

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

### **AP COMMERCIAL LLC**

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December 31, 2013

Alliance Partners Loan Program  
Managed Accounts and Collateral Management

This Brochure provides information about the qualifications and business practices of AP Commercial LLC (“AP Commercial”).

This Brochure relates to advisory services provided by AP Commercial to (i) its clients that participate in the Loan Program (as further described herein) managed by AP Commercial through separately managed accounts (“managed account clients”) and (ii) clients for whom AP Commercial acts as collateral manager pursuant to a collateral management agreement (“collateral management clients”).

If you have any questions about the contents of this Brochure, please contact us at (301) 232-5400. 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.

AP Commercial is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Additional information about AP Commercial also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**ITEM 2: MATERIAL CHANGES**

SEC rules permit a registered investment advisor whose advisory services differ according to the type of client served to prepare separate brochures for the respective types of clients. Accordingly, AP Commercial initially prepared this Brochure for its managed account clients. AP Commercial has amended this Brochure to describe new advisory services that it expects to offer to collateral management clients and related information. There are no other material changes from the last Brochure filed with the SEC on September 26, 2013.

AP Commercial will provide clients with a summary of any material changes to this Brochure since AP Commercial's last annual update to its Brochure within 90 days of the close of AP Commercial's fiscal year-end. AP Commercial may provide additional interim disclosure about material changes, if and as warranted.

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#### **ITEM 4: ADVISORY BUSINESS**

This Brochure describes AP Commercial's provision of (i) advisory and other services to institutional accounts managed by AP Commercial (referred to herein as "managed account clients"); and (ii) advisory services, including collateral management and servicing, to investment vehicles owning Loans and interests in Loans (as defined below), including, without limitation, loan warehousing programs ("Warehouses") and special purpose vehicles for collateralized loan obligations ("CLOs") (referred to herein collectively as "collateral management clients").

Apart from the clients to which this Brochure relates, AP Commercial also provides advisory and other services to FDIC-insured depository institutions (or holding companies of such institutions) that have become parties ("Members") to the membership agreement of BancAlliance Inc., a Maryland non-stock corporation ("BancAlliance"). Through BancAlliance, AP Commercial makes the Loan Program (as described herein) available to Members, under which Members will have the opportunity to acquire participation interests in Loans that AP Commercial believes meet the loan eligibility criteria adopted from time to time by the Board of Directors of BancAlliance. AP Commercial provides certain advisory services to the Members and certain administrative services to BancAlliance and the Members, in each case pursuant to an advisory and services agreement among BancAlliance, AP Commercial and the Members. AP Commercial's separate brochure with respect to the advisory services it provides to Members is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

The services AP Commercial offers to any other clients will be described in an amendment to this Brochure and/or one or more separate Brochures.

##### **A. General Description of Advisory Firm**

AP Commercial is a Delaware limited liability company that was organized in 2011. AP Commercial's principal owner is Alliance Partners LLC. Alliance Partners LLC has engaged in its business since May 2011.

##### **B. Advisory Services**

###### ***Introduction***

###### **Managed Account Clients**

AP Commercial makes available to its managed account clients a program (the "Loan Program") under which clients have the opportunity to acquire participations or other interests (collectively, "Loan Participations") in loans, capital leases, pools of such loans or leases, and comparable financial instruments (including assignments thereof, "Loans") that AP Commercial believes meet both its loan eligibility criteria and the eligibility requirements established by the respective managed account client (collectively, the "Loan Eligibility Criteria").

AP Commercial provides advisory services to its managed account clients on a non-discretionary basis. This means that each client decides whether or not to purchase for its portfolio any Loan

referred to it for consideration by AP Commercial. AP Commercial, as these clients' investment adviser, has no authority to cause a client to acquire or dispose of any Loan.

AP Commercial has primary responsibility for administering the Loan Program. As further described below, AP Commercial provides certain advisory and administrative services to its managed account clients. Such services are provided to managed account clients pursuant to an advisory and services agreement (an "Advisory and Services Agreement") between AP Commercial and each such client.

The Loan Program comprises the initial advisory service offered to managed account clients. AP Commercial may from time to time expand its activities to offer additional programs for managed account clients, such as providing opportunities to acquire interests in financial assets other than Loans. AP Commercial may also in the future provide advisory services on a discretionary basis to managed account clients in contrast to its current non-discretionary services. It is expected that AP Commercial also would provide advisory services to clients in connection with such modifications or additional programs and that the relevant legal agreements, including any applicable Advisory and Services Agreement, would be amended accordingly to encompass any such services.

#### Collateral Management Clients

AP Commercial expects to act as the collateral manager and servicing agent of one or more Warehouses and CLOs (the "Collateral Manager"), and, as further described below, to provide advisory and administrative services to these clients. Such services will be provided to clients pursuant to a collateral management agreement (a "Collateral Management Agreement") between AP Commercial and each such client and other multi-party governing documents. These documents will be negotiated prior to the commencement of the advisory relationship between AP Commercial and the client.

AP Commercial will initially provide advisory services to collateral management clients on a non-discretionary basis. As Collateral Manager, AP Commercial generally will have authority to acquire or dispose of Loans on behalf of the client based on specific investment criteria set out in the documents governing the Warehouse or CLO and the Collateral Management Agreement and may be required to acquire certain Loans as described in those documents. AP Commercial initially does not expect its collateral management clients to participate in the Loan Program. AP Commercial may have limited discretion under the applicable Collateral Management Agreement to dispose of Loans on behalf of these clients, typically for credit reasons. The terms of AP Commercial's collateral management services, including the types of securities that may be purchased on behalf of the Warehouse or CLO, will be individually negotiated.

#### ***Purpose and Structure of the Loan Program***

##### Purpose

AP Commercial has established the Loan Program to provide clients with opportunities to purchase Loan Participations to which the clients, due to their size, staffing or other factors, typically would not otherwise have access. It is intended that the Loans will generally be commercial and consumer loans and capital leases, either originated or acquired by AP

Commercial (or an affiliate thereof) on behalf of its clients. The Loans acquired on the secondary market generally will be acquired at par or near-par value. The Loan Program is designed to enable clients to supplement and diversify their historical lending activities; accordingly, clients are generally expected to hold their acquired Loan Participations until maturity or repayment of the underlying Loans.

#### Role of AP Commercial

Under the applicable Advisory and Services Agreement, AP Commercial identifies, reviews and, in appropriate cases refers to its clients, opportunities to acquire Loan Participations with respect to Loans that AP Commercial believes initially satisfy the Loan Eligibility Criteria. If a client acquires a Loan Participation, AP Commercial will provide ongoing services to the client regarding the Loan Participation and the underlying Loan. The services provided by AP Commercial to clients in connection with the Loan Program are described in greater detail below in this Item 4.B.

#### Loan Eligibility Criteria and Sourcing

Any Loan opportunity referred to clients is expected to meet the then-applicable Loan Eligibility Criteria. A Loan opportunity will generally be referred to clients only after being preliminarily approved by the credit committee of AP Commercial.

AP Commercial (or an affiliate) intends to originate Loans or to acquire Loans in the primary and secondary markets, including through contractual programs with lenders. AP Commercial generally expects to have lender-of-record status with respect to any Loan that it acquires or originates, either through an affiliate or through a Lending Entity (defined below).

#### Client Acquisition of Loan Participations

A client interested in acquiring a Loan Participation in a particular Loan will be required to make a binding commitment to acquire such Loan Participation based on procedures established by AP Commercial from time to time. These commitment procedures may entail each interested client providing AP Commercial with a range of possible allocation sizes that the client is willing to accept.

AP Commercial (or an affiliate thereof) may originate or acquire Loans prior to receiving binding commitments or nonbinding indications of interest from clients. Alternatively, AP Commercial (acting on behalf of clients or itself) may arrange for the origination or acquisition of a Loan only after receiving binding commitments or nonbinding indications of interest from clients which, in the judgment of AP Commercial, indicate that sufficient demand for the Loan exists. In this case, AP Commercial may also arrange for the collection of the applicable funding or purchase amounts from the clients prior to coordinating the Loan purchase documentation and arranging for the origination or acquisition of the Loan.

In addition, AP Commercial (or an affiliate thereof) may make available for purchase by clients Loan Participations in Loans it holds that initially were originated or acquired for purposes of distribution to clients. In such situations, the Loan may initially be originated or acquired by AP Commercial (or an affiliate thereof) and subsequently the corresponding Loan Participations sold

to clients. Further, AP Commercial may make available for purchase by clients Loan Participations in only a portion of a particular Loan it holds, and the respective portions of a Loan retained by AP Commercial and made available for sale as Loan Participations may vary depending on the nature of the Loan, expected demand for the Loan, or other factors. For example, AP Commercial may offer to its clients the opportunity to purchase a Loan Participation in various tranches of a Loan it holds that is disproportionate to the interest in each tranche retained by AP Commercial or sold to other clients.

The lender of record with respect to the Loans will generally be either an affiliate of AP Commercial or an entity created for the benefit of a client or a group of clients (a “Lending Entity”).

AP Commercial may sell a Loan to a Lending Entity at a price other than the price paid by AP Commercial for the Loan. The purchase price will be determined by AP Commercial and generally will include an amount to compensate AP Commercial for the costs associated with acquiring the Loan, including estimated overhead costs and the cost of financing the Loan while it is held by AP Commercial or its affiliate pending distribution to the Members or other clients. AP Commercial generally will not sell a Loan at a price greater than fair value.

For purposes of effecting the settlement of any such transactions, a Loan may be originated or acquired by AP Commercial (or an affiliate thereof) and subsequently assigned by AP Commercial (or its affiliate) to a Lending Entity. In such situations, interests in the Loan may be transferred initially through the interim sale of a Loan Participation to the Lending Entity. In such situations, once some or all clients have acquired their respective Loan Participations from the Lending Entity, the Loan will be assigned to the relevant Lending Entity. This may result in clients temporarily holding an equivalent subparticipation interest for an interim period during the settlement process.

AP Commercial, pursuant to the applicable Advisory and Services Agreement with each managed account client and the terms of a master loan participation agreement with BancAlliance, expects to acquire for its own account a Loan Participation representing at least a 2% participation interest in the aggregate amount of each Loan acquired by its clients. As a result, BancAlliance will sell such 2% interest to an affiliate of AP Commercial (the “Affiliate Holder”) unless such requirement is waived by the clients in interest. This Loan Participation will be sold to the Affiliate Holder on the same pricing terms that apply to clients acquiring Loan Participations in the applicable Loan.

It is intended that any Lending Entity, while ultimately remaining the lender of record or record holder of all Loans underlying the corresponding Loan Participations, will not itself retain any net beneficial interest in those underlying Loans. Beneficial interests in the Loans instead will be held by the clients and by AP Commercial (or an affiliate thereof). The Lending Entity in effect will be a nominee holding only record ownership of each Loan.

### Allocations

As discussed in Item 11 under the caption “Allocation,” AP Commercial has adopted policies governing the allocation of Loans among interested clients. Pursuant to this policy (and

consistent with direction provided by the Board of Directors of BancAlliance), AP Commercial may treat demand for Loans from each managed account client individually and demand from Members as a collective allocation pool, and allocates a single amount to each managed account client and a single amount to Members collectively. Alternatively, AP Commercial may treat demand for Loans from Members and managed account clients together as one allocation pool and allocate those Loans among the managed account clients and Members. Currently, AP Commercial treats Members and managed account clients together as one allocation pool. Where significant client demand exists for a particular Loan, it is possible that individual clients (or Members as a collective) will not be allowed to acquire a Loan Participation as large as that for which they committed or, in some cases, any Loan Participation at all. AP Commercial initially does not expect its collateral management clients to participate in the Loan Program. If in the future Loans under the Loan Program are offered to collateral management clients, AP Commercial expects to follow allocation procedures that are comparable to those for AP Commercial's managed account clients.

#### Manager Discretion

Currently, AP Commercial has no discretionary authority on behalf of clients with respect to the acquisition or disposition of any Loan Participations pursuant to the Loan Program. Each client will independently evaluate and make a case-by-case, independent decision whether to accept any Loan opportunities referred to it by AP Commercial. No client will be obligated to acquire any Loan Participation.

In the future, it is possible that AP Commercial will accept managed account clients pursuant to which it may exercise discretionary investment authority. As appropriate, such authority would be described in an amendment to this Brochure and/or one or more separate Brochures.

#### ***Advisory and Other Services Provided by AP Commercial in Connection with Loan Program***

Under the applicable Advisory and Services Agreement, AP Commercial acts as the manager of the Loan Program. AP Commercial provides advisory services to managed account clients ("Managed Account Advisory Services") to assist them in evaluating Loan opportunities under the Loan Program. AP Commercial also provides administrative support to managed account clients ("Managed Account Administrative Services") with respect to the outstanding Loan Participations held by such clients. Lending Entities, such as BancAlliance, neither provide advisory services to the clients or other persons, nor receive advisory services from AP Commercial.

#### Managed Account Advisory Services

Managed Account Advisory Services consist of asset referral and related services; and credit evaluation and origination services and ongoing advisory services.

*Asset referral and related services* include: (1) developing and recommending to clients policies and procedures pertaining to specific credit asset classes, credit evaluation, portfolio management, risk rating, workouts and restructurings, and other policies related to clients' management of their Loan Participations; (2) identifying, and where appropriate, referring Loan opportunities to the clients that AP Commercial believes are consistent with the Loan Eligibility



Criteria; and (3) providing appropriate related services, including (i) delivering documents to clients with respect to Loan opportunities in a manner to facilitate each client's independent credit evaluation and decision-making, (ii) providing regular updates to clients on new Loan opportunities and the progression of previously identified Loan opportunities through AP Commercial's internal evaluative processes and (iii) providing regular analyses and updates to clients concerning overall market conditions and asset opportunities.

*Credit evaluation and origination services and ongoing advisory services* include: (1) providing due diligence, credit evaluation and documentation support to clients consistent with the Loan Eligibility Criteria, including providing upon a client's request material available information relating to a proposed obligor, the recommendation of the AP Commercial credit committee on risk ratings with respect to proposed obligors and recommendations or opinions of AP Commercial with respect to the terms and documentation of a Loan opportunity; (2) facilitating the closing and funding of approved Loans; (3) conducting periodic portfolio reviews of Loan Participations and recommending to relevant clients, where deemed appropriate by the AP Commercial credit committee, adjustments to risk ratings with respect to the applicable obligors; (4) making available to clients relevant reports and analyses with respect to a Loan or the related obligor; and (5) to the extent required by applicable bank regulatory requirements in connection with the Managed Account Advisory Services, providing required technological systems.

#### Managed Account Administrative Services

Managed Account Administrative Services consist of servicing, monitoring and other services, and reporting and examination services.

*Servicing, monitoring and other services* include: (i) effecting the acquisition of Loans in which clients have elected to acquire Loan Participations; (ii) collecting payments due to the relevant Lending Entity with respect to Loans and disbursing such payments to the clients holding the related Loan Participations; (iii) using commercially reasonable efforts to enforce the rights of the Lending Entity (and thus of relevant clients with corresponding Loan Participations) under applicable Loan documents, including provisions relating to payments and any collateral; (iv) keeping accurate records and accounts of Loan assets, the collateral and payments on such Loan assets; (v) making available to relevant clients notices, financial statements and reports of obligors that AP Commercial receives under the relevant credit documents; (vi) making commercially reasonable efforts to verify obligors' compliance with covenants, representations and warranties, and restrictions on eligible collateral under the relevant credit documents; (vii) providing relevant clients with notice of when an obligor has not paid any scheduled installment of principal or interest on a Loan, or when AP Commercial receives notice of a default or event of default under the relevant credit documents; (viii) communicating with an obligor or administrative agent under the relevant credit documents to reconcile any payment shortfalls; (ix) subject to any limitations set forth in the underlying Loan or assignment documents, exercising voting and other consensual rights under a Loan in accordance with applicable AP Commercial or client policies and any requirements of the applicable Loan Participations (including in respect of proposed waivers, amendments, workouts and other actions under the applicable credit documents); (x) maintaining or causing to be maintained back-up systems and data storage; (xi) maintaining bank accounts for or on behalf of Lending Entities that are necessary to service payments on the Loans; (xii) maintaining copies of credit documents; and (xiii) performing the

obligations of AP Commercial expressly imposed on it under written agreements with respect to particular Loans.

*Reporting and examination services* include: (i) providing clients with access to the Loan booking, accounting and monitoring system operated by AP Commercial; (ii) providing clients with periodic reporting setting forth balance information with respect to relevant Loans, including delinquency reports, payment information, exception reports and other information; (iii) furnishing any client upon request with a copy of any correspondence or notice sent or received by AP Commercial related to the collection or termination of a Loan in which the client holds a Loan Participation; (iv) furnishing any client upon request with copies of all statements and other correspondence or notices sent to any relevant obligor; and (v) cooperating with client's internal and external auditors and regulatory authorities having jurisdiction over such client, and exchanging information as reasonably requested by individuals responsible for such client's operations, systems and technology, legal affairs and compliance programs.

### ***Collateral Management Services***

AP Commercial intends to provide collateral management and related services to both Warehouses and CLOs. AP Commercial expects to initially act as the collateral manager to a Warehouse. This Warehouse may eventually be securitized in the form of a CLO if the loan pool in the Warehouse reaches a sufficient size and diversity level. Warehouses or CLOs for which AP Commercial acts as collateral manager may source Loans through a third-party contractual loan purchase program or through the Loan Program.

### **Contractual Loan Purchase Programs**

Prior to commencing an advisory relationship with AP Commercial, collateral management clients may enter into contractual loan purchase programs with financial institutions pursuant to which the client typically commits to purchase Loans for itself or on behalf of a permitted purchaser, and is required to purchase a minimum amount of each Loan offered under the program that meets pre-determined eligibility criteria. In such situations, AP Commercial, as Collateral Manager, will be contractually obligated to purchase such Loans on behalf of the collateral management client.

### **The Loan Program**

Alternatively, collateral management clients that enter into an advisory relationship with AP Commercial may participate in the Loan Program. Under the Loan Program, AP Commercial would identify, review and/or, in appropriate cases, refer to its collateral management clients, opportunities to acquire Loans that AP Commercial believes initially satisfy the eligibility criteria for the applicable collateral management client.

### **Allocations**

As discussed in Item 11 under the caption "Allocation," AP Commercial has adopted policies governing the allocation of Loans among interested clients. If collateral management clients participate in the Loan Program, AP Commercial expects to follow allocation procedures that are comparable to those described above for AP Commercial's managed account clients.

AP Commercial will not have discretion to allocate Loan Participations that are available to collateral management clients under third-party contractual loan purchase programs to managed account clients or Members; however, interests in the same Loans may be available to managed account clients and Members through AP Commercial's Loan Program, if the Loans meet the Loan Eligibility Criteria.

#### Manager Discretion

AP Commercial expects that for its initial collateral management client it will not have discretionary authority with respect to the acquisition of any Loans, but that it will have limited discretion under the Collateral Management Agreement to dispose of Loans on behalf of the client, typically for credit reasons. As discussed above, the initial collateral management client will enter into a third-party contractual loan purchase program pursuant to which AP Commercial, as Collateral Manager, will be obligated to purchase Loans that meet pre-determined eligibility criteria on behalf of the collateral management client. For future collateral management clients, AP Commercial expects that it will have discretionary authority to acquire or dispose of Loans on their behalf and that such clients may participate in a third-party contractual loan purchase program or the Loan Program, or obtain Loans from other sources.

#### ***Advisory and Other Services Provided by AP Commercial in Connection with Collateral Management***

Pursuant to the terms of a Collateral Management Agreement, AP Commercial will act as the collateral manager and servicing agent of a Warehouse or CLO. AP Commercial will provide advisory services to assist these collateral management clients in evaluating Loans under the applicable loan sourcing agreement and administrative services with respect to the Loans held by such clients, referred to as the "collateral".

AP Commercial's duties as Collateral Manager will include certain collateral management functions and related services, including directing and supervising the investment and reinvestment of Loans and short-term investments, servicing the collateral, enforcing the client's rights and remedies in, to and under the collateral and performing certain administrative functions on behalf of the client delegated to AP Commercial under the Collateral Management Agreement and the governing documents of the collateral management client.

### **C. Availability of Customized Services**

#### Managed Account Clients

As described in Item 4.B, a key feature of the Loan Program is that clients make their own decisions whether or not to acquire a Loan Participation in respect of any particular Loan opportunity referred by AP Commercial, with the result that each client controls both its exposure to specific Loans and the size of the Loan Participation portfolio it develops through participation in the Loan Program.

Following approval by the AP Commercial credit committee, AP Commercial will refer each Loan opportunity that it believes meets the applicable Loan Eligibility Criteria to all eligible clients in good standing with AP Commercial that are participating in the Loan Program. Clients

may have varying Loan Eligibility Criteria. AP Commercial provides clients generally with information and credit analysis concerning each Loan opportunity, as well as due diligence and documentation support. Also, as noted in Item 4.B, AP Commercial may provide to specific clients, upon request, material available information relating to a proposed obligor, the AP Commercial credit committee's recommendation and preliminary analysis on risk ratings with respect to a prospective obligor, and recommendations or opinions of AP Commercial with respect to the terms and documentation of a Loan opportunity.

#### Collateral Management Clients

As described in Item 4.B, as Collateral Manager, AP Commercial generally will be required to acquire or dispose of Loans on behalf of a client that satisfy specific investment criteria set out in the documents governing the Warehouse or CLO and the Collateral Management Agreement. The terms of AP Commercial's management, including the loan eligibility criteria applicable to a particular collateral management client, will be individually negotiated.

#### **D. Wrap Fee Programs**

Not applicable.

#### **E. Client Assets**

AP Commercial manages approximately \$630 million of assets, calculated as of November 30, 2013. These assets consist of the aggregate value of Loan assets underwritten or managed by AP Commercial for Members, managed account clients and collateral management clients on a non-discretionary basis and its proprietary assets.

### **ITEM 5: FEES AND COMPENSATION**

#### **A. Fees and Compensation**

##### Managed Account Clients

Managed account clients will typically be obligated to pay AP Commercial certain fees pursuant to the applicable Advisory and Services Agreement, including fees associated with the purchase of specific Loan Participations ("Loan Participation Fees").

It is generally expected that each client will pay to AP Commercial a Loan Participation Fee that is a percentage (the applicable percentage, the "Loan Fee Rate") of the average daily outstanding principal amount of each Loan Participation held by such client. To the extent there are servicing fees associated with the Loan that are payable by AP Commercial, the Loan Participation Fee typically will not include such fees.

The Loan Fee Rate applicable to a particular Loan Participation is based on various factors, including the projected yield over a target LIBOR rate (such excess, the "Spread Rate") of that Loan Participation, as determined by AP Commercial at the time the underlying Loan is acquired by the client. The per annum Loan Fee Rates applicable to various ranges of Spread Rates, the methodology used in determining a Spread Rate, any applicable discounts and fees associated

with revolving lines of credit are set forth in the applicable and current Advisory and Services Agreement.

It is generally expected that the Loan Fee Rate, once determined, will not be adjusted (except as may reflect a correction to an error in the calculation of a Loan Fee Rate). In certain circumstances, however, AP Commercial may request that clients prospectively change the Loan Fee Rate.

#### Collateral Management Clients

As compensation for its service as Collateral Manager, AP Commercial typically will receive a per annum collateral management fee between 0.20% and 0.50%, as applicable, of the net assets of each CLO or Warehouse (the “Collateral Management Fees”).

### **B. Payment of Fees**

#### Managed Account Clients

Loan Participation Fees typically are payable by clients on a current basis. In general, AP Commercial is authorized to collect Loan Participation Fees and other cost and expense obligations due from each client either by separate invoice or, for operational convenience, by withholding the required amount(s) from principal, interest or other payments otherwise due to such client under the relevant Loan Participations.

#### Collateral Management Clients

Collateral Management Fees typically are paid by the client’s custodian or trustee, as applicable, quarterly in arrears, in accordance with the Warehouse’s or the CLO’s governing documents.

### **C. Additional Fees and Expenses**

Subject to certain limitations, managed account clients are obligated to pay for all costs and expenses incurred by AP Commercial in connection with such client’s participation in the Loan Program.

Collateral management clients generally pay all reasonable expenses of the Collateral Manager incurred by it in performance of its obligations under the Collateral Management Agreement and the governing documents of the relevant Warehouse or CLO.

Clients bear their pro rata shares of Loan-related expenses incurred by AP Commercial.

See Item 12 for further discussion with respect to fees associated with brokerage practices.

### **D. Prepayment of Fees**

Please see the responses to Items 5.A and 5.B above.

### **E. Additional Compensation**

Not applicable.

**ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

AP Commercial does not charge clients performance-based fees in connection with the Loan Program; rather, as described in Item 5 above, AP Commercial charges each client a fee based on the average daily outstanding principal amount of each Loan asset held by the client.

AP does not charge collateral management clients performance-based fees. As discussed in Item 5 above, AP Commercial charges Collateral Management Fees, which are based on a percentage of the net assets of each Warehouse or CLO.

**ITEM 7: TYPES OF CLIENTS**

As discussed in Item 4 above, AP Commercial's clients consist of managed account clients, collateral management clients and Members.

Each prospective client must be approved and accepted by AP Commercial in its sole discretion.

The terms of AP Commercial's provision of advisory services to clients may vary depending on the type of services provided or the type of client, and are set forth in the applicable advisory services contract and related agreements, to which AP Commercial is a party.

**ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

**A. Methods of Analysis and Investment Strategies Used in Formulating Investment Advice or Managing Assets**

The description that follows describes AP Commercial's methods of analysis and investment strategies used in formulating investment advice or managing assets in connection with managed account clients' participation in the Loan Program. These methods and strategies would also apply in all material respects to a collateral management client that chooses to source its Loans from the Loan Program. AP Commercial will apply the methods and strategies described below for collateral management clients that source their Loans through third-party contractual loan purchase programs to the extent they are compatible with the restrictions on investment set forth in the governing documents of the collateral management client and the Collateral Management Agreement.

Asset Classes

Loan opportunities referred by AP Commercial to clients are expected to consist generally of commercial and consumer lending opportunities, including capital leases. AP Commercial expects that commercial Loans will generally be senior secured loans and that Loans acquired on the secondary market will be acquired at par or near-par value. Clients are generally expected to hold their acquired Loan Participations until the maturity or repayment of the underlying Loans.

Loan opportunities may relate to a variety of loan-related asset classes, including, without limitation, the following:

- (i) *Asset-based loans*, which are a type of loan extended based on the liquidation value of underlying collateral and the quality of the borrower's business model, typically featuring a first-lien security interest and collateral-control mechanisms;
- (ii) *Senior secured term loans/leveraged loans*, consisting of relatively low-leverage, senior priority, cash flow-based loans that are secured by the assets of the borrower and associated revolving lines of credit;
- (iii) *Equipment finance loans and leases*, generally involving mid- to large-ticket equipment finance with national and/or captive originators with typical borrower EBITDA of \$25 million to \$1 billion;
- (iv) *Healthcare Finance Loans*, consisting of senior secured loans to healthcare providers that are supported by real estate assets and/or the operating cash flow of the borrowers; and
- (v) *Consumer loans*, generally involving secured and unsecured extensions of credit to consumers.

It is expected that the Loan Eligibility Criteria will change over time, in response to macroeconomic or market conditions, developments in particular borrower sectors, the nature, preferences and number of clients, perceived opportunities and relative risk-adjusted expected returns, demonstrated patterns of client interest in exposure to certain asset categories, potential risk concentration on the part of clients, and other factors.

#### Methods of Analysis and Loan Approval Process

##### *Sourcing of Potential Loan Opportunities*

To identify potential Loan opportunities, AP Commercial relies primarily on internal professionals. AP Commercial screens potential Loan opportunities based on the then-applicable Loan Eligibility Criteria. AP Commercial personnel also may consider various factors relating to a prospective Loan, including, among others, financial measures, company management, borrower capital structure, loan structure, loan size, loan collateral, pricing, yield and sector weightings, industry characteristics and geographic considerations.

Loan sourcing may occur through a variety of channels, including direct origination, joint origination (i.e., "clubbing") arrangements, secondary market dealers and/or syndication agents.

Loans may also be sourced through exclusive or non-exclusive contractual programs between AP Commercial and lenders. Under these programs, AP Commercial typically commits to purchase Loans for itself and/or for the applicable Lending Entity or other permitted purchaser, and is required to purchase a minimum amount of each Loan offered under the program that meets pre-determined eligibility criteria. The loan criteria under such programs are expected to be consistent with the Loan Eligibility Criteria. The loan volume commitment may be shared with other purchasers (including affiliates of AP Commercial) for whom AP Commercial or another affiliate of Alliance Partners serves as investment adviser.

### *Initial Asset Profile*

AP Commercial's professionals typically create an "initial asset profile," or IAP, for each potential Loan opportunity (or, for Loans that involve a programmatic approach such as consumer lending, for each Loan Program opportunity). The IAP, to be prepared prior to AP Commercial's performance of more extensive credit analysis and due diligence, is intended to be a brief, high-level review of each potential Loan opportunity that AP Commercial has concluded warrants further consideration. IAPs are available for all eligible clients to review via an electronic portal maintained by AP Commercial for the benefit of clients (the "Client Portal").

### *Credit Analysis and Due Diligence*

In developing its credit analysis, AP Commercial reviews information provided by the borrower and/or any financial institution(s) arranging the loan in question. AP Commercial may perform fundamental credit research and may consider quantitative and/or qualitative factors concerning the prospective borrower or other obligor. Examples of factors considered may include corporate capital structure, operating and revenue trends, cash flow consistency, collateral analysis, financial covenants, debt maturities and liquidity, as well as management quality, competitive position within the industry, the presence of equity sponsors, business fundamentals and legal structure.

To the extent AP Commercial believes a prospective Loan opportunity merits further consideration, AP Commercial conducts a due diligence process with respect to that opportunity. The due diligence process may evaluate, among other things, the prospective obligor's market position within its operating sector, dependence on access to the capital markets to fund ongoing operations, management quality, the liquidation value of underlying assets in the case of collateralized credits and/or the obligor's competitive environment. Depending on circumstances, AP Commercial may conduct due diligence through any one or more of the following activities: management meetings; review of the borrower's financial information; collateral appraisals; review of publicly available information, including industry or company specific reports published by external financial analysts, SEC filings and company reports, media sources, and subscription services; review of materials from and discussions with research analysts and other sources; review of documents in "data rooms;" background checks on management; and/or bank meetings and review of information provided by the loan arranger or agent.

### *Credit Memorandum and Credit Committee Approval*

Upon completion of the analytical and due diligence process described above, the AP Commercial professionals responsible for a particular potential Loan opportunity will prepare a credit memorandum and present it to the AP Commercial credit committee. The credit memorandum will be available for client review via the Client Portal. The AP Commercial credit committee may confer with the internal loan and credit professionals who prepared the credit memorandum, and may request further analysis and/or due diligence before deciding whether or not the prospective Loan opportunity should be referred to eligible clients. A Loan opportunity will not be referred to clients for their independent approval and commitment unless and until the AP Commercial credit committee has approved the referral.



## Independent Client Credit and Funding Decisions

Pursuant to the Loan Program, each client must conduct its own independent analysis and make its own independent credit decision concerning whether or not to purchase any particular Loan asset. No client will be obligated to approve any Loan opportunity referred to it by AP Commercial or to acquire portfolio exposure to any particular Loan.

\* \* \* \* \*

*This Brochure's descriptions of specific advisory services that AP Commercial offers to clients in connection with the Loan Program and of Loan opportunities that AP Commercial expects to refer to clients, should not be understood to limit in any way AP Commercial's future advisory activities. Subject to the terms of its contractual obligations to existing clients, AP Commercial may offer any advisory services it considers appropriate, whether concerning assets similar to or differing from the types that are the subject of the Loan Program, whether pursuant to the Loan Program or otherwise, whether to existing or future clients, and whether or not described in this version of the Brochure.*

*The Loan opportunities that AP Commercial refers to clients may entail substantial risks and a client's decision to acquire portfolio exposure to any particular Loan has the possibility of resulting in a substantial loss of capital by the client. There can be no assurance that any client will achieve its return objectives.*

\* \* \* \* \*

## **B, C. Certain Risks**

Acquisition of Loan assets in connection with the Loan Program, a third-party contractual loan purchase program, or a Warehouse or CLO involves a substantial degree of risk. The following risk factors do not purport to be a complete list or explanation of the risks involved with the acquisition of Loan assets or the activities of AP Commercial. For example, they may not address risks associated with certain credit instrument types and certain market risks.

### ***Asset-Related Risks***

*The asset-acquisition opportunities that AP Commercial provides to clients are subject to a variety of general risks. The Loan opportunities referred by AP Commercial (or the counterparty to a contractual loan purchase program, if applicable), even to the extent they consist of senior obligations acquired at par or near par value, may have economic risks as a result of business, financial, market or legal uncertainties. There can be no assurance that AP Commercial (or the counterparty to a contractual loan purchase program, if applicable) (in deciding to refer a Loan opportunity) or a client (in deciding to acquire portfolio exposure to a Loan) will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on a Loan. A variety of factors that are inherently difficult to predict, such as macroeconomic, political or market developments or uncertainties, as well as obligor- or Loan-specific factors (including the size, financial resources and competitive strength of the borrower), may significantly affect the performance of a Loan. In addition, AP Commercial's ability to conduct the Loan Program or otherwise provide asset-acquisition opportunities to clients as currently*

contemplated may be affected by changes in laws or regulations (including laws or regulations relating to securities, banking activities and/or taxation).

*The performance of one or more particular Loans may not be indicative of how a client's entire portfolio will perform.* The performance of a client's portfolio of Loan assets over a particular period is not necessarily indicative of the results that may be expected in future periods. Nor should the performance of any particular client's portfolio of Loan assets be expected to match the performance of any other client's portfolio, given that the composition of each client's portfolio will be the result of (i) that client's individual decisions about specific Loans in which to participate (including pursuant to the terms of a contractual loan purchase program, if applicable) and (ii) the allocations of Loans and Loan Participations among clients. Differences in the composition of clients' respective portfolios also will arise due to the fact that any entity that becomes a managed account client (or a collateral management client participating in the Loan Program) has the opportunity to acquire only Loan Participations that AP Commercial thereafter refers, while collateral management clients may be required to only acquire Loans or Loan Participations made available under a third-party contractual loan purchase program.

*A client may incur losses on its Loan interests.* The performance of a client's portfolio of Loan interests will be affected by, among other things, (i) the amount and timing of payments with respect to interest and principal of the underlying Loans (whether through sale, maturity, prepayment, redemption, default or other liquidation or disposition), (ii) the financial condition of the borrowers and (iii) the characteristics of the Loans, including the existence and timing of exercise of any optional or mandatory redemption or repayment features (including applicable redemption or repayment prices), the prevailing level of interest rates, and any actual defaults and the level and timing of recoveries with respect to the Loans. Any of the above factors may be exacerbated, and the performance of Loan interests adversely affected, by macroeconomic factors, including general economic conditions affecting capital markets and their participants (such as the borrowers on the underlying Loans). These macroeconomic factors may include (i) economic downturns and uncertainties affecting specific markets or economies and capital markets worldwide, (ii) the effects of, and disruptions and uncertainties resulting from military conflicts, incidents of terrorism and similar events, (iii) concerns about financial performance, accounting and other issues relating to various companies and (iv) recent and proposed changes in accounting and financial reporting standards.

*The risk profile of a Loan may increase due to post-funding developments.* It is possible that holders of Loan assets will experience missed and late payments of interest or principal, failures by borrowers to comply with covenants in their loan agreements and borrower performance below what AP Commercial or the relevant holders expected at the time the underlying Loan was acquired or originated. Any of the events described in the preceding sentence may be an indication that a client's risk of loss with respect to a particular underlying Loan has materially increased. Moreover, the value of a Loan may decline for other reasons that are not possible to predict. None of AP Commercial or any other person can provide any assurance as to the performance or repayment of any Loan.

*Loans may become non-performing; clients' ability to give voting instructions to the Lending Entity may be limited.* Loans may become non-performing for a variety of reasons. Non-performing Loans may require workout negotiations or restructurings that may entail, among

other things, a reduction in the interest rate, a write-down of principal and/or deferral of payments, any of which could adversely affect the holder of a related Loan interest. Furthermore, the obligor or relevant guarantor may be in bankruptcy or liquidation, which would entail risks relating to contested matters, adversary proceedings and other developments beyond the control of creditors. In a borrower's bankruptcy proceeding, holders of Loan Participations normally would not have a direct claim against the borrower, but would have to rely on the Lending Entity, as the lender of record under the relevant credit agreement, to prosecute claims against the borrower.

Although the Lending Entity may exercise voting rights with respect to an individual Loan on behalf of the relevant clients, there can be no certainty that such Lending Entity will be able to exercise a sufficient percentage of voting rights to affect the outcome of such vote. Further, for Loans acquired under certain contractual programs, the Lending Entity's voting rights may be limited to matters requiring the consent of all lenders (normally, changes in principal, interest rate, maturity, and/or certain material changes to collateral). Consequently, clients holding Loan Participations in such loans would only be permitted to give voting instructions to the Lending Entity on such limited matters. In all other matters that require a vote of lenders, the counterparty to AP Commercial or a collateral management client under the contractual program may retain discretion to vote the interest in the Loan held by the applicable Lending Entity. Please see Item 17 for further information about AP Commercial's policies regarding voting in respect of Loans.

*Collateralized loans entail risks in foreclosure.* Even if a Loan is secured by collateral, holders of the related Loan interest may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each critically important. AP Commercial cannot guarantee that collateral or other creditor's rights will be adequate to protect a client's interests. Nor can AP Commercial assure clients that claims may not be asserted that might interfere with enforcement of creditors' rights. In the event of a foreclosure, the liquidation proceeds upon the sale of collateral may not satisfy the entire outstanding balance of principal and interest on the Loan, resulting in a loss to the holders of related Loan assets. Any costs or delays involved in effectuating a foreclosure of the Loan or a liquidation of the underlying collateral will further reduce the proceeds and thus increase the loss.

*The judicial theory of "lender liability" may expose clients to legal risks.* In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. AP Commercial cannot assure holders of Loan interests that lender liability claims will not be made against them or that holders will not be subject to significant liability if a claim of this type is made.

### ***Risks Relating to AP Commercial's Performance***

*AP Commercial's due diligence and credit approval processes may fail properly to identify or evaluate all material information relating to a Loan.* Credit analysis and due diligence are inherently complex and subjective. There is no assurance that AP Commercial's procedures for obtaining and evaluating the information necessary to decide whether a prospective Loan opportunity should be referred to clients will identify all material risks and other relevant factors relating to any particular Loan.

*AP Commercial is exposed to operational risks, including the risk of systems failure and the risk of employee fraud.* The commercial finance industry is highly dependent on communications and information systems and is exposed to many types of operational risk, including the risk of fraud by employees or other parties, record-keeping errors, errors resulting from faulty computer or telecommunication systems, computer failure, and damage to computer and telecommunication systems caused by internal or external events. Any of these events could have a material and adverse effect on AP Commercial's clients.

*AP Commercial is reliant upon proper staffing and key personnel.* AP Commercial must employ and retain management and skilled staff to provide the key services contemplated under the Loan Program and any Collateral Management Agreements. The failure to employ and retain sufficient numbers of appropriately skilled management and staff could delay, prevent or negatively affect the provision of AP Commercial's services. AP Commercial is particularly dependent upon the efforts, experience, contacts and skills of its senior management team. The loss of any such individual could have a material adverse effect on AP Commercial or the quality of services provided pursuant to the Loan Program, and such loss could occur at any time due to resignation, death, disability or other reasons.

*AP Commercial and/or the operation of the Loan Program could be subject to banking-related regulation.* Financial services institutions operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations, as well as supervision, examination and enforcement by regulatory authorities at various governmental levels. While none of AP Commercial and their affiliates is expected to be a bank or a bank holding company, it is possible that, as a result of the nature of services provided under the Loan Program, they will be subject to supervision by federal or state bank regulatory authorities with jurisdiction over one or more clients. Failure to comply with any applicable U.S. federal or state banking laws, rules or regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of material adverse consequences to AP Commercial and/or the operation of the Loan Program, including civil penalties, fines, suspension or expulsion, and termination of deposit insurance.

U.S. federal and state banking laws and regulations can and do change significantly from time to time, and may be changed in ways that could have a material adverse impact upon the business plans of AP Commercial or the appropriateness of the Loan Program for certain clients. For example, capital requirements may be increased, or permissible lending may be limited. Insured financial institutions also undergo periodic examinations by one or more regulatory agencies, which may subject them to changes in asset valuations, in amounts of required loan and lease loss allowances and in operating restrictions resulting from the regulators' judgments based on information available to them at the time of their examination. AP Commercial can give no assurance that applicable laws, regulations and regulatory guidance or responsible bank

examiners will be favorably disposed to the Loan Program, and a negative view of the Loan Program on the part of bank regulators could materially adversely affect the ability of AP Commercial to offer or continue the Loan Program as currently contemplated.

*AP Commercial may have potential or actual conflicts of interest.* AP Commercial may have potential or actual conflicts of interests relating to its provision of services to clients. AP Commercial provides advisory and other services to managed account clients, collateral management clients and Members, and may provide such services to other clients, including members of membership-based organizations substantially similar to BancAlliance. Further, AP Commercial has acquired, and intends to continue to acquire, Loans for its own account. These potential or actual conflicts could relate to, among other possible matters: allocations of Loan opportunities; AP Commercial's provision of advisory services to other clients; AP Commercial's recommendation of Loans it is obligated to purchase under contractual programs and/or AP Commercial's devotion of time to pursuing advisory or other activities on behalf of other clients. While AP Commercial has adopted and intends to adhere to policies and procedures designed to identify and mitigate such potential or actual conflicts, it is possible that AP Commercial's conflict-mitigation efforts will not eliminate all potential negative effects on clients. Please see Items 10 and 11 below.

*Clients have a limited basis for evaluating the Loan Program and AP Commercial's performance as an adviser.* AP Commercial has been in operation since June 2011. This limits clients' ability to evaluate the Loan Program or AP Commercial's activities as an adviser, which involves the provision of asset identification, credit analysis and other advisory and administrative services.

*It may prove difficult for AP Commercial to identify and source a sufficient quantity of appropriate Loan opportunities.* AP Commercial expects to encounter competition from other lenders and finance providers as it attempts to acquire or originate Loans. There is no assurance that AP Commercial will be able to provide clients with credit opportunities of a quality, type or quantity that will satisfy their objectives under the Loan Program. It is possible that competition for appropriate credit opportunities may increase, thus reducing the number or adversely affecting the terms of Loan opportunities. There can be no assurance that AP Commercial will be able to identify or make available Loan opportunities satisfying the Loan Eligibility Criteria or that such opportunities will satisfy the rate of return objectives of AP Commercial's clients.

### ***Risks Related to the Loan Program and Third-Party Contractual Loan Purchase Programs***

*AP Commercial's clients may be exposed to nonpublic information about borrowers, which may limit clients' ability to trade in Loan interests or securities or other instruments issued by those borrowers.* The flow of Loan- and borrower-related information that AP Commercial makes available to clients may include material nonpublic information or otherwise confidential information about the companies that are the borrowers under or obligors on the Loans. As a result, clients may be restricted, potentially for significant periods of time, from trading in certain instruments, including Loan interests or securities or other instruments issued by such borrowers.

*In the event of AP Commercial's bankruptcy (or of its affiliate), creditors might challenge the "true sale" nature of Loan Participations granted by AP Commercial (or its affiliate).* AP

Commercial intends that its grants of Loan Participations to AP Commercial's clients will be respected as "true sales" for purposes of U.S. bankruptcy law. If AP Commercial entered bankruptcy and a court found any Loan Participations not to be true sales, such Loan Participations would be the property of AP Commercial rather than of AP Commercial's clients and the Loan Participations potentially could be available to satisfy claims against AP Commercial by AP Commercial's creditors. Further, in the event of AP Commercial's bankruptcy, a holder of a Loan Participation may face procedural or other obstacles if it seeks to take control of the related Loan and Loan proceeds from AP Commercial.

*AP Commercial's advisory services with respect to the Loan Program are non-discretionary, which means that clients remain fully responsible for their own Loan evaluations, credit analyses and asset acquisition decisions.* AP Commercial performs due diligence and credit analysis with respect to each prospective Loan opportunity, and any prospective Loan opportunity must be approved by the AP Commercial credit committee before it is referred to clients. Nonetheless, each client is ultimately responsible for its own decision whether or not to acquire any particular Loan interest. Accordingly, the quality of a client's own credit and risk evaluation capabilities will be critical, and analytical misjudgments or inadequacies on a client's part may expose it to unanticipated risk or loss on one or more Loan interests. This risk may be exacerbated to the extent a client is acquiring Loan interests in types of credit assets with which it has limited or no previous experience. **AP Commercial does not guarantee or make any assurances as to the performance of or economic returns to be realized in respect of any Loan or other credit asset, or as to whether the economic returns on any Loan or other credit asset will be sufficient to repay the amounts owed to any client in respect thereof.**

*When purchasing Loan Participations, a client assumes the credit risk associated with the corporate borrower and may only be able to enforce its rights through the lender.* Clients may acquire interests in Loans indirectly by purchasing a Loan Participation through the Loan Program or a third-party selling institution. Holders of Loan Participations are subject to additional risks not applicable to a holder of a direct interest in a Loan. Participations in a selling institution's portion of a Loan typically result in a contractual relationship only with such selling institution, not with the borrower. In the case of a Loan Participation, the client will generally have the right to receive payments of principal, interest and any fees to which it is entitled only from the institution selling such Loan Participation and only upon receipt by such selling institution of such payments from the borrower. By holding a Loan Participation in a Loan, clients generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set off against the borrower, and may not directly benefit from the collateral supporting the Loan in which it has purchased the Loan Participation. As a result, the client may assume the credit risk of both the borrower and the selling institution, which will remain the legal owner of record of the applicable Loan.

## **ITEM 9: DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of AP Commercial's advisory business or the integrity of AP Commercial's management.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. Broker-Dealer Registration Status**

Not applicable.

### **B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status**

Not applicable.

### **C. Material Relationships or Arrangements with Related Persons who are Industry Participants**

#### *Congressional Bank*

AP Commercial may be deemed to be under the control of each of Mr. John Delaney and Mr. Jason Fish by virtue of their membership on AP Commercial's Board of Directors. Mr. Delaney is not an employee of AP Commercial and Mr. Fish is a part-time employee of AP Commercial. By virtue of its relationships with Mr. Delaney and Mr. Fish, one financial industry participant may be deemed to be under common control with AP Commercial. Mr. Delaney and Mr. Fish have material ownership interests in Congressional Bank, a community bank headquartered in Bethesda, Maryland. Mr. Delaney is co-chairman and Mr. Fish is a director of Congressional Bank. Mr. Delaney's and Mr. Fish's responsibilities with Congressional Bank could require them to devote material professional time that otherwise might be spent pursuing their responsibilities at AP Commercial.

AP Commercial's senior management personnel generally are required only to devote so much of their time to providing services to AP Commercial's clients as is reasonably necessary in good faith.

In addition, Congressional Bank is a Member of BancAlliance and a participant in the Loan Program, and is thus a client of AP Commercial. While this fact gives rise to the appearance of potential conflicts of interest with AP Commercial's other clients, the AP Commercial policies by which Loan opportunities are identified, underwritten and allocated to Members of BancAlliance mitigate the risk of any actual conflicts.

#### *Contractual Loan Purchase Programs*

AP Commercial has a contractual loan purchase program with a financial institution pursuant to which AP Commercial commits to purchase Loans for itself and/or on behalf of the applicable Lending Entity or other permitted purchaser. AP Commercial is required to purchase a minimum amount of each Loan offered under the program that meets pre-determined eligibility criteria. If clients do not purchase Loan Participations in any such Loans recommended by AP Commercial, AP Commercial or its affiliates remain contractually obligated to purchase such Loans. Accordingly, AP Commercial may have an incentive to recommend to its clients a Loan, or tranches or portions thereof, sourced under such contractual program to avoid having to hold the

Loan (or such tranches or portions) itself. However, any Loan opportunity must satisfy applicable Loan Eligibility Criteria before AP Commercial will refer it to clients.

#### *Resolving Conflicts Related to Overlapping Credit Opportunities*

Loan Participations in Loans that are available to collateral management clients under third-party contractual loan purchase programs may also be available to managed account clients and Members through AP Commercial's Loan Program, if the Loans meet the Loan Eligibility Criteria. AP Commercial's decision to offer such Loan Participations to clients, or once acquired, to recommend disposition in whole or in part of such Loan Participations to clients, will be made in accordance with AP Commercial's code of ethics, allocation policies and Loan Eligibility Criteria.

#### **D. Material Conflicts of Interest Relating to Other Investment Advisers**

Not applicable.

#### **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

##### Code of Ethics

In accordance with Rule 204A-1 under the Investment Advisers Act of 1940 (the "Advisers Act"), AP Commercial has adopted a code of ethics (the "Code of Ethics"). The Code of Ethics establishes standards of business conduct that all AP Commercial Personnel (defined to include any managing member, partner or employee of AP Commercial and any person who provides investment advice or support on behalf of AP Commercial and is under AP Commercial's direct or indirect supervision or control) must follow.

The Code of Ethics is predicated on the principle that AP Commercial owes a fiduciary duty to its clients. Accordingly, the Code of Ethics provides that at all times, AP Commercial Personnel must: avoid placing the interests of AP Commercial, its affiliates and AP Commercial Personnel ahead of client interests; help AP Commercial to identify and disclose to clients, when appropriate, potential and actual conflicts; adhere to the personal investing standards set forth in the Code of Ethics; avoid taking advantage of their position to the detriment of clients; maintain the integrity and independence of AP Commercial's advisory process; and maintain full compliance with applicable laws, including the Advisers Act.

In addition to the elements required by Rule 204A-1, the Code of Ethics includes, among other provisions, restrictions that prohibit AP Commercial Personnel from trading certain instruments for their personal accounts without first obtaining pre-clearance, serving on the boards of directors of any outside companies except with the approval of the Chief Compliance Officer of AP Commercial, or receiving or offering gifts or entertainment worth a substantial monetary value from or to persons doing business with AP Commercial.

The Code of Ethics states that AP Commercial will provide a copy thereof to all AP Commercial Personnel, with a requirement that they provide to AP Commercial a written acknowledgment



that they have received the Code of Ethics. Clients or prospective clients may obtain a copy of AP Commercial's code of ethics upon request by contacting AP Commercial.

### Conflicts of Interest Generally

AP Commercial and its affiliates at times may have potential or actual conflicts of interest with respect to AP Commercial's clients and their holdings. These conflicts of interest may be between or among clients or between AP Commercial and its clients. AP Commercial anticipates that it will resolve potential or actual conflicts of interest without input from disinterested third parties. AP Commercial has adopted policies and procedures designed to make sure any such conflicts are resolved in an equitable manner.

While AP Commercial currently provides advisory services to clients in connection with the Loan Program, in the future AP Commercial may provide other advisory services, whether discretionary or non-discretionary, to other clients, including collateral management clients that are subject to third-party contractual loan purchase programs. Such clients may have lending or investment programs that are different from, are similar to or overlap with the activities of managed account clients, Members and other collateral management clients under the Loan Program. AP Commercial and its affiliates may have conflicts of interest in allocating their time and resources with respect to the Loan Program or collateral management responsibilities among varying clients. Moreover, AP Commercial may seek to provide advisory services in addition to the Loan Program and collateral management. AP Commercial may charge clients different management fees and incentive fees and/or allocations due to circumstances such as different contractual rates.

AP Commercial's current or future clients may have similar or overlapping lending or investment strategies and parameters; their lending or investment programs are likely to differ due to, among other reasons, various lending or investment restrictions and types of investors. AP Commercial may give advice, provide services or take action with respect to one or more clients that may differ from the advice given, services provided or the timing or nature of action taken with respect to other clients. The lending opportunities or portfolio strategies that AP Commercial may use for one or more clients could conflict with the transactions and strategies made available or employed by AP Commercial in providing advisory services to other clients and could affect the prices and availability of the loans and other financial instruments that those clients acquire or hold.

AP Commercial's current or future clients may have conflicting interests with respect to their holdings, including with respect to performance, liquidity, timing, taxes and other objectives. The conflicting interests of individual clients may relate to, or arise from, among other things, the nature of credit extensions or investments made by clients, the structuring or the acquisition of credit extensions or investments and the timing of disposition of credit extensions or investments. For example, certain clients may from time to time be selling loan positions or other holdings that other clients may continue to hold and/or purchase. AP Commercial may refer to certain clients opportunities to purchase different classes of debt or equity of the same issuer or borrowers. These and other investments may be deemed to create conflicts of interest, particularly because AP Commercial may take certain actions for some clients that may have an adverse effect on other clients (including in connection with restructuring and reorganization

situations). Such conflicts also may arise, without limitation, with respect to the nature or structuring of credit extensions or investments that may be more beneficial for one or more clients than for other clients. Performance results may vary, perhaps substantially, among clients.

To address these potential conflicts of interests in its material relationships, AP Commercial has adopted policies and procedures, including the Code of Ethics and allocation and voting policies.

#### Cross-Trades

AP Commercial currently does not have discretion to cause purchases or sales of Loan Participations, including transfers of any previously acquired Loan Participation, on the part of clients. Accordingly, AP Commercial does not expect to engage in “cross-trades” in connection with the Loan Program.

From time to time, AP Commercial may be alerted by a client that it desires to reduce or eliminate its exposure to a particular Loan. Additionally, AP Commercial may have limited discretion under the applicable Collateral Management Agreement to dispose of Loans on behalf of a collateral management client. AP Commercial may identify one or more other clients or other parties who may be interested in obtaining the relevant Loan interest. AP Commercial will not provide advice regarding any such transfer, nor will AP Commercial exercise any discretion over any client’s decision as to whether or not to acquire a Loan interest from another client. AP Commercial does not expect to receive any separate compensation in connection with any transfers of Loan interests by clients.

In the event of a transaction between client accounts, AP Commercial will disclose its role in the transaction and obtain client consents, as appropriate. Any principal transaction will be conducted in accordance with the procedure below under the caption “– Principal Trades.”

#### Principal Trades

AP Commercial and its affiliates may acquire Loans or Loan Participations in Loans which subsequently will be made available for purchase by clients. Clients may acquire such Loans or Loan Participations directly from AP Commercial (or an affiliate thereof) or from a Lending Entity. AP Commercial may sell a Loan to a Lending Entity at a price other than the price paid by AP Commercial for the Loan. In the event that a client acquires a Loan Participation from a Lending Entity, the Loan or Loan Participation held by AP Commercial (or its affiliate) will be transferred by assignment of a participation interest to the Lending Entity, in part or in full, and an offsetting Loan Participation will be sold by the Lending Entity to the client. The two contemporaneous transactions will be at the same price, which will be reflective of the then fair value of the Loan. Notwithstanding the foregoing, to the extent AP Commercial sells portions of the same Loan to a Lending Entity at different times, the prices paid by such Lending Entity for such portions may also be different. Clients explicitly consent to AP Commercial (or its affiliate) acting in this principal capacity in the applicable advisory and services agreement and at the time of the transaction. The purchase price will be determined by AP Commercial and generally will include an amount to compensate AP Commercial for the costs associated with acquiring the Loan, including estimated overhead costs and the cost of financing the Loan while it is held by AP Commercial or its affiliate pending distribution to the Members or other clients.

AP Commercial generally will not sell a Loan at a price greater than fair value. In such transactions, AP Commercial will comply with the requirements of Section 206(3) of the Advisers Act, if applicable.

As described in Item 4.B, the Affiliate Holder also will acquire contemporaneously and retain for its own account no less than a 2% Loan Participation in respect of each Loan that is originated by or acquired on behalf of clients under the Loan Program (unless such requirement is waived).

In addition, it is possible that if a client indicates to AP Commercial (or an affiliate thereof) that it wishes to sell a Loan Participation previously purchased under the Loan Program, AP Commercial (or an affiliate) may offer to purchase that Loan Participation from the client through procedures designed to ensure that the transaction occurs on a fair-value basis. In those and other circumstances in which AP Commercial or its affiliates purchase Loan Participations or other interests from a client for its own account, AP Commercial will comply with the requirements of Section 206(3) of the Advisers Act, if applicable, including the requirement that AP Commercial notify the relevant client in writing of the transaction and obtain the consent of the relevant client.

Further, AP Commercial may refer to clients Loan opportunities relating to borrowers in which AP Commercial's related persons already hold loan interests or other credit exposures. For example, it is conceivable that AP Commercial might present to clients a Loan opportunity relating to a borrower that had previously been the subject of a Loan opportunity, such that the Affiliate Holder would already hold a Loan Participation relating to that borrower. In the case of such a Loan Participation being held by the Affiliate Holder, a conflict generally should not arise because, among other reasons, AP Commercial and its related persons have no discretion over clients' acquisitions of Loan Participations.

### Allocation

The allocation of a Loan opportunity to clients is governed by policies adopted by AP Commercial. AP Commercial's current policies with respect to allocation of a Loan opportunity provide, among other things, as follows:

- Each Loan opportunity is assigned a Loan type based on its characteristics and/or the nature of the assets being financed by the Loan and/or the borrower's industry or business. For Loans that satisfy the applicable Loan Eligibility Criteria, AP Commercial will establish which clients are eligible to be allocated Loans of that type. Each eligible client is assigned to an allocation group for purposes of Loan allocation. Currently, BancAlliance Members as a collective, together with all managed account clients, are considered a single allocation group. Collateral management clients will be considered separately for allocation purposes.
- For each Loan opportunity, the amount available for allocation to clients is the aggregate commitment amount of the Loan acquired by or available to AP Commercial on behalf of its clients (the "Available Loan Amount"). For each Loan opportunity, interested clients will notify AP Commercial of their commitment amount with respect to the Loan. The commitment amount for BancAlliance

Members as a collective is the sum of each Member's individual commitment as of the relevant commitment date.

- A client may also instruct AP Commercial to establish a minimum Loan amount for such client. For BancAlliance Loan opportunities, the minimum Loan amount is the lowest minimum Loan amount of any Member with a valid commitment on such Loan.
- Within each Loan type, priority rotates among allocation groups, such that the allocation group which enjoyed the highest priority on a given Loan within a given Loan type moves to the lowest priority on the next Loan opportunity within such Loan type while each other allocation group moves up in the rank order for that Loan type.
- In the initial syndication process for each Loan opportunity, the Loan will be allocated to each allocation group in turn in order of its allocation group priority with respect to the particular Loan, until the Available Loan Amount is fully allocated or all commitment amounts have been satisfied. As noted above, there currently is a single allocation group; however, in the event of more than one allocation group, if the commitment amount of the first allocation group in the rotation is less than the Available Loan Amount, the Loan will be presented to the next allocation group in the rotation, and so on. Each allocation group in turn in order of its priority with respect to the Loan will be allocated the lesser of its commitment amount and the Available Loan Amount, except that an allocation group will not receive an allocation to the extent the Available Loan Amount is less than such allocation group's minimum Loan amount.
- In limited cases, the rotating priority process described above will not be observed, and a client will have priority over other clients with respect to a Loan opportunity. Generally, this occurs either where the Loan opportunity represents a refinancing or modification of an existing Loan already held by that client, or where a client directs AP Commercial to buy a specific Loan in a specific amount and upon specific terms, where such Loan is not otherwise generally available to clients in connection with an existing syndication.
- The policy also provides that if, as a result of an allocation in accordance with the policy, AP Commercial would be required to retain a portion of any Loan in excess of the amount it desires to retain, AP Commercial may adjust the allocations to avoid or reduce such excess amount.

To the extent such amount is allocated to a group of clients, such as Members, AP Commercial will further sub-allocate that amount pursuant to policies and procedures applicable to that group, if any.

AP Commercial will not have discretion to allocate Loan Participations that are available to collateral management clients under third-party contractual loan purchase programs to managed account clients or Members; however, interests in the same Loans may be available to managed account clients, Members and other clients through AP Commercial's Loan Program, if the Loans meet the Loan Eligibility Criteria. Such overlapping Loan Participations will be allocated in accordance with the policies adopted by AP Commercial and the code of ethics.

## Personal Trading

AP Commercial may refer to clients Loan assets of borrowers that have issued securities or other instruments in which AP Commercial or its affiliates or their respective employees have already invested. Conflicts of interest may arise if AP Commercial or its affiliates or employees refer a particular transaction because of a financial interest held by any such person in such securities or instruments. As mentioned above in this Item 11 under “Code of Ethics,” AP Commercial has implemented policies relating to personal account trading by AP Commercial Personnel that are designed to reduce, monitor and resolve conflicts of interest presented by such trading activities and to ensure such trading activities are carried out in accordance with applicable law and regulatory requirements. For example, AP Commercial Personnel are subject to AP Commercial’s trading pre-clearance policy, which is designed generally to prevent personal trading in securities in which AP Commercial has deemed itself restricted from transacting.

## **ITEM 12: BROKERAGE PRACTICES**

### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions**

AP Commercial may use brokers or dealers to acquire Loans on behalf of clients. There are no limitations on which broker-dealer is used or on the commission rates paid. However, Loan acquisitions are allocated to brokers and dealers consistent with AP Commercial’s fiduciary duty of best execution. The factors considered may include, but are not limited to: a dealer’s quality of execution, reputation, financial strength and stability, ability to effect the transactions, its facilities, reliability, access to primary and secondary markets, overall cost of trade, nature of the Loan, desired timing of the transaction and size of the trade, and the receipt of brokerage or research services which are of benefit to clients.

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

The research or brokerage products and services provided to AP Commercial by broker-dealers generally may include, without limitation, information on the economy, industries, asset classes, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting relevant asset classes, technical market action, credit analysis, risk measurement analysis, performance analysis, and/or post-trade services or communication services related to executing and settling transactions. Such research services may be received in the form of written reports, telephone contacts, personal meetings with analysts, or otherwise. In addition, such research services may be provided in the form of access to various computer-generated data, computer software, and meetings arranged with corporate and industry spokespersons, economists, academics, and government representatives.

Research obtained from brokers may be used by AP Commercial to service all its clients, including clients that have not participated in the transaction generating the commission. AP Commercial anticipates that brokerage firms generally will not charge AP Commercial a separate fee for research, brokerage and certain other services, and AP Commercial does not intend to negotiate “execution only” commission rates; thus, AP Commercial may be deemed to be paying for research, brokerage or other services provided by a broker that are included in the commission rate. While the continued provision of such services to AP Commercial is not

conditioned on AP Commercial directing any particular level of transactions to these brokerage firms, such services are provided without separate charge in consideration of AP Commercial's use of such brokerage firms to execute transactions on behalf of all clients that have determined to fund a Loan opportunity. AP Commercial receives a benefit in this instance because AP Commercial does not have to produce or pay for such research products or services, and AP Commercial may have an incentive to select or recommend a broker-dealer based on AP Commercial's interest in receiving such services rather than the clients' interest in receiving the most favorable execution.

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

Not applicable.

## **3. Directed Brokerage**

Not applicable.

## **B. Order Aggregation**

AP Commercial, in originating or acquiring a Loan on behalf of BancAlliance, managed account clients, collateral management clients or other clients, is aggregating the orders of multiple clients. All participating clients will bear, however, through their respective purchases of Loan interests, their pro rata shares of the expenses of the same Loan.

## **ITEM 13: REVIEW OF ACCOUNTS**

AP Commercial affords clients ongoing electronic access, through the Client Portal, to Loan monitoring data and periodic reporting setting forth balance information with respect to outstanding Loans relevant to the particular client. This information may include delinquency reports, payment information, exception reports and other relevant information determined from time to time by AP Commercial.

AP Commercial's credit professionals, under the supervision of the Chief Credit Officer, conduct periodic reviews of outstanding Loans through the date of review. Each periodic review will address with respect to each Loan the continued appropriateness of the risk rating that AP Commercial has assigned to each Loan, the borrower's record of covenant compliance and other topics as may be considered relevant by AP Commercial. A review of Loans other than on a periodic basis may be triggered by unusual activity or special circumstances on a case-by-case basis. AP Commercial makes available to clients on an ongoing basis via the Client Portal information about the performance of outstanding Loans. In addition, AP Commercial expects to provide clients with annual reports on Loan performance.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

### **A. Economic Benefits for Providing Services to Clients**

Not applicable.

### **B. Compensation to Non-Supervised Persons for Client Referrals**

AP Commercial may from time to time enter into agreements with independent third parties to assist in identifying potential clients or to refer such potential clients to AP Commercial. Such agreements generally are expected to require AP Commercial to pay the third party a fee in cash, equity or a combination of both in regard to each identified prospective client that becomes a client and actively participates in the Loan Program. Payment of such fees would not be conditioned on referring or recommending specific assets or types of assets to clients or obtaining assets through or from specific third parties. Any agreement providing for direct or indirect cash payments by AP Commercial to a person that is a “solicitor” as defined in Rule 206(4)-3 under the Advisers Act will comply with that rule and any other applicable regulatory requirements.

#### **ITEM 15: CUSTODY**

AP Commercial facilitates the flow of funds to and from Lending Entities and clients that are customary pursuant to the terms of participation agreements between such Lending Entities and each client, and which are in the ordinary course of acquiring or managing Loan Participations. As a result, cash amounts ultimately originating from or destined to clients pass through a bank account maintained by such Lending Entity over which AP Commercial has authority. These transient amounts represent Loan funding amounts by clients due to the relevant Lending Entity and principal and interest payments on Loan Participations due to clients from the Lending Entity pursuant to the respective participation agreement (collectively, “Client Loan Payments”).

Custody occurs when an adviser or related person directly or indirectly holds client funds or securities, or has the ability to gain possession of them. AP Commercial is authorized to deduct advisory fees and expenses from certain customer accounts, which the SEC defines as constructive custody. We generally deduct our fees from the loan payments we collect for the benefit of our customers. Our fees, as well as the loan payment amounts due to our customers, are calculated by our loan servicing system and are disclosed in statements sent to our customers along with each payment made. We have adopted policies and procedures to safeguard client assets throughout the fee and expense deduction process.

All Client Loan Payments are maintained by the relevant Lending Entity in a bank account at a qualified custodian. AP Commercial intends to maintain a separate bank account for each managed account client. Each such bank account is subject to an annual “surprise audit” by an independent public accountant. A copy of the examination report prepared by the accountant is distributed to each managed account client promptly following the completion of this custody verification.

The Loan Participations on which AP Commercial advises its clients are owned directly by the client and are maintained directly as a Loan on the client’s books and records.

To the extent AP Commercial is the collateral manager of a Warehouse or CLO, it will generally not be deemed to have custody of Warehouse or CLO funds or securities. Generally, the custodian or trustee of the applicable Warehouse or CLO will have custody of the Warehouse or CLO funds and securities.

## **ITEM 16: INVESTMENT DISCRETION**

AP Commercial provides advisory services to its clients on a non-discretionary basis and does not have discretionary authority to buy and sell Loans on behalf of clients. AP Commercial may exercise discretion in determining the Loan Participation amount allocated to clients within the range of possible allocation sizes that the client has indicated it is willing to accept. Where significant client demand exists for a particular Loan, it is possible that clients will not be allowed to acquire a Loan Participation as large as that for which they committed or, in some cases, any Loan Participation at all.

## **ITEM 17: VOTING CLIENT SECURITIES**

Rule 206(4)-6 under the Advisers Act requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. Because the Loan Program and AP Commercial's other advisory services relate only to credit assets such as bank loans, they typically will not give rise to proxy voting in connection with securities. AP Commercial anticipates that there will be circumstances under which the Lending Entity, as the lender of record, will undertake to vote on behalf of Loan Participation holders under a loan agreement. This is because the credit documents underlying many Loans may limit the voting rights of participation holders (as opposed to the lender of record) to a narrow set of significant matters such as changes in principal, interest rate, maturity and/or collateral. Further, for loans acquired under certain contractual programs, the Lending Entity's voting rights may be limited to matters requiring the consent of all lenders (normally, changes in principal, interest rate, maturity, and/or certain material changes to collateral). In all other matters that require a vote of lenders, the counter-party to AP Commercial under the contractual program may retain discretion to vote the interest in the Loan held by the Lending Entity. Consequently, clients holding Loan Participations in such loans would only be permitted to give voting instructions to the Lending Entity on such limited matters.

In certain circumstances set out in the applicable Collateral Management Agreement and the documents governing the collateral management client, AP Commercial may have authority to vote on certain matters such as whether to call or waive any default or accelerate the maturity of a Loan. AP Commercial will act in accordance with its fiduciary duty as an investment adviser and in accordance with its duties under the applicable Collateral Management Agreement.

AP Commercial will provide clients with its views concerning proposed amendments, waivers, consents, modifications, restructurings and similar matters in respect of credit agreements related to the Loans underlying Loan Participations. In doing so, AP Commercial will act in accordance with its fiduciary duty as an investment adviser. In addition, AP Commercial will administer clients' elections with respect to, or voting decisions related to, instructing the respective Lending Entity how to vote as the lender of record concerning proposed amendments, waivers, consents, modifications and restructurings in respect of credit agreements, to the extent lenders are afforded the opportunity to vote on such matters. These elections will be made solely as directed by the terms of the Advisory Services Agreement and the master loan participation agreement to which the client is a party.

## **Conflicts of Interest**



AP Commercial (or an affiliate thereof), managed account clients, collateral management clients, Members or other clients of AP Commercial may directly or indirectly hold interests in the same Loans. In such situation, AP Commercial, managed account clients, collateral management clients, Members or such other clients may exercise a vote separate and apart from any other vote in such Loan, and which may be cast contrary to the votes cast by other holders of interests in such Loan.

An apparent conflict of interest also might arise on the part of AP Commercial in connection with its provision to clients of its views concerning non-divisible voting matters. For example, AP Commercial could appear to have an incentive to color the views it gives to clients on a voting matter in order to retain or enhance its relationship with (and receipt of fees from) future clients if the clients express to AP Commercial a desire for a particular voting outcome.

AP Commercial has developed voting policies and procedures designed to address apparent or actual conflicts of interest that may arise between different clients, or between AP Commercial and its clients. These procedures may include, in appropriate cases, disclosure of the potential conflict to the relevant clients or the implementation by AP Commercial's management committee of other measures to address the potential conflict based on the management committee's judgment of what is in the best interest of the relevant clients.

Clients may obtain a copy of AP Commercial's voting policies and procedures upon request.

**ITEM 18: FINANCIAL INFORMATION**

Not applicable.