objective by primarily investing opportunistically in various credit-related instruments, including, without limitation, debt securities, instruments

and obligations of U.S. and non-U.S. government, corporate and other non-governmental entities and issuers and preferred and convertible preferred securities that include fixed-income features, and in publicly-traded equity and equity-linked securities, including, without limitation, the equity securities of BDCs managed by unaffiliated investment managers. FSOF may invest in instruments and obligations directly or indirectly by investing in derivative or synthetic instruments, including, without limitation, credit default swaps and loan credit default swaps, and may engage in currency trading. FSOF's investment program may include opportunistic investments in corporate structured credit, cash and synthetic collateralized loan obligations ("CLOs") and collateralized debt obligations ("CDOs") (e.g., bank and insurance trust preferred CDOs), cash and synthetic high-yield debt and leveraged loans, and non-mortgage asset-backed securities ("ABS"). FSOF may utilize other strategies or financial instruments as determined by Fifth Street, subject to the oversight of FSCO GP.

Fifth Street intends to develop FSOF's portfolio by using a "best ideas" approach, which is intended to limit the number of issuers in which FSOF invests and considers various liquidity, spread, and financing risk factors. Fifth Street intends to monitor asset and industry concentrations in the context of potential macroeconomic, cyclical, technological and regulatory headwinds, the weighting of positions within the portfolio as well as overlap of FSOF's long and short positions, and conduct a risk/reward analysis with respect to each potential investment. Fifth Street will actively manage the liquidity and composition of assets to match short-term, medium-term, and long-term capital needs. Fifth Street intends to utilize its proprietary market, company, and industry knowledge as well as public information to monitor and identify market dislocations and mispriced assets due to a variety of market events, firm-specific catalyst events (such as M&A, refinancings, tenders, litigations, restructurings, and liquidations), and soft catalyst creations (such as management value creation/destruction, competition and legal, regulatory and accounting issues) in order to find the optimal investment opportunities for FSOF.

In seeking to achieve FSOF's investment objective, Fifth Street's process consists primarily of building portfolios of debt and equity tranches utilizing a sophisticated sourcing platform, in which it relies on its extensive network and knowledge of managers, relationships and tools to identify and screen unique and profitable opportunities for FSOF. Further, Fifth Street's established infrastructure is leveraged extensively to benefit FSOF. Fifth Street has specialized teams in healthcare, telecom, aircraft leasing, venture capital and distressed credits, along with its general investment team, providing unique sourcing opportunities and expertise.

Fifth Street uses an investment process which blends top-down and bottom-up analysis. From the bottom-up, the investment team intends to have frequent dialogues to discuss security analysis and transaction evaluation, the focus of which includes, without limitation, yields, trading opportunities, and volatility of the asset. With regard to the top-down approach, there are three components: (i) macro analysis whereby Fifth Street and its investment team look to have frequent dialogues discussing key macro items, including, without limitation, the economic outlook, financial and credit markets, the M&A environment and corporate valuation levels; (ii) cross-asset relative value analysis which consists of analyzing the credit spectrum for strong relative value opportunities; and (iii) active monitoring by the investment team of all major sectors within the high-yield universe.

## FSSLF

The investment objective of FSSLF is to generate leveraged returns through an investment strategy focused on the acquisition, directly or indirectly through subsidiaries, of a portfolio of senior, secured term loan debt (including broadly syndicated loans, first lien term loans, second lien loans and to a lesser extent delayed draw term loans and revolving loans) of middle market companies. The portfolio of loan debt currently provides and it is expected to continue to provide eligible collateral for warehouse financing and Fifth Street expects that the portfolio of loan debt will provide eligible collateral for securitization financing that are (in the case of warehouse financing) and intends to be (in the case of securitization financing) employed by FSSLF to enhance the size of its investment portfolio and magnify the returns generated from the portfolio.

Portfolio investments in loans are subject to certain criteria and restrictions with respect to the loans and the underlying obligors. In particular, Fifth Street may not invest in a loan of which Fifth Street or an affiliate is the obligor.

## **Certain Risk Factors**

Fifth Street's intended investment strategy on behalf of FSOF and FSSLF involves a substantial risk of loss of capital. The foregoing contains certain of the material risks involved in the funds' investment strategies and does not purport to be complete. Investors should carefully review the applicable offering documents and consult with their own professional advisor(s) prior to making an investment.

## FSOF

*Risk of Loss.* An investment in FSOF is speculative and involves significant risk. The profitability of FSOF ultimately depends upon Fifth Street correctly assessing the future price movements of the securities, commodities and other financial instruments in which FSOF invests as well as the movement of interest rates. Such price movements may be volatile and are subject to numerous factors which are neither within the control of nor predictable by Fifth Street. Such factors include, without limitation, a wide range of economic, political, competitive, market, legal, operational and other conditions or events (including, without limitation, natural disasters, acts of terrorism or war) which may affect investments in general or a specific security, commodity or other financial instrument in which FSOF invests. There can be no assurance that Fifth Street will be successful in accurately predicting price movements. Accordingly, investors may incur substantial losses on their investments in FSOF, and it is possible that FSOF's performance will fluctuate substantially from period to period.

*Market Volatility.* As a general matter, the prices of certain of the assets in which FSOF will invest have recently exhibited high volatility in line with the heightened volatility and fluctuations of global capital markets. Price movements of these assets may be influenced by, among other things, interest rates, credit trends, changing supply and demand relationships, regulatory changes and fiscal and monetary programs and policies of governments. There can be no assurance that Fifth Street will be successful in accurately predicting price and interest rate movements despite efforts to identify and, if applicable, hedge such risks.



*Leverage.* FSOF retains the right to utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. While strategies, techniques and instruments that employ leverage increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. If FSOF uses leverage with respect to a position, any losses would be more pronounced than if leverage were not used, and a relatively small price movement in a security or other financial instrument may result in immediate and substantial losses to FSOF, including, without limitation, losses in excess of the amount invested. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of FSOF. In addition, the lender or counterparty, as the case may be, may have a security interest in, or otherwise acquire, all or a portion of FSOF's assets. In the event that FSOF defaults under any such arrangement, such lender or counterparty may have the right to become or remain the owner of all or that portion of FSOF's assets secured pursuant to such arrangement. If such arrangement is terminated, FSOF's ability to meet its investment objective may be adversely impaired. FSOF will bear all of the costs and expenses incurred in connection therewith, including, without limitation, any interest expense charged on funds borrowed or otherwise accessed.

In addition, certain securities, commodities and other financial instruments which FSOF acquires may incorporate a certain, and sometimes high, degree of embedded leverage. Accordingly, even if not leveraged in the sense of being acquired with borrowings, FSOF may have highly leveraged exposure to certain securities, commodities and other financial instruments it acquires.

*General Credit Risks.* FSOF will seek to take advantage of opportunities in the distressed credit arena and may be exposed to losses resulting from default and foreclosure. While assets purchased by FSOF may be collateralized, FSOF may be exposed to losses resulting from default. Therefore, the value of the underlying collateral, the creditworthiness of the borrower(s) or other counterparty and the priority of the lien are each of great importance. FSOF cannot guarantee the adequacy of the protection of FSOF's investments, including, without limitation, the validity or enforceability of underlying loan and securities documents and the maintenance of anticipated priority and perfection of applicable security interests. Furthermore, FSOF cannot assure that claims may not be asserted that might interfere with enforcement of rights that are important to the value of a distressed asset. Liquidation proceeds upon sale of distressed assets may not satisfy the entire outstanding balance of principal and interest on a loan or security, resulting in a loss. Any costs or delays involved in the effectuation of the liquidation of the underlying collateral will further reduce the proceeds and thus increase the loss. Distressed credit assets may have large uncertainties or major risk exposures to adverse conditions, and certain of them may be considered to be predominantly speculative. Generally, such credit assets offer a potentially higher return, but involve greater volatility of price and greater risk of loss of income and investment. The market values of certain distressed credit assets also tend to be more sensitive to changes in economic conditions than non-distressed credit assets. Furthermore, if FSOF were to foreclose on those debt obligations and take possession of the related collateral, FSOF's activities with respect to such collateral could result in unrelated business taxable income for U.S. Federal income tax purposes, which could cause adverse U.S. Federal income tax consequences for U.S. tax-exempt persons.

*Distressed/Bankruptcy Investing.* FSOF may invest in unrated or “distressed” securities, i.e., securities of companies that are experiencing significant financial or business difficulties, including, without limitation, companies involved in debt restructurings, in bankruptcy or other reorganization and liquidation proceedings. FSOF may also purchase financial instruments of companies that have low credit quality, and purchase securities and loans that are in default. Although such investments may result in significant returns, they typically involve a high degree of risk. Among the problems involved in investments in such issuers is the fact that it frequently may be difficult to obtain information as to the conditions of such issuers. Restructurings or reorganizations may fail to be completed or be substantially delayed and expected returns on their securities may never materialize. In addition, a significant period of time may pass between the time at which FSOF makes its investment in distressed securities and the time that any such reorganization is completed. During this period, it is unlikely that FSOF will receive any dividend, interest or other disbursements on the distressed securities; FSOF will be subject to significant uncertainty as to such successful completion and FSOF may be required to bear certain expenses to protect its interest in the course of negotiations surrounding any potential reorganization. Furthermore, nonperforming assets by their nature may prove uncollectible or not yield appreciable returns for considerable periods of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in such assets, loans or claims is unusually high. Information necessary to properly evaluate a distress situation may be difficult to obtain or be unavailable and the risks attendant to a transaction may not necessarily be identifiable or susceptible of considered analysis at the time of investment. There is no assurance that FSOF will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or rehabilitation of a distressed asset or adequate realization upon such assets and claims. FSOF’s performance may be substantially impaired by unsuccessful distressed or low credit investments. Optimal returns on distress situations may often require active participation by Fifth Street in the transaction. While Fifth Street may on occasion seek representation or an active role in such matters, their commitments to various advisory activities may preclude extensive involvement and they may be unsuccessful in obtaining significant influence as to particular distressed investments.

*Liquidity.* Investments that are made by FSOF may lack liquidity or be thinly traded. This could present a problem in realizing the prices quoted and in effectively trading the position(s). FSOF may invest in less liquid investments which could result in significant loss in value should FSOF be forced to sell the less liquid investments as a result of rapidly changing market conditions or as a result of margin calls or other factors. In certain circumstances, FSOF may also be contractually prohibited from disposing of investments for a specified period of time. Accordingly, FSOF may be forced to sell its more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of less liquid investments.

The disposition of less liquid investments often requires more time and results in higher transaction costs than the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

*Concentration of Holdings.* At any given time, FSOF’s assets may become highly concentrated within a particular company, industry, asset category, trading style or financial or economic market. In such event, FSOF’s portfolio will be more susceptible to fluctuations in value

resulting from adverse economic conditions affecting the performance of that particular company, industry, asset category, trading style or financial or economic market, than a less concentrated portfolio would be. As a result, if FSOF's investment portfolio becomes concentrated, its aggregate return may be volatile and may be affected substantially by the performance of only one or a few holdings. Fifth Street is not obligated to hedge FSOF's positions. Nonetheless, it is anticipated that FSOF would limit specific industry and company concentration risk.

*Equity Securities.* FSOF will invest in equities and equity derivatives. The value of these instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, FSOF may suffer losses if it invests in equity instruments of issuers whose performance diverges from Fifth Street's expectations or if equity markets generally move in a single direction and FSOF has not hedged against such a general move. In its equity derivatives, FSOF is exposed to risks that issuers will not fulfill their contractual obligations to FSOF, such as, for example, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

*Investments in Undervalued Securities.* Fifth Street may seek to invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from FSOF's investments may not adequately compensate for the business and financial risks assumed. FSOF will make certain speculative investments in securities which Fifth Street believes to be undervalued, however, there are no assurances that the securities purchased will in fact be undervalued. In addition, FSOF may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of FSOF's assets would be committed to the securities purchased, thus possibly preventing FSOF from investing in other opportunities.

*Preferred and Hybrid Securities.* FSOF may invest in preferred stock and hybrid securities, which may have special risks. Preferred and hybrid securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If FSOF owns a preferred or hybrid security that is deferring its distributions, FSOF may be required to report income for tax purposes even though it has not yet received such income. Some preferred and hybrid securities are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid.

There is no assurance that dividends or distributions on non-cumulative preferred securities in which FSOF invests will be declared or otherwise made payable or paid. Preferred and hybrid securities are subordinated to bonds and other debt instruments in an issuer's capital structure in terms of priority to corporate income and liquidation payments and, therefore, will be subject to greater credit risk than more senior debt instruments. Because preferred stock and hybrids are generally junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of such instruments than senior debt securities with similarly stated yield characteristics. Preferred and hybrid securities may be

substantially less liquid than many other securities, such as common stocks or U.S. government securities.

*Convertible Securities.* FSOF may invest in convertible securities. Convertible fixed income securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. As with all fixed income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. Convertible securities rank senior to common stocks in an issuer's capital structure and consequently entail less risk than the issuer's common stock. FSOF may invest in convertible securities of any maturity and will determine whether to hold, sell or convert any security in which it has invested, depending upon Fifth Street's outlook for the market value for such security, the security into which it converts and/or other factors.

*Small and Medium-sized Companies.* FSOF may invest a portion of its assets in securities of medium, small and/or unseasoned companies with smaller market capitalization. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. Such companies may not be well-known to the investing public, may not have significant institutional ownership and may have cyclical, static or only moderate growth prospects. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, FSOF may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the lower trading volume of smaller company securities.

Smaller capitalization securities may be followed by relatively few securities analysts with the result that there tends to be less publicly available information concerning these securities compared to what is available for exchange-listed or larger companies. The securities of these companies may have limited trading volumes and may be subject to more abrupt or erratic market movements than the securities of larger, more established companies or the market averages in general, and FSOF may be required to deal with only a few market makers when purchasing and selling these securities. Transaction costs in smaller capitalization stocks may be higher than those for larger-capitalized companies. It is anticipated that FSOF would limit investments in smaller-capitalization companies and would generally require higher risk-reward ratios.

*Bank Loans.* FSOF intends to invest in bank loans and participations. These positions are typically illiquid and difficult to value. In addition, in the case of such trading, Fifth Street may come into possession of material non-public information relating to the borrower, preventing FSOF from trading in any securities of such issuer. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims

by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of FSOF to directly enforce its rights with respect to participations. Bank loans are privately negotiated transactions, each of which has individualized terms. Analyzing these transactions requires in-depth review of the relevant documents as well as in-depth analysis of the often precarious financial condition of the borrower. In analyzing each bank loan or participation, Fifth Street compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by FSOF.

*Loan Origination.* FSOF may participate in the origination of loans. From time to time, FSOF may offer to other funds or accounts managed by FSCO GP or Fifth Street, their respective affiliates and/or other investment managers, participations in and/or assignments or sales of loans (or interests therein) that FSOF has originated or purchased. Additionally, FSOF may offer such participations in and/or assignments or sales of loans (or interests therein) to other accounts managed by FSCO GP, Fifth Street, their respective affiliates or to non-affiliated entities. In determining the target amount to allocate to a particular loan origination, FSOF will take into consideration the fact that it anticipates selling, assigning or offering participations in such investment to third parties as described above. If FSOF is not successful in offering such participations, assignments or sales to third parties, FSOF will be forced to hold such excess until such time as it can be disposed. This may result in FSOF being “overweighted” with respect to a particular borrower.

*Fixed Income Securities.* FSOF may invest in bonds or other fixed income securities, including, without limitation, commercial paper and “higher yielding” (including, without limitation, non-investment grade and, therefore, higher risk) debt securities. FSOF will therefore be subject to credit, liquidity and interest rate risks. Higher-yielding debt securities are generally unsecured and may be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured on substantially all of the issuer’s assets. The lower rating of debt obligations in the higher-yielding sector reflects a greater probability that adverse changes in the financial condition of the issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal and interest. Non-investment grade debt securities may not be protected by financial covenants or limitations on additional indebtedness. In addition, evaluating credit risk for debt securities involves uncertainty. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

*Collateralized Debt Obligations.* FSOF may invest in CDOs, CLOs and other related instruments. The portfolio may consist of CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO mezzanine debt. CDO securities are subject to credit, liquidity and interest rate risks. The CDO equity and other tranches purchased by FSOF may be unrated or non-investment grade, which means that a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may

be speculative. In addition, as a holder of CDO equity, FSOF will have limited remedies available upon the default of the CDO.

The value of the CDO securities owned by FSOF generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO (“CDO Collateral”), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDO securities must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDO securities, no other assets will be available for payment of the deficiency and following realization of the CDO securities, the obligations of such issuer to pay such deficiency generally will be extinguished.

Issuers of CDO securities will sometimes acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically becomes a lender under the credit agreement with respect to the loan or debt obligation; however, its rights can be more restricted than those of the assigning institution. In purchasing participations, an issuer of CDO securities will usually have a contractual relationship only with the selling institution, and not the borrower. The CDO generally will have neither the right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. The CDO may not directly benefit from the collateral supporting the related loan and may be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the states thereof, the CDO may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution’s interest in, or the collateral with respect to, the loan. Consequently, the CDO may be subject to the credit risk of the selling institution as well as of the borrower.

*Asset-Backed Securities.* FSOF may invest in ABS. The investment characteristics of ABS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. The frequency at which prepayments (including, without limitation, voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying ABS will be affected by a variety of factors including, without limitation, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Also, particular investment may underperform relative to hedges that a portfolio manager may have constructed for these investments, resulting in a loss.

Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures. Through CDOs, FSOF may invest in these and other types of ABS that may be developed in the future. ABS present certain risks that are not presented by mortgage-backed securities. Primarily, these securities do not have the benefit of the same security interest in the related collateral. There is a

possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments.

ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

*Credit Default Swaps.* FSOF may enter into credit default swaps. A credit default swap is a contract between two parties which transfers the credit risk of an entity (the "Reference Entity") for a defined period whereby if there is a Credit Event then the seller of protection pays a predetermined amount to the buyer of protection. A "Credit Event" is commonly defined as the Reference Entity (a) failing to pay principal or interest on time, (b) restructuring its debt, (c) accelerating its debt, or (d) entering bankruptcy. The buyer of credit protection pays a premium to the seller of credit protection until the earlier of a Credit Event or the scheduled termination date of the credit default swap. Credit default swaps can be used to implement Fifth Street's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, FSOF may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of FSOF to make payments upon the occurrence of a Credit Event creates leveraged exposure to the credit risk of the referenced entity. FSOF may also buy credit default protection with respect to a reference entity if, in the judgment of Fifth Street, there is a high likelihood of credit deterioration. In such instance, FSOF will pay a premium regardless of whether there is a Credit Event. The credit default swap market in high-yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities creating the risk that the newer markets will be less liquid and it may be difficult to exit or enter into a particular transaction.

*Sovereign Debt.* FSOF may invest in debt securities issued by governments and their agencies, including, without limitation, governments of emerging markets. Investing in instruments of government issuers in emerging markets may involve significant economic and political risks. Holders of certain emerging market instruments may be requested to participate in the restructuring and rescheduling of these obligations and to extend further loans to their issuers. The interests of holders of emerging market instruments could be adversely affected in the course of restructuring arrangements. Sovereign debt rated below investment grade by a nationally recognized bond rating organization is regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations.

*Equitable Subordination.* Under common law principles that in some cases form the basis for lender liability claims, if a lender: (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii)

engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, 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”). It is not anticipated that FSOF would engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of debt obligations, FSOF may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

*Short Sales.* FSOF intends to sell securities short. Selling securities short risks losing an amount greater than the proceeds received. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. FSOF may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if FSOF is otherwise unable to borrow securities which are necessary to cover its positions. Although FSOF may utilize short selling as a hedging technique, short selling may also be used for speculative purposes.

*Options.* Fifth Street intends to utilize options in furtherance of its investment strategies. Option positions may include both long positions, where FSOF is the holder of put or call options, as well as short positions, where FSOF is the seller (writer) of an option. Although option techniques can increase investment return, they can also involve a higher level of risk compared with their underlying securities. For example, the expiration of unexercised long options effectively results in loss of the entire cost, or premium paid for the option. Conversely, the writing of an uncovered put or call option can involve, similar to short selling, a theoretically unlimited risk of an increase in FSOF’s cost of selling or purchasing the underlying securities, commodities or other financial instruments in the event of exercise of the option.

*Non-U.S. Investments.* FSOF may invest a portion of its assets in non-U.S. securities and interests denominated in non-U.S. currencies and/or traded outside of the United States, including, without limitation, emerging market securities and interests. Such investments require consideration of certain risks not typically associated with investing in securities traded in the United States or other assets. Such risks include, among other things, unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation, confiscatory taxation and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States, and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies.

*Emerging Markets.* Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions, a greater likelihood of severe inflation, unstable currency, war and expropriation of personal property. In addition, FSOF’s investment opportunities in certain emerging markets



may be restricted by legal limits on foreign investment in local securities. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

*Swap Agreements.* FSOF intends to enter into swaps, total return swaps and other derivative instruments with or through third parties. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease FSOF's exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. FSOF is not limited to any particular form of swap agreement if consistent with FSOF's investment objective and policies. Swap agreements tend to shift FSOF's investment exposure from one type of investment to another. For example, if FSOF agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease FSOF's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of FSOF's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from FSOF. If a swap agreement calls for payments by FSOF, FSOF must be prepared to make such payments when due. This is only true in default and not part of mark-to-market. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by FSOF.

*Other Derivative Instruments.* FSOF may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of FSOF and legally permissible. Special risks may apply to instruments that are invested in by FSOF in the future that cannot be determined at this time or until such instruments are developed or invested in by FSOF. Certain swaps, options and other derivative instruments may be subject to various types of risks, including, without limitation, market risk, liquidity risk, the risk of non-performance by the counterparty, including, without limitation, risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

### *Investments in Underlying BDCs.*

1. *FSOF's investments in Underlying BDCs and investments made by Underlying BDCs are subject to restrictions under the Investment Company Act of 1940, as amended (the "ICA").* FSOF is limited, under Section 12(d)(1) of the ICA, from acquiring the securities issued by BDCs in certain circumstances. Such limitations include a restriction on FSOF being able to own in the aggregate more than three percent (3%) of the total outstanding voting stock of any BDC (i.e., the "anti-pyramiding" restriction). Such restrictions may materially limit FSOF's ability to own securities of any particular Underlying BDC or to fully implement its investment objectives. Investments in BDCs are often subject to sales charges and charges assessed in connection with selling such an investment prior to the expiration of a set period of time. Fifth Street will not be required to minimize any such costs. In addition, investments in an Underlying BDC will be subject to an additional layer of fees and expenses. Similar restrictions under the ICA also apply to investments made by Underlying BDCs in which FSOF invests.

Additionally, there are restrictions under the ICA with respect to co-investment by private funds and RICs and BDCs under common management. The ICA prohibits a BDC from making certain negotiated co-investments with affiliates unless the investment adviser of the BDC receives an order from the SEC permitting the BDC to do so. Such prohibition would apply to Underlying BDCs that may co-invest with other investment vehicles managed by a BDC Manager and/or its affiliates. BDC Managers may submit exemptive applications to the SEC and/or have received exemptive orders to permit the Underlying BDCs managed by them to co-invest with other funds managed by the BDC Managers and/or their affiliates in a manner consistent with such Underlying BDCs' investment objectives, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. There can be no assurance that any such exemptive order has been or will be obtained.

2. *Underlying BDCs' investments in portfolio companies may be risky, and Underlying BDCs could lose all or parts of their investments.* BDCs must invest at least seventy percent (70%) of their total assets in securities of certain companies, called "eligible portfolio companies." Eligible portfolio companies are either not listed on an exchange, or are listed companies with a small market capitalization. Such companies in which Underlying BDCs may invest will typically be highly leveraged, and, in most cases, Underlying BDCs' investments in such companies will not be rated by any rating agency. If such investments were rated, they would likely receive a rating from a nationally recognized statistical rating organization of below investment grade (i.e., below BBB- or Baa), which is often referred to as "junk." Exposure to below investment grade securities involves certain risks, and those securities are viewed as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Investing in eligible portfolio companies involves a number of significant risks. Among other things, these companies: (i) may have limited financial resources and may be unable to meet their obligations under their debt instruments that Underlying BDCs hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of Underlying BDCs realizing any guarantees from subsidiaries or affiliates of their portfolio companies that Underlying BDCs may have

obtained in connection with their investments, as well as a corresponding decrease in the value of the equity components of their investments; (ii) may have shorter operating histories, narrower product lines, smaller market shares and/or significant customer concentrations than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns; (iii) are more likely to depend on the management talents and efforts of a small group of persons and, therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on a portfolio company and, in turn, on an Underlying BDC; (iv) generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and (v) generally have less publicly available information about their businesses, operations and financial condition. If Underlying BDCs are unable to uncover all material information about these companies, Underlying BDCs may not make a fully informed investment decision, and as a result may lose part or all of their investment. Further, in the course of providing significant managerial assistance to certain of an Underlying BDC's portfolio companies, certain of the Underlying BDC's officers and directors may serve as directors on the boards of such companies. To the extent that litigation arises out of an Underlying BDC's investments in these companies, an Underlying BDC's officers and directors may be named as defendants in such litigation, which could result in an expenditure of funds (through an Underlying BDC's indemnification of such officers and directors) and the diversion of management time and resources.

3. *Underlying BDCs may incur greater risk with respect to investments they acquire through assignments or participations of interests.* Underlying BDCs may acquire senior loans through assignments or participations of interests in such loans. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to such debt obligation. However, the purchaser's rights can be more restricted than those of the assigning institution, and Underlying BDCs may not be able to unilaterally enforce all rights and remedies under an assigned debt obligation and with regard to any associated collateral. A participation typically results in a contractual relationship only with the institution participating out the interest and not directly with the borrower. Sellers of participations typically include banks, broker-dealers, other financial institutions and lending institutions. In purchasing participations, Underlying BDCs generally will have no right to enforce compliance by the borrower with the terms of the loan agreement against the borrower, and Underlying BDCs may not directly benefit from the collateral supporting the debt obligation in which Underlying BDCs have purchased the participation. As a result, Underlying BDCs will be exposed to the credit risk of both the borrower and the institution selling the participation. Further, in purchasing participations in lending syndicates, Underlying BDCs will not be able to conduct the same level of due diligence on a borrower or the quality of the senior loan with respect to which Underlying BDCs are buying a participation as they would conduct if they were investing directly in the senior loan. This difference may result in an Underlying BDC

being exposed to greater credit or fraud risk with respect to such senior loans than it expected when initially purchasing the participation.

4. *An investment strategy focused primarily on privately-held companies presents certain challenges, including, without limitation, the lack of available information about these companies.* Underlying BDCs generally invest in privately-held companies. Generally, little public information exists about these companies, including, without limitation, typically a lack of audited financial statements and ratings by third parties. Underlying BDCs will, therefore, have to rely on the ability of the BDC Managers to obtain adequate information to evaluate the potential risks of investing in these companies. These companies and their financial information may not be subject to the Sarbanes-Oxley Act and other rules that govern public companies. If Underlying BDCs are unable to uncover all material information about these companies, they may not make a fully informed investment decision, and may lose money on their investments. These factors could affect Underlying BDCs' investment returns.
5. *Underlying BDCs may not have yet identified most of the portfolio companies in which they will invest.* Underlying BDCs have significant flexibility in investing the net proceeds of their offering and any future offerings, and may do so in a way with which FSOF and other stockholders may not agree. Additionally, a BDC Manager will select an Underlying BDC's investments subsequent to the closing of an offering, and an Underlying BDC's stockholders will have no input with respect to such investment decisions. Further, other than general limitations that may be included in a future credit facility, the holders of an Underlying BDC's debt securities will generally not have veto power or a vote in approving any changes to the Underlying BDC's investment or operational policies. These factors increase the uncertainty, and thus the risk, of investing in an Underlying BDC's common stock. In addition, pending such investments, Underlying BDCs may invest the net proceeds from their offering primarily in high quality, short-term debt securities, consistent with their BDC election and their election to be taxed as a registered investment company ("RIC"), at yields significantly below the returns which they expect to achieve when their portfolios are fully invested in securities meeting their investment objectives. If Underlying BDCs are not able to identify or gain access to suitable investments, their income and, therefore, FSOF's, may be limited.
6. *Underlying BDCs' portfolio companies may incur debt that ranks equally with, or senior to, some of the Underlying BDCs' investments in such companies.* Some Underlying BDCs may invest primarily in senior secured loans, including, without limitation, unitranche and second lien debt instruments, as well as unsecured debt instruments, issued by the Underlying BDCs' portfolio companies. If an Underlying BDC invests in unitranche, second lien, or unsecured debt instruments, its portfolio companies typically may be permitted to incur other debt that ranks equally with, or senior to, such debt instruments. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which an Underlying BDC will be entitled to receive payments in respect of the debt securities in which the Underlying BDC will invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt

instruments ranking senior to a Underlying BDC's investment in that portfolio company would typically be entitled to receive payment in full before the Underlying BDC receive any distribution in respect of its investment. In such cases, after repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to an Underlying BDC. In the case of debt ranking equally with debt securities in which such Underlying BDCs will invest, the Underlying BDCs would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

7. *If Underlying BDCs invest in the securities and obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including, without limitation, lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower than-expected investment values or income potentials and resale restrictions.* Underlying BDCs may be authorized to invest in the securities and obligations of distressed or bankrupt companies. At times, distressed debt obligations may not produce income and may require Underlying BDCs to bear certain extraordinary expenses (including, without limitation, legal, accounting, valuation and transaction expenses) in order to protect and recover their investment. Therefore, to the extent Underlying BDCs invest in distressed debt, their ability to achieve current income for their stockholders, including, without limitation, FSOF, may be diminished. Underlying BDCs also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt in which they invest will eventually be satisfied (e.g., through a liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt held by an Underlying BDC, there can be no assurance that the securities or other assets received by an Underlying BDC in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by Underlying BDCs upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of an Underlying BDC's participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, Underlying BDCs may be restricted from disposing of such securities.
8. *The lack of liquidity in an Underlying BDC's investments may adversely affect the Underlying BDC's, and therefore FSOF's, business.* Underlying BDCs typically invest in companies whose securities are not publicly traded, and whose securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. Underlying BDCs also may invest in listed securities of small cap companies whose shares are thinly traded. In fact, all of an Underlying BDC's assets may be invested in illiquid securities. The illiquidity of these investments may make it difficult for Underlying BDCs to sell these investments when desired. In addition, if Underlying BDCs are required to liquidate all or a portion of their portfolios quickly, they may realize significantly less than the value at which the Underlying BDCs had previously recorded these investments. Underlying BDCs' investments are usually subject to

contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. The illiquidity of most of an Underlying BDC's investments may make it difficult for an Underlying BDC to dispose of them at a favorable price, and, as a result, the Underlying BDC may suffer losses

9. *Underlying BDCs may not have the funds or ability to make additional investments in their portfolio companies.* After Underlying BDCs make an initial investment in a portfolio company, Underlying BDCs may be called upon from time to time to provide additional funds to such company or have the opportunity to increase its investment through the exercise of a warrant to purchase common stock. There is no assurance that Underlying BDCs will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on an Underlying BDC's part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for the Underlying BDC to increase its participation in a successful operation or may reduce the expected yield on the investment.
10. *The disposition of an Underlying BDC's investments may result in contingent liabilities.* Most of an Underlying BDC's investments will likely involve private securities. In connection with the disposition of an investment in private securities, Underlying BDCs may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. Underlying BDCs may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through an Underlying BDC's return of certain distributions previously made to the Underlying BDC.
11. *There may be circumstances where an Underlying BDC's debt investments could be subordinated to claims of other creditors or the Underlying BDC could be subject to lender liability claims.* Even though an Underlying BDC may intend to structure most of its investments as senior loans, if one of the Underlying BDC's portfolio companies were to go bankrupt, depending on the facts and circumstances, including, without limitation, the extent to which the Underlying BDC actually provide managerial assistance to such a portfolio company, a bankruptcy court might recharacterize the Underlying BDC's debt investment and subordinate all or a portion of its claim to that of other creditors. Underlying BDCs may also be subject to lender liability claims for actions taken by it with respect to a borrower's business or instances where Underlying BDCs exercise control over the borrower. It is possible that Underlying BDCs could become subject to a lender's liability claim, including, without limitation, as a result of actions taken in rendering significant managerial assistance.
12. *Second priority liens on collateral securing loans that an Underlying BDC may make to its portfolio companies may be subject to control by senior creditors with first priority liens.* If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and the Underlying BDC. To a certain extent, loans that an Underlying BDC makes to portfolio companies may be secured on a second priority

basis by the same collateral securing first priority debt of such companies. The first priority liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before the Underlying BDC. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then an Underlying BDC, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company's remaining assets, if any. The rights an Underlying BDC may have with respect to the collateral securing the loans the Underlying BDC may make to portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that the Underlying BDC enters into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken with respect to the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. Underlying BDCs may not have the ability to control or direct such actions, even if its rights are adversely affected.

13. *Underlying BDCs owning debt generally do not expect to control their portfolio companies.* Underlying BDCs generally do not expect to control their portfolio companies, even though their debt agreements may contain certain restrictive covenants. As a result, an Underlying BDC may be subject to the risk that a portfolio company in which it invests may make business decisions with which the Underlying BDC disagrees and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve the Underlying BDC's interests as a debt investor. Due to the lack of liquidity for an Underlying BDC's anticipated investments in non-traded companies, an Underlying BDC may not be able to dispose of its interests in its portfolio companies as readily as the Underlying BDC would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of an Underlying BDC's portfolio holdings.
14. *Defaults by an Underlying BDC's portfolio companies would harm the Underlying BDC's operating results.* A portfolio company's failure to satisfy financial or operating covenants imposed by an Underlying BDC or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that the Underlying BDC

may hold. Underlying BDCs may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

15. *Underlying BDCs may not realize gains from its equity investments.* FSOF may invest in Underlying BDCs that primarily invest in senior loans, although certain of such Underlying BDCs' investments may include warrants or other equity securities. In addition, such Underlying BDCs may make direct equity investments in companies. Although the intended goal is ultimately to realize gains upon an Underlying BDC's disposition of such equity interests, the equity interests an Underlying BDC may receive may not appreciate in value and, in fact, may decline in value. Accordingly, an Underlying BDC may not be able to realize gains from the equity interests it may hold, if any, and any gains that the Underlying BDC does realize on the disposition of any such equity interests may not be sufficient to offset any other losses the Underlying BDC may experience. Underlying BDCs also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow an Underlying BDC to sell the underlying equity interests. Underlying BDCs may seek puts or similar rights to give the Underlying BDCs the right to sell their equity securities back to the portfolio company issuer. Underlying BDCs may be unable to exercise these put rights for the consideration provided in their investment documents if the issuer is in financial distress.
16. *Underlying BDCs are non-diversified investment companies within the meaning of the ICA and, therefore, have few restrictions with respect to the proportion of their assets that may be invested in securities of a single industry or issuer.* Underlying BDCs are classified as non-diversified investment companies within the meaning of the ICA, which means that Underlying BDCs are not limited by the ICA with respect to the proportion of their assets that they may invest in securities of a single industry or issuer, excluding limitations on investments in other investment companies. To the extent that an Underlying BDC assumes large positions in the securities of a small number of industries or issuers, an Underlying BDC's net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the industry or issuer. Underlying BDCs may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond RIC diversification requirements, Underlying BDCs generally do not have fixed guidelines for diversification, and an Underlying BDC's investments could be concentrated in relatively few industries or issuers.

*Hedging Transactions.* Hedging involves special risks, including, without limitation, the possible default by the other party to the transaction, illiquidity and, to the extent Fifth Street's view as to certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if such investment strategies had not been used. Fifth Street may utilize financial instruments for risk management purposes. The success of the hedging strategy of FSOF will be subject to Fifth Street's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Because the characteristics of many assets change as markets change or time passes, the success of FSOF's hedging strategy will also be subject to



Fifth Street's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While FSOF may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for FSOF than if it had not engaged in any such hedging transactions. For a variety of reasons, Fifth Street may not seek to hedge certain portfolio holdings, or may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Moreover, the portfolio may be exposed to certain risks that cannot be hedged.

When conducted outside the United States, hedging may not be regulated as rigorously as in the United States, may not involve a clearing mechanism and related guarantees and will be subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities, currencies, commodities and other financial instruments. The value of positions taken as part of non-U.S. hedging also could be adversely affected by: (i) other complex foreign political, legal and economic factors; (ii) lesser availability of data on which to make trading decisions than in the United States; (iii) delays in FSOF's ability to act upon economic events occurring in foreign markets during non-business hours in the United States; (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States; and (v) lower trading volume and liquidity.

## FSSLF

*General Economic Conditions.* Debt instruments are subject to credit and interest rate risks. Credit risk refers to the likelihood that an obligor will default in the payment of principal or interest on an instrument. Financial strength and solvency of an obligor are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and debt instruments that are rated by rating agencies are often reviewed and may be subject to downgrade. Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate obligations) or directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

*Developments in the Leveraged Loan Market.* During the last several years, the global economy has been affected by a crisis in the credit markets and continues to experience a general downturn and, in the United States, a slow and uncertain recovery. The global economy is still being negatively affected by, among other things, certain national deficits and sovereign debt levels and the continuing sovereign debt crisis in certain European countries. Among the sectors of the global credit markets that experienced particular difficulty during the credit crisis were the collateralized debt obligations and leveraged finance markets. There is no assurance that such markets may not experience similar difficulties in the future. There continues to exist significant risks for FSSLF and investors as a result of uncertain or volatile economic conditions. These

risks include, among others, (i) the likelihood that it may be more difficult to sell any of the portfolio investments in the secondary market, thus rendering it more difficult to dispose of such portfolio investments, (ii) the possibility that, the price at which portfolio investments can be sold by FSSLF will have deteriorated from their effective purchase price, (iii) the illiquidity of the Interests, as there is currently little or no secondary trading in equity securities issued in connection with entities such as FSSLF and none is expected to develop, and (iv) the possibility of a “double-dip” recession or other economic downturn affecting obligors. These risks may affect the returns on the Interests to investors and the ability of investors to realize their returns. The loans will primarily consist of term loan debt of middle market companies that may be particularly susceptible to economic slowdowns or recessions and may be unable to make scheduled payments of interest or principal on their borrowings during these periods. Although the leveraged finance and collateralized loan obligation markets have made significant recoveries from the adverse impact of the credit crisis, there can be no assurance that the leveraged finance and collateralized loan obligation markets will not be adversely impacted by future economic downturns or market volatility.

*Middle Market Company and Below Investment Grade Risk.* The loans will primarily consist of term loan debt of middle market companies, most of which will be privately-owned. FSSLF expects to acquire below investment grade loans to privately-owned middle market companies or interests in such loans, which are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. It is anticipated that such loans generally will be subject to greater risks than investment grade corporate obligations or large borrower syndicated obligations. These risks could be exacerbated to the extent that FSSLF’s portfolio is concentrated in one or more particular types of loans. While a limited amount of concentration of certain loans with respect to any particular obligor, region or industry is expected to exist from time to time, prepayments of loans and the disposition by FSSLF of loans and any subsequent reinvestment in other loans may result in a greater concentration in any one obligor, region or industry, and such concentration could subject FSSLF to a greater degree of risk with respect to defaults by such obligor, and such concentration of FSSLF’s portfolio in any one industry or region could subject FSSLF to a greater degree of risk with respect to economic downturns relating to such industry or region. The market for below investment grade loans has experienced periods of severe price volatility and reduced liquidity.

Loans to middle market companies may carry more inherent risks than loans to larger entities, whether publicly-traded or privately-owned. For example, there is generally no publicly available information about privately-owned middle market companies and some obligors may not meet net income, cash flow and other coverage tests typically imposed by lenders. Further, middle market companies that are obligors of below investment grade loans may be highly leveraged and may not have available to them more traditional methods of financing. These companies generally have more limited access to capital and higher funding costs, may be in a weaker financial position, may need more capital to expand or compete, and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Accordingly, loans made to middle market companies may involve higher risks than loans made to companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources. Middle market companies typically have narrower product lines and smaller market shares than large businesses. Therefore, they tend to be more vulnerable to competitors’ actions and market conditions, as well as general economic

downturns. These businesses may also experience substantial variations in operating results. The success of a middle market company may also depend on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on the obligor.

All risks associated with FSSLF's investment in such loans will be borne by the investors. Numerous factors may affect an obligor's ability to repay its loans, including the failure to meet its business plan, a downturn in its industry or continuing unfavorable general economic conditions. During an economic downturn or a sustained period of rising interest rates, such obligors may be more likely to experience financial stress and may be unable to meet their debt obligations due to the obligors' inability to meet specific projected business forecasts or the unavailability of financing. A deterioration in an obligor's financial condition and prospects may be accompanied by deterioration in the collateral securing the relevant loan. Such deterioration might impair the ability of the obligor thereof to obtain refinancing or force it to seek to have the loan restructured.

Below investment grade loans made to middle market companies may have default rates that differ from (and may be greater than) investment grade securities or loans made to companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources. There can be no assurance as to the levels of defaults and/or recoveries that may be experienced on the loans held by FSSLF, and an increase in default levels could adversely affect returns to investors. Such loans (and interests in such loans) are generally considered speculative in nature and may become a defaulted obligation for a variety of reasons. Upon any loan becoming a defaulted loan, such defaulted loan 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 loan. Also, FSSLF's inability to agree to restructurings of a defaulted obligation that extends its maturity past the initial maturity of such obligation can lead to lower recoveries on any such defaulted loans. The liquidity for defaulted loans may be limited, and to the extent that defaulted loans are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon.

*Use of Leverage.* FSSLF will use leverage and incur indebtedness in acquiring and holding portfolio investments. In the event of a default by FSSLF in connection with any such borrowings, Fifth Street may make a capital call (in which case the investors will be obligated to make capital contributions) to repay any outstanding amounts as provided in the governing documents of FSSLF. The greater the total borrowings of FSSLF relative to its investments, the greater will be its risk of loss and possibility of gain. In addition, money borrowed by FSSLF will be subject to interest costs, which will be a direct or indirect expense of FSSLF, and, to the extent not covered by income attributable to the investments acquired, will adversely affect the operating results of FSSLF.

The use of leverage magnifies the potential for gain or loss on amounts invested. The use of leverage is generally considered a speculative investment technique and increases the risks

associated with investing in FSSLF. Under the terms of any credit facility or other debt instrument FSSLF enters into, FSSLF is likely to be required by its terms to use the net proceeds of certain or any investments that it sells to repay amounts borrowed under such facility or instrument before applying such net proceeds to any other uses.

If the value of FSSLF's assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had FSSLF not leveraged, thereby magnifying losses or eliminating FSSLF's stake in a leveraged investment. Similarly, any decrease in FSSLF's income will cause its net income to decline more sharply than it would have had FSSLF not borrowed. FSSLF's ability to service its debt will depend largely on its financial performance and will be subject to prevailing economic conditions and competitive pressures.

*Loan Liquidity Risk.* There is typically no established trading market for the loans expected to be held by FSSLF. Such loans are not generally traded in organized exchange markets but may be 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 high-yield debt securities market. Given the limited trading market for loans and the uncertainty as to their fair value at any point in time, if Fifth Street seeks to sell a loan, it may not be able to do so at a favorable price or at all. Fifth Street will value such loans in accordance with the valuation principles described in the governing documents of FSSLF; the valuation of any loans may differ materially from the values that may ultimately be attained in the sale of any such loan.

*Concentration Risk.* Returns of FSSLF could be impaired by the concentration of loans held by FSSLF in any one obligor or to obligors in a particular industry or geographic location in the event that such obligor, industry or geographic location were to experience adverse business conditions or other adverse events. In addition, defaults may be highly correlated with particular obligors, industries or geographic locations. If loans involving a particular obligor, industry or geographic location represent more than a small proportion of portfolio investments, and that obligor, industry or geographic location were to experience difficulties that would affect payments on the loans, the overall timing and amount of collections on the loans held by FSSLF may differ from what investors may have expected and losses may occur.

*Lender Liability and Equitable Subordination.* A number of judicial decisions have upheld judgments of obligors against lenders 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 obligor or has assumed an excessive degree of control over the obligor resulting in the creation of a fiduciary duty owed to the obligor or its other creditors or shareholders. Because of the nature of the loans held by FSSLF, FSSLF 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 holder of a loan or a bondholder (a) intentionally takes an action that results in the undercapitalization of a obligor to the detriment of other creditors of such obligor, (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 obligor to the detriment of other creditors of such obligor, 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 loans, FSSLF may be subject to claims of equitable subordination. Because affiliates of, or persons related to, Fifth Street (including other accounts or vehicles managed by Fifth Street) may hold equity or other interests in obligors of loans held by FSSLF, FSSLF 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. FSSLF’s investment activities also subject it to the normal risks of becoming involved in litigation by third parties. This risk is somewhat greater if Fifth Street or any affiliate thereof exercises control or significant influence over a company’s direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would be borne directly or indirectly by FSSLF and would reduce the amounts available for distribution to the investors. Fifth Street and certain others will be indemnified by FSSLF in connection with such litigation, subject to certain conditions, further reducing such available amounts.

*Participation on Creditors’ Committees.* FSSLF may (through Fifth Street) participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy or FSSLF may seek to negotiate directly with such debtors with respect to restructuring issues. If FSSLF does join a creditors’ committee, the participants of the committee would be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results most favorable to FSSLF in such proceedings. By participating on such committees, FSSLF may be deemed to have duties to other creditors represented by the committees, which might expose FSSLF to liability to such other creditors who disagree with FSSLF’s actions. Furthermore, by participating on such committees, FSSLF may be contractually obligated to hold the related portfolio investments even if it would otherwise be in the best interests of FSSLF to sell. In addition, Fifth Street and its affiliates or Other Accounts may also have or establish relationships with, and participate on credit committees with respect to, obligors (through holding debt obligations issued by such obligors or otherwise) whose loans are held by FSSLF, and such debt obligations may have interests different from or adverse to the loans held by FSSLF.

*Prepayment Risk.* 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 and without any additional prepayment fee or penalty. Prepayments on loans may be caused by a variety of factors which are often difficult to predict including, without limitation, in connection with refinancing or defaults. Consequently, there exists a risk that loans purchased at a price greater than par may experience a capital loss as a result of such a prepayment. In addition, principal proceeds received upon such a prepayment are subject to reinvestment risk during an investment period. Any inability of Fifth Street to reinvest payments or other proceeds in loans or other portfolio investments with comparable interest rates in an expedient manner may result in FSSLF realizing

a return that is less than the return FSSLF would have realized with respect to the prepaid loan had such loan been held to maturity. There is no assurance that FSSLF will be able to reinvest proceeds in assets with comparable interest rates or (if it is able to make such reinvestments) as to the length of any delays before such investments are made. In addition, certain of the loans may include excess cash flow capture and other mandatory prepayment provisions which may accelerate the amortization of the applicable loans.

The rate of prepayments, refinancings, 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 economic conditions.

Fifth Street cannot predict the actual rate of prepayments, refinancing, accelerated amortization or defaults which will be experienced with respect to the loans and other portfolio investments held by FSSLF.

*Refinancing Risk.* A material portion of the loans held by FSSLF will consist of loans for which most or all of the principal is due at maturity. The ability of an obligor to make such a large payment upon maturity typically depends upon its ability either to refinance the loan prior to maturity or to generate sufficient cash flow to repay the loan at maturity or to engage in a sale of all or a portion of the business of such obligor. The ability of an 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 loan, 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 loan at maturity and, unless it is able to refinance such debt, it could default in payment at maturity, which could result in losses to FSSLF and, indirectly, to the investors.

Significant numbers of obligors on loans may face the need to refinance their debt over the next few years, and significant numbers of collateralized loan obligation transactions (historically an important source of funding for loans) have reached or are close to reaching the end of their reinvestment periods or the final maturities of their own debt. As a result, there could be significant pressure on the ability of obligors on loans to refinance their debt over the next few years unless the volume of new collateralized loan obligation transactions or other sources of funding exist at such time to provide such refinancing. If such sources of funding do not exist, significant defaults in loans could occur, and there could be downward pressure on the prices and markets for debt instruments, including loans.

*Priority of Certain Liens.* Liens arising by operation of law may take priority over FSSLF's liens on an obligor's underlying collateral and impair FSSLF's recovery on a loan in the event of a default or foreclosure on that loan. Federal, state or local law may grant liens on the collateral (if any) securing a loan that have priority over FSSLF'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 FSSLF's lien on such collateral. To the extent a lien having priority over FSSLF's lien exists with respect to the collateral related to any loan, FSSLF'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 principal amount of such loan.

*Insolvency Risk.* Various laws enacted for the protection of creditors may apply to the loans. The information in this and the following paragraph is applicable with respect to U.S. obligors. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an obligor of a loan, such as a trustee in bankruptcy, were to find that the obligor did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting such loan and, after giving effect to such indebtedness, the obligor (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such obligor constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the obligor or to recover amounts previously paid by the obligor in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an obligor would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation or if the present fair salable value of its assets were then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the obligor was "insolvent" after giving effect to the incurrence of the indebtedness constituting the loans or that, regardless of the method of valuation, a court would not determine that the obligor was "insolvent" upon giving effect to such incurrence. In addition, in the event of the insolvency of an obligor of a loan, payments made on such loan could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year under federal bankruptcy law or even longer under state laws) before insolvency. In general, if payments on loans are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured. To the extent that any such payments are recaptured from FSSLF, the resulting loss will be borne indirectly by the investors.

*Bankruptcy Risk.* Bankruptcy of one or more obligors could reduce or eliminate the return to FSSLF on a loan and so may impair the return to investors. There is a significant risk that one or more of the obligors to loans held by FSSLF 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 loan(s). There are a number of significant risks inherent in the bankruptcy process. First, rulings in a bankruptcy case are the product of adversarial 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 loan. 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 as described above.

*Interest Rate Risk.* Rising interest rates may render some obligors unable to pay interest on their loans. Most of the loans expected to be held by FSSLF bear interest at floating interest rates. To the extent interest rates increase, periodic interest obligations owed by the related obligors will also increase. As prevailing interest rates increase, some obligors may not be able to make the increased interest payments on loans or refinance their balloon and bullet loans, resulting in payment defaults and defaulted loans. Conversely if interest rates decline, obligors may refinance their loans at lower interest rates which would result in prepayment risk as described under the heading "—Prepayment Risk" above.

*"Cash Flow" Loans.* A significant portion of the loans to be acquired by FSSLF are expected to be "cash flow" corporate loans to the obligors thereof. Cash flow lending involves lending money to an obligor based primarily on the expected cash flow, profitability and enterprise value of such obligor, with the value of any tangible assets as secondary protection. In some cases, cash flow loans may have more leverage than traditional bank debt. In the case of a senior cash flow loan, the transferor generally takes a lien on substantially all of an obligor's assets, but the value of those tangible assets is typically less than the amount of money advanced to the obligor of such loan. The risks inherent in cash flow lending include, among other things:

- reduced use of or demand for the obligor's products or services and, thus, reduced cash flow of the obligor to service the loan as well as reduced value of the obligor as a going concern;
- inability of the obligor to manage working capital, which could result in lower cash flow;
- inaccurate or fraudulent reporting of the obligor's positions or financial statements;
- economic downturns, regulatory changes, litigation or other macroeconomic factors that affect the obligor's business, financial condition and prospects; and
- the obligor's poor management of its business.

Additionally, many obligors use the proceeds of cash flow transactions to make acquisitions. Poorly executed or poorly conceived acquisitions can tax management, systems and the operations of the existing business, causing a decline in both the obligor's cash flow and the



value of its business as a going concern. In addition, acquisitions often involve new management teams taking over control of an obligor. These new management teams may fail to execute at the same level as the former management team, which could reduce the cash flow of the obligor available to service the loan, as well as reduce the value of the obligor as a going concern.

*Restructuring Risk.* Fifth Street, on behalf of FSSLF, has broad authority to direct and supervise the investment and reinvestment of FSSLF's assets, including loans held by FSSLF, which may include the execution of amendments, waivers, modifications and other changes to such loans. During an economic downturn or recession, it is likely that the incidence of amendments, waivers, modifications and restructurings of loans would increase, which may lead to a decrease in the value of such loans that could adversely affect FSSLF and the investors. Alternatively, during an economic recovery, obligors may seek repricing and/or extensions of their loans in lieu of prepaying and/or refinancing such loan.

There is no guarantee that any particular restructuring strategy pursued by Fifth Street will maximize the value of or any recovery on any loan. Any restructuring could fundamentally alter the nature of the related loan and restructurings are not subject to the same underwriting standards that are employed in connection with the origination or acquisition of loans. Any restructuring could alter, reduce or delay the payment of interest or principal from any loan. Restructurings of loans might result in extensions of the term thereof, which would likely extend the average life of such loans and, in the aggregate, could extend the weighted average life of the loans held by FSSLF and adversely affect FSSLF's internal rate of return.

Additionally, an obligor may issue equity securities in connection with the restructuring of any loan. If any restructuring of a loan takes the form of an exchange of a loan for new debt and equity securities or for all equity securities, FSSLF would receive or may form a subsidiary to receive its share of such equity securities as part of portfolio investments. Fifth Street may sell any equity security at any time in its discretion.

*Cross-Collateralization Risk.* Certain of the loans in which FSSLF may invest are expected to be cross-collateralized with other tranches of indebtedness incurred by the same obligor and may be cross-collateralized with indebtedness issued by more than one obligor. Cross-collateralization arrangements involving more than one obligor could be challenged as fraudulent conveyances by creditors of the related obligor in an action brought outside a bankruptcy case or, if the obligor were to become a debtor in a bankruptcy case, by the obligor's representative (or the obligor as debtor-in-possession), U.S. Trustee or creditors' committee. A lien granted by the obligor could be voided if a court were to determine that (i) the obligor was insolvent when it granted the lien securing the loan, was rendered insolvent by the granting of the lien, was left with inadequate capital when it allowed its properties to be encumbered by a lien securing the loan, or was not able to pay its debts as they became due, and (ii) the obligor did not receive fair consideration or reasonably equivalent value when it allowed its properties to be encumbered by a lien securing the loan.

Among other things, a legal challenge to the granting of the liens may focus on the benefits realized by the related obligor from the applicable loan proceeds, as well as the overall cross-

collateralization. If a court were to conclude that the granting of the liens to cross-collateralize a loan was a voidable fraudulent conveyance, such court could:

- subordinate all or part of the pertinent loan to existing or future indebtedness of that obligor;
- recover payments made under that loan; or
- take other actions detrimental to FSSLF, including, under certain circumstances, invalidating the loan or FSSLF's interest in the collateral securing the cross-collateralized loan.

*Syndicated Loan Risk.* The loans acquired by FSSLF are expected to include syndicated loans. Under the underlying documents with respect to syndicated loans, a financial institution or other entity may be designated as the administrative agent and/or collateral agent or a person acting in a similar capacity. Under these arrangements, the obligor grants a lien to the agent on behalf of the holders of the associated indebtedness and directs payments to the agent, which, in turn, will distribute payments to the holders of the associated indebtedness, including FSSLF. As is typical in such agency arrangements, the agent is the party responsible for administering and enforcing the loan and generally may take actions only in accordance with the instructions of a majority or two thirds in commitments and/or principal amount of the associated indebtedness. In the case of loans that are part of a capital structure that includes both senior and subordinated indebtedness, the agent may take such action in accordance with the instructions of one or more senior tranches of the related indebtedness without any right to vote (except in certain limited circumstances) on the subordinated tranches of the related indebtedness. In many cases, the loans held by FSSLF represent less than the amount of associated indebtedness sufficient to compel such actions or represent subordinated debt which is precluded from acting and, consequently, FSSLF would only be able to direct such actions if instructions from FSSLF were made in conjunction with other holders of associated indebtedness that together with FSSLF compose the requisite percentage of the related indebtedness then entitled to take action. Conversely, if holders of the required amount of the associated indebtedness other than FSSLF desire to take certain actions, such actions may be taken even if FSSLF did not support such actions. Furthermore, if a loan is subordinated to one or more senior loans made to the obligor, the ability of FSSLF to exercise such rights may be subordinated to the exercise of such rights by the senior lenders. However, as is typical for such loans, certain actions, including amendments to the payment terms of the loans, typically may not be taken without consent of all holders of the related indebtedness, including FSSLF. If the loan is a syndicated revolving loan or delayed drawdown loan, other lenders may fail to satisfy their full contractual funding commitments for such loan, which could create a breach of contract resulting in a lawsuit by the obligor against the lenders and adversely affect the fair market value of such loan.

There is a risk that a loan agent may become bankrupt or insolvent. Such an event would delay, and possibly impair, any enforcement actions undertaken by holders of the associated indebtedness such as FSSLF, including attempts to realize upon the collateral securing the loan and/or direct the agent to take actions against the related obligor or the collateral securing a loan and actions to realize on proceeds of payments made by obligors that are in the possession or control of such loan agent.

In addition, agented loans typically allow for the agent to resign with certain advance notice. Such loans may not, however, contain provisions for holders of the associated indebtedness to remove the agent thereunder. Therefore, under circumstances where removal of the agent would be in the best interests of the holders of the associated indebtedness (including FSSLF), the underlying loan documents would have to be amended by the requisite holders of the associated indebtedness with the agreement of the agent to remove the agent thereunder.

*Performance-Related Interest Rates.* Certain loans held by FSSLF may feature interest rates which will vary based on certain financial ratios of the related obligor. The interest rates payable by the obligors under these loans will be reduced if the applicable financial ratios of the related obligors improve and, accordingly, an improvement in the financial performance of obligors under these loans would result in a decrease in cash proceeds available for reinvestment or distribution to investors. Conversely, the interest rates payable by the obligors under these loans will be increased if the applicable financial ratios of the related obligors deteriorate. However, while deterioration in the financial performance of obligors under these loans would result in an increase in interest income received by FSSLF, increased payment obligations of such obligors could weaken the financial condition of such obligors in the future.

*Assignment Restrictions.* Certain of the loans expected to be acquired by FSSLF contain provisions prohibiting the loans from being assigned or otherwise transferred to parties who do not meet certain criteria set forth in the applicable governing documents. If Fifth Street attempts to sell such loans, it could not sell the loans to a transferee that did not meet the criteria in the applicable governing documents. Such provisions could have an adverse effect on the value received for such loans by FSSLF upon any sale or liquidation.

*Delayed Draw Term Loans.* Delayed draw term loans purchased by FSSLF may have one or more future funding obligations. Cash proceeds or capital contributions may be utilized to satisfy ongoing funding obligations with respect to loans that are delayed draw term loans or to create reserves with respect thereto. Depending on the timing of any such funding of such loans, and factors such as prevailing interest rates and market conditions for loans generally at such time, FSSLF's utilization of cash proceeds, reserves or capital contributions at such time may result in a lower yield on portfolio investments than investors may have otherwise been able to achieve on such cash proceeds or capital contributions.

*Second Lien Loans and Participations.* FSSLF's investment program may include investments in second lien loans and participations. These obligations are subject to unique risks, including: (a) the possible invalidation of investment transactions as fraudulent conveyances or preferential payments under relevant creditors' rights laws or the subordination of claims under so-called "equitable subordination" common law principles, (b) lender-liability claims by the issuer of the obligations, (c) environmental liabilities that may arise with respect to collateral securing the obligations, and (d) limitations on the ability of FSSLF to directly enforce its rights with respect to participations. In analyzing each second lien loan or participation, Fifth Street compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks, absent certain conduct by Fifth Street and its affiliates, and certain other individuals, will be borne by FSSLF.

In addition, the nature of second lien loans will entail risks related to priority with respect to collateral, including (a) the subordination of FSSLF's claims to a senior lien in terms of the coverage and recovery of the collateral and (b) the prohibition of, or limitation on, the right to foreclose on a second lien or exercise other rights as a second lien holder. In certain cases, therefore, no recovery may be available from a defaulted second lien loan. The level of risk associated with investments in second lien loans increases to the extent such investments are loans of distressed or below investment grade companies.

*FSSLF May Elect To Contribute Capital to the Warehouse Subsidiary; Warehouse Subsidiary May Be Required To Sell Collateral.* In order to prevent the occurrence of an event of default by the Warehouse Subsidiary, or to otherwise avoid a redirection of the Warehouse Subsidiary's cash flow from its underlying assets, FSSLF may elect to contribute additional capital to the Warehouse Subsidiary. Further, in the case of any revaluation of the assets held by the Warehouse Subsidiary by a lender, FSSLF may elect to contribute additional capital, or the Warehouse Subsidiary may be required to sell assets that it holds, in order to cure any borrowing base deficiency. Any such sale may be required to be made at a disadvantageous price under the given facts and circumstances. Further, in connection with any additional contributions made by FSSLF to the Warehouse Subsidiary, Fifth Street may require investors in FSSLF to make additional capital contributions to FSSLF pursuant to the FSSLF's operating agreement. Any such capital contributions used to prevent an event of default or cure a borrowing base deficiency would not be available to acquire additional portfolio investments, which could result in lower overall returns. An event of default could have a material adverse impact on FSSLF's performance.

*FSSLF May be Required to Repurchase Conveyed Assets from the Warehouse Subsidiary.* Under the terms of the loan sale agreement, FSSLF will make certain representations and warranties regarding the assets it sells to the Warehouse Subsidiary. In the event of a breach of such representations and warranties, FSSLF may be required to repurchase certain of the assets it has sold to the Warehouse Subsidiary. In order to have sufficient funds to make such repurchases, FSSLF may be required to sell some or all of its existing assets. Any such sale may be required to be made at a disadvantageous price under the given facts and circumstances. Further, in order for FSSLF to have sufficient funds to fulfill its repurchase obligations, Fifth Street may require investors to make additional capital contributions to FSSLF pursuant to FSSLF's operating agreement. Any such capital contributions used to prevent an event of default under the loan sale agreement would not be available to acquire additional portfolio investments, which could result in lower overall returns. Further, the repurchase price that FSSLF will be required to pay for such a loan will be an amount equal to the purchase price (expressed as percentage of par) multiplied by the outstanding principal balance of such loan on its initial transfer date less any payments on account of principal received by the Warehouse Subsidiary after such initial transfer date with respect thereto, plus the portion of fees amortized since the initial transfer date as calculated per FSSLF's accounting policies with respect to such loan. The repurchase price may exceed the value of the loan which could have a negative impact on the value of an investment in FSSLF.

Please see Items 4 (Advisory Business), 10 (Other Financial Industry Activities and Affiliations), 11 (Code of Ethics, Participation in Client Transactions and Personal Trading) and 12 (Brokerage Practices).

## **Item 9     DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a current or prospective client's or investor's evaluation of or the integrity of Fifth Street or its management persons.

## **Item 10    OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As discussed in Item 4 (Advisory Business), Mr. Tannenbaum is the founder of Fifth Street. As of the Effective Date, as part of the restructuring in connection with the initial public offering of FSAM, FSAM became the general partner of Holdings. Fifth Street is wholly owned by Holdings, and FSAM holds a minority interest in Holdings. The majority of interests in Holdings is held by employees of affiliates of Fifth Street, including Mr. Tannenbaum.

Fifth Street and its affiliates may manage other investment vehicles and accounts for which they are compensated. Certain of such investment vehicles and accounts may have investment objectives and utilize strategies similar to the investment objective and strategies of FSOF and/or FSSLF. In addition, Fifth Street and its affiliates may participate or invest in other business ventures of any kind, including, without limitation, the management of or investment in other investment entities or securities. Some of these activities may be conducted on behalf of certain clients of Fifth Street and/or its affiliates.

From time to time, certain personnel of Fifth Street and its affiliates may come into possession of material, nonpublic information that would limit the ability of FSOF and/or FSSLF to buy and sell investments. The investment flexibility of FSOF and/or FSSLF may be constrained as a consequence of Fifth Street's inability to take certain actions because of such information. FSOF and/or FSSLF may experience losses if they are unable to sell an investment that it holds because certain personnel have obtained material, nonpublic information about such investment.

Fifth Street and/or its affiliates have entered into one or more agreements and may, in the future, enter into additional agreements with third parties that may introduce prospective investors to FSOF and/or FSSLF. It is expected that such parties will not be related to the operations of FSOF and/or FSSLF and any fee paid will be disclosed to the investors introduced by such third parties. Fifth Street and its affiliates may pay such commissions or fees out of their own funds or directly charge investors that were introduced through such arrangements.

Please see Items 4 (Advisory Business), Item 5 (Fees and Compensation), 8 (Methods of Analysis, Investment Strategies and Risk of Loss), 11 (Code of Ethics, Participation in Client Transactions and Personal Trading) and 12 (Brokerage Practices).

## **Item 11 CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Fifth Street has adopted a code of ethics (the “Code”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). The Code requires that Fifth Street and Supervised Persons (defined therein) comply with applicable federal securities laws. The Code also provides that Fifth Street and its Supervised Persons owe a fiduciary duty to clients, including the duty to put the best interests of clients ahead of the interests of Fifth Street and of Supervised Persons. The Code is provided to each Supervised Person, and Supervised Persons are required to acknowledge receipt of the Code.

Subject to applicable law, internal compliance policies and approval procedures, Fifth Street, its affiliates and/or their respective principals, employees (if any) and other affiliates may make trades and investments for their own accounts (including, without limitation, in securities, commodities and other financial instruments in which FSOF and/or FSSLF may invest). In these accounts, they may use trading and investment methods that are similar to, or substantially different from, the methods used by them to direct FSOF’s assets.

The Code requires the Chief Compliance Officer of Fifth Street to maintain a current list of issuers of securities that Fifth Street is analyzing and/or recommending for client transactions. A Supervised Person who is involved in making securities recommendations to clients or has access to nonpublic information on client investments or recommendations (each, an “Access Person”) may not purchase or sell, whether directly or indirectly, any security that is on the list.

Access Persons are required to obtain prior written approval from the Chief Compliance Officer prior to purchasing or selling, whether directly or indirectly, any security in an initial public offering or limited offering. The Chief Compliance Officer will consider whether the opportunity to purchase or sell such securities should be first offered to eligible clients of Fifth Street, and whether the Access Person is being offered the investment opportunity because of his or her position with Fifth Street.

The Code requires Supervised Persons to provide the Chief Compliance Officer with certain securities holdings reports and periodic transaction statements and requires the Chief Compliance Officer to review those reports.

Potential violations of the Code must be reported to the Chief Compliance Officer. All reported potential violations will be investigated, and if appropriate, sanctions will be imposed.

The Code is available to clients upon request by contacting us at the following address:

Fifth Street Management LLC  
777 West Putnam Avenue, 3rd Floor  
Greenwich, CT 06830  
Attention: Chief Compliance Officer  
Telephone: (203) 681-3600  
Facsimile: (203) 681-3879  
Email: dharrison@fifthstreetfinance.com

Please see Items 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

## **Item 12    BROKERAGE PRACTICES**

Fifth Street has the sole power and authority to determine the brokers to be used for each securities transaction for FSOF and to appoint a prime broker to settle and clear all of FSOF's securities transactions and for purchases of loans by FSSLF. In selecting brokers or dealers to execute transactions, Fifth Street need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In selecting brokers, Fifth Street may or may not negotiate "execution only" commission rates; thus, FSOF and/or FSSLF may be deemed to be paying for other services provided by the broker to FSOF, Fifth Street, FSCO GP, FSSLF and/or their respective affiliates which are included in the commission rate. Additionally, Fifth Street will also take into account any clearing and/or other fees charged by the prime broker to execute transactions through other brokers. In negotiating commission rates, Fifth Street will take into account the financial stability and reputation of brokerage firms and the brokerage, research and other services provided by such brokers, although FSOF and/or FSSLF may not, in any particular instance, be the direct or indirect beneficiary of the services provided.

### Research and Other Soft Dollar Benefits

Although it does not currently do so, FSOF may in the future be deemed to be paying for research and other services with "soft" or commission dollars. FSSLF does not currently use "soft" dollars. Although Fifth Street believes FSOF would benefit from many of the services obtained with soft dollars generated by FSOF's trades, it would likely not benefit exclusively. In general, Fifth Street may at its option use soft dollar benefits to service all of its clients' accounts. Fifth Street and/or its affiliates may also derive direct or indirect benefits from some or all of these services, particularly to the extent that Fifth Street uses "soft" or commission dollars to pay for expenses it would otherwise be required to pay itself.

Because many of those services could benefit Fifth Street, Fifth Street may have a conflict of interest in allocating brokerage business, including an incentive to cause FSOF to effect more transactions than it might otherwise do in order to obtain those benefits. The extent of that conflict depends in large part on the nature and uses of the services and products acquired with soft dollars.

Section 28(e) of the Exchange Act provides a "safe harbor" to investment managers who use commission dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the manager in the performance of investment decision-making responsibilities. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. To the extent that Fifth Street uses "soft" dollars, such use would fall within the safe harbor of Section 28(e).

### Brokerage for Client Referrals

Fifth Street may also direct some of FSOF's brokerage business to brokers who refer investors to FSOF. Because such referrals, if any, are likely to benefit Fifth Street, FSCO GP and their

respective affiliates but will provide an insignificant (if any) benefit to the investors in FSOF, Fifth Street will have a conflict of interest when allocating FSOF's brokerage business to a broker who has referred investors to FSOF. To prevent the brokerage commissions paid by FSOF from being used to pay investor referral fees, Fifth Street will not allocate FSOF's brokerage business to a referring broker unless Fifth Street determines in good faith that the commissions payable to such broker are reasonable in relation to those available from non-referring brokers offering services of substantially equal value to FSOF.

FSCO GP may sell interests in FSOF through banks, broker-dealers, placement agents and other eligible persons and pay a marketing fee, charge, commission or other amount in connection with such activities, including, without limitation, ongoing payments. It is expected that such parties will not be related to the operations of FSOF. Fifth Street, FSCO GP and/or their respective affiliates will pay such fees, charges, commissions or other amounts out of their own funds rather than from the funds of the applicable investor. For the avoidance of doubt, any such fee, deduction, charge, commission or other amount will be not be paid by the applicable investor.

#### Trade Aggregation and Allocation

Fifth Street may at times determine that certain securities, commodities or other financial instruments will be suitable for acquisition by FSOF, FSSLF and/or by investment funds or vehicles or other accounts managed by Fifth Street and/or its affiliates, possibly including, but not limited to, its own accounts or accounts of affiliates (collectively, "Other Accounts"). If that occurs and co-investment is permitted, and Fifth Street is unable to acquire the desired aggregate amount of such securities, commodities or other financial instruments on terms and conditions which Fifth Street and/or its affiliates, as applicable, deem advisable. Fifth Street and/or its affiliates will endeavor to allocate in good faith the limited amount of such securities, commodities or other financial instruments acquired among the various accounts for which Fifth Street and/or its affiliates, as applicable, consider them to be suitable. If co-investment is not permitted, Fifth Street will adhere to its investment allocation policy in order to determine to which entity to allocate the opportunity. Any such opportunity will be allocated first to the entity whose investment strategy is the most consistent with the opportunity being allocated, and second, if the terms of the opportunity are consistent with more than one entity's investment strategy, on an alternating basis. These offers will be subject to the exception that, in accordance with Fifth Street's investment allocation policy, FSOF, FSSLF and/or such Other Accounts might not participate in each individual opportunity, but will, on an overall basis, be entitled to participate equitably with other entities managed by Fifth Street and its affiliates. Fifth Street and/or its affiliates, as applicable, cannot guarantee the same purchase or sale price and same purchase or sale timing and may make such allocations among the accounts in any manner which it and/or they, as applicable, consider to be fair under the circumstances, including, without limitation, allocations based on relative account sizes, the degree of risk involved in the securities, commodities or other financial instruments acquired and the extent to which a position in such securities, commodities or other financial instruments is consistent with the investment policies and strategies of the various accounts involved.

Fifth Street may aggregate purchase and sale orders of securities, commodities and other financial instruments held by FSOF, FSSLF and/or such Other Accounts with similar orders being made simultaneously for other accounts or entities if, in Fifth Street's reasonable



judgment, such aggregation is reasonably likely to result in an overall economic benefit to FSOF, FSSLF and/or such Other Accounts based on an evaluation that FSOF, FSSLF and/or such Other Accounts will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of securities, commodities and other financial instruments for FSOF, FSSLF and/or such Other Accounts will be affected simultaneously with the purchase or sale of like securities, commodities and other financial instruments for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume purchased or sold. In such event, the average price of all securities, commodities or other financial instruments purchased or sold in such transactions may be determined, at Fifth Street's sole and absolute discretion, and FSOF, FSSLF and/or such Other Accounts may be charged or credited, as the case may be, with the average transaction price.

None of Fifth Street and its affiliates is under any obligation to devote their full time to the business of FSOF, FSSLF and/or such Other Accounts. Fifth Street and its affiliates are only required to devote such time and attention to the affairs of each of FSOF, FSSLF and/or such Other Accounts as they deem appropriate. Fifth Street and its affiliates will divide their time among FSOF, FSSLF and such Other Accounts as they see fit and, from time to time, such Other Accounts may receive a disproportionate share of their attention.

Fifth Street may determine the allocation of the assets of each of FSOF, FSSLF and/or such Other Accounts on whatever basis it considers appropriate or desirable. Additionally, Fifth Street and its affiliates may determine the allocation of the assets of such affiliates, other investment vehicles and/or managed accounts on whatever basis Fifth Street and its affiliates consider appropriate or desirable in their sole and absolute discretion.

Fifth Street and its affiliates may decide to invest the assets of such Other Accounts or recommend the investment of assets by other parties, rather than FSOF's and/or FSSLF's assets, in a particular security, commodity or other financial instrument or vice versa.

To the extent an investment opportunity is appropriate for more than one client managed by Fifth Street and/or its affiliates, and co-investment is not possible, Fifth Street will adhere to its investment allocation policy in order to determine to which client to allocate the opportunity. Any such opportunity will be allocated first to the client whose investment strategy is the most consistent with the opportunity being allocated, and second, if the terms of the opportunity are consistent with more than one client's investment strategy, on an alternating basis. While FSOF and/or FSSLF might not participate in each individual opportunity, FSOF and/or FSSLF will, on an overall basis, be entitled to participate equitably with Other Accounts. Although Fifth Street's investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, FSOF, FSSLF and/or such Other Accounts could be adversely affected to the extent investment opportunities are allocated among FSOF, FSSLF and/or such Other Accounts, and other investment vehicles managed or sponsored by, or affiliated with, the executive officers and members of Fifth Street.

The policies of Fifth Street and its affiliates are also designed to manage and mitigate the conflicts of interest associated with the allocation of investment opportunities if FSOF and/or FSSLF are able to co-invest with Other Accounts, either pursuant to SEC interpretive positions

or an exemptive order, if applicable. Generally, under the investment allocation policy, a portion of each opportunity that is appropriate for FSOF, FSSLF and any affiliated fund, which may vary based on asset class and liquidity, among other factors, will be offered to FSOF and/or FSSLF and such other eligible accounts, as determined by Fifth Street and its affiliates. The investment allocation policy further provides that allocations among FSOF and/or FSSLF and other eligible accounts will generally be made in accordance with SEC interpretive positions or an exemptive order, as applicable. Each of Fifth Street and its affiliates seeks to treat all clients fairly and equitably in a manner consistent with its fiduciary duty to each of them; however, in some instances, especially in instances of limited liquidity, the factors may not result in pro rata allocations or may result in situations where certain accounts receive allocations where others do not.

Current and prospective investors of FSOF and FSSLF should understand that there are restrictions under the ICA, with respect to co-investment by private funds and RICs and BDCs under common management. The ICA prohibits a BDC from making certain negotiated co-investments with affiliates unless the investment adviser of the BDC receives an order from the SEC permitting the BDC to do so. Such prohibition applies, for example, to any co-investments by FSOF and/or FSSLF with BDCs managed by affiliates of Fifth Street to the extent that any officers, directors or employees of such BDCs are limited partners of FSOF or members of FSSLF. Certain entities of the Fifth Street platform have submitted an exemptive application to the SEC to, among other things, permit BDCs managed by Fifth Street to co-invest with other funds managed by Fifth Street and/or its affiliates in a manner consistent with such BDCs' investment objectives, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. There can be no assurance that any such exemptive order will be obtained.

Fifth Street and/or any of its affiliates may enter into agency cross transactions on behalf of a client with other accounts and/or other private pooled investment vehicles that are managed by Fifth Street and/or any of its affiliates, to the extent permitted by law; provided, however, that the client receives full written disclosure with respect to any such agency cross transaction in accordance with the Advisers Act. Such agency cross transactions may include, without limitation, transactions undertaken to rebalance the portfolios of the client and/or such other accounts and/or vehicles.

However, Fifth Street will not cause or allow FSOF or FSSLF to enter into any contract or transaction with an affiliate or principal of FSOF, FSCO GP, FSSLF or Fifth Street unless such transaction is upon terms no less favorable to FSOF or FSSLF, as applicable, than it would obtain in a comparable arm's length transaction with a person or entity which is not an affiliate or principal of FSOF, FSCO GP, FSSLF or Fifth Street.

Please see Item 10 (Other Financial Industry Activities and Affiliations).

### **Item 13 REVIEW OF ACCOUNTS**

FSOF and FSSLF are reviewed and reconciled on a regular basis to assure that the structure and financial instruments held are suitable and consistent with each fund's objectives and strategies. In addition, Fifth Street personnel also monitor FSOF and FSSLF to help ensure conformity with

investment objectives and guidelines. Fifth Street engages in active management and frequent transactions for clients and, accordingly, reviews its transactions, positions and cash balances on a regular basis.

Investors in FSOF are provided with annual reports containing financial statements examined by FSOF's independent auditors within 120 days after the end of each taxable year. Investors are also provided with monthly net asset statements.

Investors in FSSLF are provided with annual reports containing financial statements examined by FSSLF's independent auditors within 90 days after the end of each taxable year. Investors are also provided with quarterly reports containing unaudited financial statements and monthly servicer reports.

#### **Item 14 CLIENT REFERRALS AND OTHER COMPENSATION**

Fifth Street does not receive an economic benefit from a person who is not a client for providing investment advice to a client or investor.

Fifth Street has entered into a selling agent agreement with Trestle Point, LLC ("Trestle Point"), pursuant to which Trestle Point has been appointed as a non-exclusive selling agent of FSOF for the purpose of selling interests in FSOF to qualified investors through a private placement. As compensation for its services, Trestle Point receives 20% of the (i) management fee received by Fifth Street in respect of interests sold to investors referred by Trestle Point at the end of each calendar quarter and (ii) performance allocation allocated to FSCO GP in respect of capital accounts of such investors at the end of each fiscal year. No marketing fee or commission in connection with any investor referral activities is or will be paid by the referred investor.

#### **Item 15 CUSTODY**

To the extent required by law, client assets are maintained with a qualified custodian. However, Fifth Street is deemed as having custody of the assets of FSOF and FSSLF. FSOF and FSSLF distribute their annual audited financial statements to their investors within 120 days of their fiscal year-end. Fifth Street urges an investor to carefully review the audited financial statements and compare such financial statements to the periodic reports received from Fifth Street.

#### **Item 16 INVESTMENT DISCRETION**

Fifth Street and its affiliates have been afforded discretionary authority to manage the assets of FSOF and FSSLF pursuant to an investment management agreement with each of FSOF and FSSLF. Fifth Street makes investment decisions on behalf of FSOF and FSSLF in accordance with their respective investment objectives. For more information, please see Item 4 (Advisory Business).

#### **Item 17 VOTING CLIENT SECURITIES**

As an investment adviser registered under the Advisers Act, Fifth Street has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, it recognizes that it must vote client securities in a timely manner free of conflicts of interest and in the best interests of its

clients. The proxy voting policies and procedures of Fifth Street are set forth below. These policies and procedures for voting proxies for the investment advisory clients of the Investment Adviser are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Fifth Street will vote proxies relating to clients' securities in the best interest of its clients' investors. It will review on a case-by-case basis each proposal submitted for a stockholder vote to determine its impact on the portfolio securities held by its clients. Although Fifth Street will generally vote against proposals that may have a negative impact on its clients' portfolio securities, it may vote for such a proposal if there exists compelling long-term reasons to do so.

The proxy voting decisions of Fifth Street are made by the officers who are responsible for monitoring each of its clients' investments. To ensure that its vote is not the product of a conflict of interest, it will require that: (a) anyone involved in the decision-making process disclose to its Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (b) employees involved in the decision-making process or vote administration are prohibited from revealing how Fifth Street intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Fifth Street's proxy voting policies and proxy voting records may be obtained, without charge, upon a written request to the address below:

Fifth Street Management LLC  
777 West Putnam Avenue, 3rd Floor  
Greenwich, Connecticut 06830  
Attention: Chief Compliance Officer  
Tel: (203) 681-3600  
Fax: (203) 681-3879  
Email: dharrison@fifthstreetfinance.com

## **Item 18 FINANCIAL INFORMATION**

Fifth Street does not require or solicit prepayment of advisory fees six months or more in advance.

Fifth Street is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

Fifth Street has not been the subject of a bankruptcy petition at any time during the past ten years.

## **Item 19 REQUIREMENTS FOR STATE REGISTERED ADVISERS**

Not applicable.