

**Katonah Debt Advisors, L.L.C.**  
**CLO Fund Brochure**  
**(Form ADV, Part 2A)**

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This brochure provides information about the qualifications and business practices of Katonah Debt Advisors, L.L.C. If you have any questions about the contents of this brochure, please contact us at [info@kcapfinancial.com](mailto:info@kcapfinancial.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about Katonah Debt Advisors, L.L.C. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

From time to time Katonah Debt Advisors, L.L.C. may refer to itself as a “registered investment adviser.” Registration with the SEC does not in any way constitute an endorsement by the SEC of an investment adviser’s skill or expertise. Further, registration does not imply or guarantee that a registered adviser has achieved a certain level of skill, competency, sophistication, expertise or training in providing advisory services to its clients.

***ITEM 2***      **MATERIAL CHANGES**

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Katonah Debt Advisors, L.L.C. (“KDA” or the “Firm”) is required to identify and discuss material changes made to this brochure since its last annual update, filed on March 29, 2013. While this brochure contains certain clarifying changes and enhanced disclosure, there have been no material changes to the brochure since its last annual update.

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

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The Firm is a Delaware limited liability company founded on June 7, 2005. The Firm's principal place of business is in the State of New York. The Firm's principal owner is KCAP. KCAP is a business development company, a form of registered investment company under the Investment Company Act of 1940. KCAP is publicly held and its shares are listed on the NASDAQ stock exchange.

The Firm provides investment advisory services to unregistered, private investment funds. Each fund is a "Collateralized Loan Obligation" or "CLO" private fund. The Firm acts directly as investment adviser ("Collateral Manager") of certain of the funds. The Firm also acts as sub-investment adviser to other funds under agreements with the fund's Collateral Managers, special purpose entities who are also wholly owned by KCAP. The investment portfolios of the funds comprise corporate debt instruments and other similar investments, as more fully described in "Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss." The Firm's clients currently include Katonah 2007-1 CLO LTD, Katonah VII CLO LTD, Katonah VIII CLO LTD, Katonah IX CLO LTD and Katonah X CLO LTD.

The Firm at this time does not offer any other investment advisory services nor does it provide financial planning services. The Firm complies with investment restrictions and guidelines that are included in the governing documents and/or in the offering documents of its private fund clients. These guidelines identify the investment objective and strategy or strategies employed, types of permitted investments and related restrictions.

As of December 31, 2013 the Firm managed total assets of \$1,379,024,000 on a discretionary basis.

The Firm's primary focus for its investment management services is interest-bearing corporate debt instruments and other similar investments.

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

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The following provides a general description of fees, compensation and expenses of the CLO private funds. The governing documents and offering documents of the CLO private funds describe the fees, compensation and expenses in greater detail.

As compensation for the portfolio management obligations under the relevant agreements related to CLOs, the Firm receives fees for its investment advisory services. There are two types of fees: management fees and incentive fees.

Funds that retain the Firm directly as Collateral Manager pay fees based on the total principal amounts of their portfolio investments in debt securities. The funds pay their investors and their service providers, including the Firm, according to established priorities. The source of payments is investment returns from portfolio investments. The Firm's management fee is paid at two different priorities, one prior to payment of amounts payable to senior investors and one subsequent. Generally, the "Senior Collateral Management Fee" and the "Subordinated Collateral Management Fee" rate is equal to approximately 0.5% per annum of portfolio assets.

Fees are paid by the fund quarterly in arrears. Upon termination of the investment management agreement (the “Collateral Management Agreement”) for any reason both the Senior and Subordinated Collateral Management Fees will be prorated for any partial period between quarterly payment dates.

Funds that retain the Firm as Collateral Manager also pay incentive fees. Payment of this fee depends on whether the fund has met all senior payment obligations and whether the fund has met certain minimum standards of investment return with respect to one or more junior classes of securities. Generally, the incentive fee is equal to 20% of the amount available for distribution by the fund once all prior payment obligations are satisfied, and is paid in arrears.

When the Firm serves as a sub-investment manager on behalf of Collateral Managers to other funds, the Collateral Managers pay the Firm a management fee calculated by multiplying the number of hours spent by the Firm in performing services for the Collateral Managers by an agreed-upon hourly rate.

Clients may invest in securities and other assets that are illiquid and lack a readily assessable market value.

The Firm may also waive fees to funds under certain circumstances.

In the event of a termination of an advisory contract, the Firm may be compensated pro rata for the period for which advisory services were rendered.

Neither the Firm nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

The funds do incur and may be responsible for other expenses separate and apart from the Firm’s investment management or performance fees. The funds reimburse the Firm for expenses incurred by the Firm in the performance of its services and these expenses typically may include: (1) costs and expenses with respect to any workout, restructuring, recapitalization, amendment, waiver or consent of or with respect to certain investments and the protection or enforcement of rights thereunder; (2) costs and expenses in connection with the acquisition of director and officer insurance; (3) legal, custodial, accounting audit and related costs and expenses; (4) expenses incurred in obtaining credit ratings on investments; and (5) certain other fees and expenses that may be authorized under a fund’s governing documents or investment management agreement.

Please also refer to “Brokerage Practices” under Item 12 of this brochure for more information regarding the transaction costs that clients will bear.

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

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As described above in Item 5, the Firm may be compensated by its clients based on incentive fees. This compensation may create an incentive for the Firm to make riskier or more speculative investments than the Firm would make in the absence of such compensation. The Firm has strict investment guidelines that limit the types of assets it can acquire for client

accounts, including the perceived creditworthiness of such assets. In addition, the Firm's affiliate, KCAP, has a significant amount of capital invested in the funds, which serves to align the interests of the Firm with the funds.

In addition, the Firm may receive performance-based fees from the CLO private funds that it serves as sub-investment manager to the Collateral Managers for those funds. The fact that the Firm receives incentive compensation from some but not all of its CLO private fund clients presents a potential conflict of interest: The Firm could generate more revenue for itself if it favors the CLO private funds from which it receives incentive compensation over the other sub-advised CLO private funds. The greatest potential source of favoring one over another is the selection of investments for the fund portfolios. For example, if the Firm chooses better investment opportunities for the CLO private funds it serves as Collateral Manager in order to increase the likelihood of receiving incentive compensation, the performance of the CLO private funds it serves as sub-investment manager may suffer.

The Firm addresses this potential conflict of interest through its Investment Allocation Policies and Procedures designed to allocate investment opportunities in a manner that is fair and equitable. The basic principle is allocation of opportunities according to "optimum investment amounts" for each client based on criteria such as investment objectives, diversification, cash flow, liquidity requirements and asset allocation targets specific to each directly advised and sub-advised private fund. If the desired total investment for all clients is unavailable the lesser amount generally is allocated among clients pro rata based on the optimum investment amount for each. Exceptions to the above pro rata allocation are made in certain instances for good cause, but in all cases the allocation must be fair and equitable. Exceptions are specifically approved on a case-by-case basis. It should also be noted that although the Firm acts as a sub-advisor to other CLO private funds, these funds like the Firm, are also solely owned by KCAP, and thus the financial performance of the Firm and its affiliate manager/advisor entities are to the benefit of one direct owner.

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#### ***ITEM 7*      TYPES OF CLIENTS**

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The Firm provides discretionary investment management services to private fund clients known as CLO private funds. These private funds are not registered under federal securities laws and generally are only offered to investors that are (1) "accredited investors" as defined under Regulation D of the Securities Act of 1933, as amended (the "1933 Act") and either "qualified clients" as defined under the Investment Advisers Act of 1940, as amended (the "Advisers Act") or "qualified purchasers" as defined under the Investment Company Act of 1940, as amended or (2) not U.S. Persons as defined under Regulation S of the 1933 Act. The CLO private funds have varying minimum investment amounts as described in the funds governing documents.

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

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The Firm performs a thorough credit analysis on issuers whose debt (or other securities) it considers for an investment. This will include consideration of the cyclical nature of the credit markets and the issuer's position and access to credit.

The Firm will also perform a thorough credit analysis of the issuer, including analysis of the debt structure of the company and the priority of the Firm's investment. This analysis will include detailed review of creditworthiness of the borrower and of the collateral, if any, securing the loan. The Firm will analyze the issuer's expected cash flow together with a top-down review of the issuer's credit structure. The Firm expects that this analysis will inform its decision of whether to invest on behalf of its clients.

The Firm will generally recommend investments in United States dollar denominated commercial loans, including participation and assignment interests therein, or high-yield corporate and other debt obligations, including synthetic securities and asset-backed securities. The Firm expects to invest heavily in interest-bearing loans and other instruments, which are expected to provide sufficient income to pay the interest to creditors, pay the Management Fee and expenses and potentially provide additional returns to investors. The types of instruments in which the Firm may invest are generally limited to primarily interest-bearing instruments. The instruments that the Firm recommends must also generally meet certain standards for creditworthiness, including having received certain ratings from third party ratings agencies.

### **Risks of the Firm's Investment Program**

Investors and creditors should be aware of certain special risk factors relating to the Firm's investment strategies and securities recommended. The following explanation of certain risks is not necessarily exhaustive, but rather highlights some of the more significant risks involved in the Firm's investment strategies. Investors should carefully review their offering circulars and the other governing documents of the funds, which may contain additional explanations of risks not discussed below.

#### ***Dependence on Key Personnel***

The Firm's investment program is highly dependent on the financial and managerial experience of its personnel. The loss of one or more of the individuals managing the Firm could have a significant material adverse effect on clients' performance.

#### ***Default Rates of Commercial Loans and High-Yield Securities***

There are varying sources of statistical default rate data for commercial loans and high-yield securities and numerous methods for measuring default rates. The historical performance of the loan market or high-yield market is not necessarily indicative of its future performance. Should increases in default rates occur with respect to the type of investments comprising the portfolio collateral, the actual default rates of the portfolio collateral may exceed the rates anticipated by the Firm.

#### ***The Firm May Have Limited Access to Information about Privately Held Companies in which the Funds Invest***

The Firm, on behalf of the funds, makes the funds invest significantly in privately-held companies. Generally, little public information exists about these companies, and the Firm relies on the ability of its investment professionals to obtain adequate information to evaluate the

potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act of 2002 and other rules that govern public companies. If the Firm is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and the fund may lose money on its investment.

***The Firm and Investors Will Have Limited Control of the Administration and Amendment of Portfolio Loans***

The Firm will exercise or enforce, or refrain from exercising or enforcing, any or all of its rights in connection with any loan held in the portfolio collateral (each, a “Portfolio Loan”) or any related documents or will refuse or accept amendments or waivers of the terms of any Portfolio Loan and related documents in accordance with its customary business practices as if the Firm were administering the Portfolio Loans for its own account. The authority of the Firm to change the terms of the Portfolio Loans will generally not be restricted by the fund’s governing documents. The notes under the Portfolio Loans (the “Notes”) will not grant the holders of the Notes any right to compel the Firm to take or refrain from taking any actions other than in accordance with its customary business practices.

The terms and conditions of the loan agreements and related assignments may be amended, modified or waived only by the agreement of the lenders. Generally, any such agreement must include a majority or a super majority (measured by outstanding loans or commitments) or, in certain circumstances, a unanimous vote of the lenders. Consequently, the terms and conditions of the payment obligation arising from loan agreements could be modified, amended or waived in a manner contrary to the preferences of the Firm, as the case may be, if a sufficient number of the other lenders were to concur with such modification, amendment or waiver. There can be no assurance that any obligations arising from a loan agreement will maintain the terms and conditions to which the Firm originally agreed.

The exercise of remedies may also be subject to the vote of a specified percentage of the lenders thereunder. The Firm will have the authority to consent to certain amendments, waivers or modifications to the Portfolio Loans requested by obligors or the lead agents for loan syndication agreements. The Firm may, in accordance with its investment management standards and subject to the transaction documents, extend or defer the maturity, adjust the outstanding balance of any Portfolio Loan, reduce or forgive interest or fees, release material collateral or guarantees, or otherwise amend, modify or waive the terms of any related loan agreement, including the payment terms thereunder. The Firm will make such determinations in accordance with its customary investment management standards. Any amendment, waiver or modification of a Portfolio Loan could postpone the expected maturity of the Notes and/or reduce the likelihood of timely and complete payment of interest or principal under the Notes, as well as the timing and amount of payments to holders of the Notes.

***Sale of Portfolio Collateral by the Firm under Certain Circumstances***

The Firm may only direct the disposition of portfolio collateral under certain limited circumstances. More specifically, the Firm may direct the disposition of portfolio collateral that is equity, has defaulted (as defined in the Notes’ offering circulars) or based on certain other



conditions. Furthermore, the Firm's ability to dispose of portfolio collateral may be subject to greater restrictions if the rating of any series of Notes is downgraded. Notwithstanding such restrictions and satisfaction of the conditions set forth in the funds' governing documents and Notes' offering circular, sales and purchases by the Firm of portfolio collateral could result in losses by the Firm, which losses may result in the reduction or withdrawal of the rating of any or all of the Notes. On the other hand, circumstances may exist under which the Firm may believe that it is in the best interests of the Firm to dispose of portfolio collateral, but the Firm will not be permitted to do so under the restrictions and conditions of the Indenture.

### ***Sale of Collateral upon Default of the Notes***

The market value of the portfolio collateral will generally fluctuate with, among other things, general economic conditions, world political events, developments or trends in any particular industry, the conditions of financial markets and the financial condition of the firms of the portfolio collateral. In addition, a small amount of corporate debt instruments included in the portfolio collateral may have interest rates that remain constant until their maturity. Accordingly, their market value will generally fluctuate with changes in market rates of interest.

### ***Interest Rate Risk***

The Notes generally will bear interest at a rate based on LIBOR, as described in the Notes' offering circulars. While most of the portfolio collateral will bear interest at floating rates, some of the portfolio collateral may bear interest at fixed rates. Further, the obligors under the Portfolio Loans which are floating rate collateral may choose different interest indices than the London interbank offered rate for three-month U.S. dollar deposits or the interest rates on the floating rate collateral may be determined or adjustments may take effect on different dates than is the case for the Notes.

### **Risks of Securities Recommended by the Firm**

The Firm, on behalf of the funds, may invest in unsecured loans, second lien loans, debtor-in-possession financings, delayed drawdown loans and revolving bank loans. Loans are not generally traded on organized exchange markets but rather would typically be traded by banks and other institutional investors engaged in loan syndications. The liquidity of such instruments will therefore depend on the liquidity of this market. Trading in loans is subject to delays as the transfers may require extensive and customized documentation, the payment of significant fees and the consent of the agent bank or underlying obligor.

The Firm, on behalf of the funds, may purchase participation interests ("Participations") in loans in certain circumstances. Participations are loan-based agreements that provide exposure to loans held by a third party (the "Seller"). Participations held by the Firm in a Seller's portion of a loan typically result in a contractual relationship only with such Seller, not with the obligor of the loan. The Firm has a right to receive payments of principal, interest and any fees to which it is entitled only from the Seller selling the Participation and only upon receipt by the Seller of such payments from the obligor. In connection with purchasing Participations, the Firm generally will have no right to enforce compliance by the obligor with the terms of the related loan agreement, nor any rights of set-off against the obligor, and the Firm may not directly

benefit from the collateral supporting such loan in which it has purchased a Participation. As a result, the Firm, on behalf of the funds, will assume the credit risk of both the obligor and the Seller. In the event of insolvency of such Seller, the Firm, on behalf of the funds, may be treated as a general creditor of the Seller, and may not benefit from any set-off between such Seller and the obligor. When the Firm holds a Participation in a loan, it may not have the right to vote to waive enforcement of any restrictive covenant breached by an obligor or, if the Firm does not vote as requested by the Seller, it may be subject to repurchase of the Participation at par. Sellers voting in connection with a potential waiver of a restrictive covenant may have interests different with those of the Firm and such Sellers may not consider the interests of the Firm in connection with their votes.

The Firm may also purchase loans initially made by other parties (“Assignments”). The purchaser of an Assignment typically succeeds to all the rights and obligations of the assignor of the loan and becomes a lender under the loan agreement and other operative agreements relating to the loan. Assignments are, however, arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an Assignment may differ from, and be more limited than, those held by the assignor of the loan. In contrast to the rights of the Firm as an owner of a Participation, the Firm, on behalf of the funds, as an assignee, will generally have the right to receive directly from the obligor all payments of principal, interest and any fees to which it is entitled. In some Assignments, the obligor may have the right to continue to make payments to the assignor with respect to the assigned portion of the loan. In such a case, the assignor would be obligated to receive such payments as agent for the Firm, on behalf of the funds, and to promptly pay over to the Firm, on behalf of the funds, such amounts as are received. As a purchaser of an Assignment, the Firm typically will have the same voting rights as other lenders under the applicable loan agreement and will have the right to vote to waive enforcement of breaches of covenants. The Firm will also have the same rights as other lenders to enforce compliance by the obligor with the terms of the loan agreement, to set-off claims against the obligor and to have recourse to collateral supplying the loan. As a result, the Firm may not bear the credit risk of the assignor and the insolvency of an assignor of a loan should have little effect on the ability of the Firm to continue to receive payments of principal, interest or fees from the obligor. The Firm will, however, assume the credit risk of the obligor. Non-performing loans may require substantial workout negotiations or restructuring that may entail, among other things, substantial costs and a substantial reduction in the interest rate, a substantial write-down of the principal and/or a substantial extension of the amortization and/or maturity date of the loan. Any such reduction, write-down or extension will likely cause a significant decrease in the interest collections on the loan and any such write-down or extension will likely also cause a significant decrease in the principal collections on the loans.

The Firm may invest in asset-backed securities that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, the underlying documents for certain of such asset-backed securities provide for the diversion of payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool of assets underlying such asset-backed securities exceeds certain levels or applicable overcollateralization or interest coverage tests are not satisfied. In certain circumstances, payments of interest on such securities may be reduced or eliminated for one or more payment dates, which may adversely affect the ability of the Firm to pay principal and interest in respect of the Notes. As a result of the foregoing, such subordinated

asset-backed securities have a higher risk of loss than more senior classes of such securities. Additionally, as a result of the diversion of cash flow to more senior classes, the average life of such subordinated asset-backed securities may lengthen. Subordinated asset-backed securities generally do not have the right to trigger an event of default or vote on or direct remedies following a default until the more senior securities are paid in full. Finally, because subordinated asset-backed securities may represent a relatively small percentage of the size of the asset pool being securitized, the impact of a relatively small loss on the overall pool may be substantial on the individual asset-backed security.

The corporate and other debt obligations invested in by the funds may be unsecured, may have been issued in connection with highly leveraged transactions and/or may be subordinate to certain other obligations of the Firm. A lower rating of such obligations reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the Firm to make payments of principal and interest. To the extent that a default occurs with respect to any security the Firm recommends, it is highly unlikely that the proceeds will be equal to the unpaid principal and interest thereof. In addition, future periods of uncertainty in the United States economy and the economies of other countries in which issuers are domiciled and the possibility of increased volatility and default rates in the high-yield sector may also adversely affect the price and liquidity of high-yield bonds in this market.

In addition, the Firm may recommend certain synthetic securities for the funds insofar as such synthetic securities are suitable investments, as defined in the funds' governing documents. Investments in such types of assets through the purchase of synthetic securities present risks in addition to those resulting from direct purchases of such synthetic securities' reference obligations. With respect to synthetic securities, the Firm will usually have a contractual relationship only with the counterparty of such synthetic security and not the reference obligor on the reference obligation. The Firm generally will not have the right to directly enforce compliance by the reference obligor with the terms of the reference obligation, rights of set-off against the reference obligor nor any voting or other consensual rights of ownership with respect to the reference obligation. The Firm will not directly benefit from any collateral supporting the reference obligation and will not have the benefit of the remedies that would normally be available to a holder of such reference obligation. In addition, in the event of the insolvency of the counterparty, the Firm will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the reference obligation. Consequently, the Firm will be subject to the credit risk of the counterparty as well as that of the reference obligor. As a result, concentrations of synthetic securities entered into with any one counterparty will subject the Notes to an additional degree of risk with respect to defaults by such counterparty as well as by the reference obligor.

## **Risk Factors Relating to Regulatory and Other Legal Considerations**

### ***Recent Legal and Regulatory Developments***

In response to the global economic crisis, various agencies and regulatory bodies of the U.S. federal government have taken or are considering taking actions to address the financial crisis. These actions include, but are not limited to, the enactment of the Dodd-Frank Act, which was

signed into law on July 21, 2010, and which imposes a new regulatory framework over the U.S. financial services industry and the consumer credit markets in general, and proposed regulations by the SEC that, if enacted, would significantly alter the manner in which asset-backed securities, including securities similar to those in the CLOs, are issued and structured and increase the reporting obligations of the issuers of such securities. Given the broad scope and sweeping nature of these changes (including, but not limited to, the Dodd-Frank Act) and the fact that final implementing rules and regulations have not yet been enacted, the potential impact of these actions on the CLO funds is unknown, and no assurance can be made that the impact of such changes would not have a material adverse effect on the marketability of the CLO funds, the ability of the noteholders of the CLO funds to maintain an investment in the CLO funds or the treatment of the CLO funds for purposes of regulatory capital determinations.

### ***FDIC Rules Affecting Large U.S. Banks***

On April 1, 2013, the Federal Deposit Insurance Corporation's ("FDIC") final rule on assessments for large U.S. banks (i.e., banks with \$10 billion or more in total assets, referred to below as "large banks") became effective. The rule amends the definition of "higher risk assets" to include securitization transactions where 50% or more of the underlying pool are themselves higher risks assets, such as certain types of commercial and industrial loans made to finance buyouts, acquisitions and capital distributions ("higher risk C&I Loans"). Since FDIC rules for large banks require that such banks determine their deposit insurance premium by reference, not to deposits, but to the bank's assets and certain financial ratios, the reclassification of these securitizations as "higher risk assets" could lead to an increase in the deposit insurance premiums such large banks would otherwise pay, in some cases substantially. There can be no assurance that the collateral obligations underlying the CLO securities that are higher risk C&I Loans will not, in the aggregate, be above the 50 percent threshold described above. The rule applies to securitizations issued on or after April 1, 2013; securitization transactions that close prior to April 1, 2013 will be unaffected by the rule. It is possible that the rule may reduce liquidity for the CLO securities in the secondary market and may have other effects that are difficult to predict at this time.

### ***Insolvency Considerations Under U.S. Federal Bankruptcy Law***

Various laws enacted for the protection of debtors or creditors may apply to the CLO securities under U.S. federal bankruptcy law. If a court were to find that the obligor of a CLO fund did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the CLO securities and, after giving effect to such indebtedness, the obligor (i) was insolvent, (ii) was engaged in a business for which its remaining assets constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured, the court could invalidate, in whole or in part, the indebtedness as a fraudulent conveyance, subordinate the indebtedness to existing or future creditors of the obligor or recover amounts previously paid by the obligor in satisfaction of the indebtedness. There can be no assurance as to what standard a court would apply in order to determine whether the obligor was "insolvent." In addition, in the event of the insolvency of an obligor of a CLO security, payments made on the CLO securities could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year and one day) before insolvency.

A U.S. bankruptcy court may be able to recapture payments that are determined to be “avoidable” (whether as a preference or otherwise) either from the initial recipient (such as the Issuer) or from subsequent transferees of such payments (such as the owners of the Securities). To the extent that any such payments are recaptured from the Issuer, the resulting loss will be borne by the holders of the CLO securities fund beginning with the CLO securities as the most junior classes. A court in a bankruptcy or insolvency proceeding would be able to direct the recapture of payments from a holder of a CLO security only to the extent that it has jurisdiction over the owner or its assets. Moreover, it is likely that avoidable payments could not be recaptured directly from an owner that has given value in exchange for its securities, in good faith and without knowledge that the payments were avoidable. Nevertheless, since there is no judicial precedent relating to a structured transaction such as the CLO funds there can be no assurance that an owner of the CLO securities will be able to avoid recapture on this or any other basis.

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**ITEM 9      DISCIPLINARY INFORMATION**

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The Firm must disclose all material facts regarding any legal or disciplinary events that would be material to its clients’ or prospective clients’ evaluation of its advisory business or the integrity of the Firm’s management.

The Firm is a wholly owned portfolio company of KCAP.

In November 2012, KCAP reached a final settlement with the SEC on a proceeding against it and certain of its current and former employees, resolving the SEC investigation into the 2008 and 2009 valuations of certain of KCAP’s investments and the valuation methodology and procedures used by KCAP to value its investments prior to 2010. The SEC determined that KCAP violated certain reporting, books and records, and internal controls provisions of the federal securities laws. Under the terms of the settlement, KCAP did not admit or deny any finding by the SEC and will not pay any penalty or other monetary amounts. The SEC also reached settlements with two current executive officers and one former executive officer of KCAP, each of whom agreed to pay certain civil monetary penalties.

The Firm was not the subject of the SEC investigation that gave rise to the SEC order. One of the Firm’s employees and Vice-Presidents is one of the two current executive officers of KCAP mentioned above.

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

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Neither the Firm nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither the Firm nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor or an associated person of any of the aforementioned in this paragraph.

The Firm does not recommend or select other investment advisers for its clients.

***Material Relationships and Arrangements and Arrangements***

The Firm is a wholly owned subsidiary of KCAP, which is a business development company, a type of closed-end investment company. The Firm also provides investment management services to two Collateral Managers owned by KCAP: Katonah X Management LLC and Katonah 2007-1 Management LLC. KCAP also is the sole owner of the following other subsidiaries: Trimaran CLO IV, LTD, Trimaran CLO V, LTD, Trimaran CLO VI, LTD, Trimaran CLO VII, LTD, Catamaran CLO 2012-1, LTD and Catamaran CLO 2013-1, LTD, each of which is a registered investment adviser and also provides investment management services to CLO private funds. The same portfolio management team manages the portfolios of all private funds managed by KCAP subsidiaries.

***Potential Conflicts of Interest: KCAP***

Certain individuals are officers or employees of both KCAP and the Firm. Some of these individuals have KCAP stock or compensation based on KCAP stock that could theoretically give them an incentive to favor KCAP at the expense of the Firm. In practice, however, any such incentives are mitigated for the following reasons:

- The Firm is a significant part of KCAP's balance sheet and contributor to net investment income in the form of dividends that the Firm pays to KCAP from time-to-time.
- The investment profiles of KCAP and the Firm are completely different and rarely present a conflict:
  - The Firm generally invests in highly liquid, broadly syndicated senior secured corporate debt
  - KCAP generally invests in highly illiquid mezzanine and senior or junior secured middle-market debt.
- Awards of KCAP stock to such employees are based on their performance at both entities on the duties that they perform for those respective entities.
- Awards are in the form of restricted stock, not options, which vest ratably over a three, four or five-year period. The longer term vesting periods of three years or greater aligns the employees interests with the performance of both the Firm and KCAP, not just one or the other.

KCAP may from time to time invest in the same or similar securities that the Firm selects for its clients. If one consistently takes the more favorable investment opportunities, it would tend to have better investment performance, to the detriment of the other. The more typical situation is that where KCAP and the Firm invest in securities of the same issuer and their investments are not in the same security. The Firm usually invests in the highly liquid senior securities of the issues and KCAP invests in much less liquid junior, "mezzanine" or equity securities of that issuer. In the event that each may wish to invest in the same securities, KCAP and the Firm address this potential conflict through its Investment Allocation Policies and Procedures. These policies and procedures establish reasonably objective standards to determine how opportunities

are shared between KCAP and the Firm. For example, in the event where KCAP and the Firm receive a partial fill of joint-trade order or an allocation that is less than the full amount of the joint-trade order, such a final traded amount or allocation will generally be split pro rata between KCAP and the Firm. KCAP and the Firm may also elect to divide the allocation in a manner other than pro rata if determined to be in each of their best interest to do so.

KCAP (for itself) and the Firm (on behalf of its investment advisory clients) each have the authority to purchase and sell investments directly between them. All purchases and sales must be at an arm's length basis and the investment advisory client must approve each such transaction. If KCAP is the client, it has the potential capacity to approve transactions that favor its own direct interest. If and when it does, KCAP and the Firm address this conflict by using a third party (typically an active dealer in such a position) to determine the appropriate buy and sell price and execute the trade. In practice, the occurrence of such sales is rare – KCAP typically focuses on illiquid, middle-market senior investments, and to a greater extent, junior or mezzanine lien investments. Such issues are generally inappropriate for inclusion in the CLO private funds that the Firm manages, whose investments are generally highly-liquid, broadly-syndicated loans to major corporate issuers.

KCAP owns classes of junior securities in the CLO private funds to which the Firm provides services as Collateral Manager or as a service provider for the private fund's Collateral Manager. Payments with respect to junior securities can be made only when all senior payments have been made. However, this risk is substantially mitigated by the fact that the potential negative effects of such a higher degree of risk, if realized, will first and more heavily impact the junior securities owned by KCAP, as they would realize the "first loss." As such, these junior tranches would be wiped out prior to those tranches in a more senior position. If the Firm takes a greater degree of risk in order to increase the likelihood that payments are made to junior securities holders the senior securities holders incur more uncertainty that their payments will be made. This risk is also addressed through the investment requirements and guidelines that govern investment of the assets of the CLO private funds.

#### **Potential Conflicts of Interest: Katonah X Management LLC and Katonah 2007-1 Management LLC**

Collateral Managers of the CLO private funds are eligible for incentive management fees that depend upon the investment performance of the funds. The Firm provides investment management services to each of these Collateral Managers on a flat hourly-rate basis with the ability to earn incentive fees, if any are achieved. The Firm has the potential to increase its revenues if it favors the CLO private funds for which it is Collateral Manager over the others. The Firm and each other Collateral Manager address this potential conflict through the Firm's Investment Allocation Policies and Procedures. These policies and procedures establish reasonably objective standards to determine how opportunities are shared and are described in greater detail in the preceding paragraph of Item 10 of this brochure.

#### **Potential Conflicts of Interest: Trimaran Advisors, L.L.C.**

The Firm and Trimaran Advisors, L.L.C. ("Trimaran"), through a common portfolio management team, manage CLO private funds. The compensation structures of the various

funds are identical or virtually identical, thus there is no financial incentive to favor one fund or set of funds over any other. At least theoretically one such fund or set of funds conceivably could be consistently favored in terms of investment opportunities.

The Firm and Trimaran address this potential conflict of interest through the Investment Allocation Policies and Procedures designed to allocate investment opportunities in a manner that is fair and equitable. The basic principle is allocation of opportunities according to “optimum investment amounts” for each client based on criteria such as investment objectives, diversification, cash flow, liquidity requirements and asset allocation targets specific to each directly advised and sub-advised private fund. If the desired total investment for all clients is unavailable, the lesser amount generally is allocated among clients pro rata based on the optimum investment amount for each. Exceptions to the above pro rata allocation are made in certain instances for good cause, but in all cases the allocation must be fair and equitable. Exceptions are specifically approved on a case-by-case basis. It should also be noted that the Firm and Trimaran, are also solely owned by KCAP, and thus the financial performance of the Firm and Trimaran is to the benefit of one direct common owner.

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

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### **Code of Ethics and Personal Trading**

The Firm has adopted and maintains a code of ethics (the “Code”) identical to the code of ethics adopted by KCAP, which is an advisory affiliate and sole owner of the Firm, by the special purpose affiliates, Katonah X Management LLC and Katonah 2007-1 Management LLC, to which the Firm provides sub-investment management services, and by Trimaran, which like the firm, provides investment management services to CLO private funds. The Code contains provisions designed to prevent improper personal trading by covered employees, to identify potential conflicts of interest and to provide a mechanism to resolve such conflicts for the protection of the Firm’s clients. The Firm and KCAP also have adopted a separate insider trading policy and procedure.

The Code applies to “Access Persons” – all Firm and KCAP officers, members and employees, and any other individual who either makes, participates of has information relating to the Firm’s purchases and sales of securities. The Code addresses and restricts trading by Access Persons for their personal accounts. Access Persons must disclose their beneficial ownership of any security they recommend that the Firm purchase for clients, any interest they have in acquiring an account that holds such security and any other interest or relationship they have with the issuer of the security. Access Persons also must obtain approval of their purchases and sales of securities. The Code also addresses and restricts Access Persons’ ability to receive or make gifts. The Code includes reporting requirements and certification requirements to help to ensure compliance. KCAP’s Chief Compliance Officer is responsible for administering the Code.

The Code is available on the KCAP website under the “Corporate Governance” tab at <http://www.kcapfinancial.com>.

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



The Firm's Collateral Management Agreements and sub-investment management agreements with affiliated Collateral Managers authorize it to buy securities from, and to sell securities to, its clients. These agreements also authorize the Firm to arrange for buying and selling of securities between clients, on the one hand, and a Firm affiliate, KCAP (which controls the Firm) on the other. Transactions such as these present a conflict of interest because the Firm and/or KCAP's interests may be directly contrary to client interests. However, the agreements authorizing these transactions require both that the transaction be at "arm's length" and that the client approve the transaction.

The Firm has the ability but does not make a practice of engaging in principal transactions. The Firm and its related persons may invest their personal funds in the CLO private funds the Firm manages. In addition, certain employees of the Firm may own securities in their personal accounts that the Firm may wish to acquire for its clients. This presents a potential conflict of interest because the employee's interests may differ and may be directly contrary to the clients' interests. The Code regulates Access Person purchases and sales of these securities. The Code requires Access Persons to disclose their ownership of securities if they recommend that the Firm purchase those securities for clients. The Code also prohibits personal trading when it would conflict with the Firm's trading on behalf of its clients, requires that employees gain preapproval of all such trades and requires periodic reporting of all personal investments.

## ***ITEM 12***      **BROKERAGE PRACTICES**

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The Firm considers a variety of factors in selecting broker-dealers for client transactions and determining the reasonableness of their compensation. As discussed in detail in the Firm's "Best Execution Policy" contained in the Firm's compliance manual, the Firm considers factors such as quality of execution, ability to effect the transaction, the broker's or dealer's facilities, reputation and stability, willingness to commit capital, overall costs of a trade including commissions, mark-ups and mark-downs and other factors. If the Firm determines in good faith that any commissions charged by a broker or the prices charged by a dealer are reasonable in relation to the value of services rendered, the funds may pay commissions to such broker or prices to such dealer that are greater than those another might charge.

Currently, the Firm does not enter into formal "soft dollar" arrangements, consider client referrals when selecting brokers or dealers, or enter into or have any "directed brokerage" arrangements with clients.

The Firm may aggregate the purchase or sale of securities subject to best execution. Securities will generally be allocated among the funds based on a number of factors, including suitability, capacity and the indenture for each fund, except as may be otherwise advisable due to legal, tax, regulatory or other constraints, or after taking into account other considerations such as relative amounts of capital available for investments and the relative exposure to individual positions or market sectors. In the event that any allocation is made on a different basis, it shall be documented according to the Firm's written procedures.

The fund shall be paid and reimbursed by the issuer for its pro-rata share (based on aggregate assets under management to which such costs or expenses are allocable, or other considerations that the fund's manager may deem equitable) all reasonable costs and expenses whatsoever of

the fund incurred in connection with the negotiation and preparation of CLO private fund agreements (including such fees as those paid to legal advisors and accountants) and the performance of its services under the CLO private fund agreements, including without limitation, any rating agency expenses, specialty and custom software expenses, due diligence costs, reasonable fees of legal counsel, tax and accounting services, consultants and all other reasonable costs and expenses at any time incurred, including , without limitation, in connection with acquisition, origination, holding, monitoring, marking to market, enforcement, amendment, default, restructuring, bankruptcy and disposition of any pledged securities and investments in connection with, and administration of, the CLO private funds.

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***ITEM 13***      **REVIEW OF ACCOUNTS**

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On a regular basis, the Firm's President, who is primarily responsible for the investment recommendations made to clients, reviews the holdings of the funds. Senior investment professionals also review the Firm's holdings on a daily basis against various risk parameters. The results of this review are communicated daily to key investment and trading personnel, including the President.

While the Firm has no formal parameters that trigger reviews on any other basis, investments are reviewed constantly by the investment team and may be subject to immediate review if a member of the investment team deems that any substantial event affecting such investment has occurred.

The unaffiliated trustee (who handles all security transactions, cash, documentation and custody) for each private fund produces and posts to their password-protected website monthly reports for each fund.

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

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The Firm does not engage third parties to solicit clients. The private funds advised by the Firm bear the cost of placement agents that act as initial purchasers of such funds' Notes.

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***ITEM 15***      **CUSTODY**

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The Firm does not have custody of client funds or securities.

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***ITEM 16***      **INVESTMENT DISCRETION**

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The Firm has discretionary authority to manage securities accounts on behalf of its clients. The Firm's clients are private CLO funds offered to sophisticated investors. The Firm enters into Collateral Management Agreements with the funds that grant the Firm this discretionary authority. A confidential explanatory memorandum, which is delivered to each prospective investor, describes the types of investments and limitations on the Firm's investment discretion in the form of risk management targets.

Client limitations include both limitations on the types of securities and instruments that may be purchased and sold and risk management standards to be applied in managing the investments.

Generally, the Firm's investments are limited to dollar-denominated loans, high yield fixed income securities, finance leases, synthetic securities (derivative financial instruments with respect to debt instruments, e.g., swap transactions), and structured finance securities (investments in pools of loans, receivables or other types of securities). Overall investments are subject to concentration limits based on such things as the type of loan or investment, industry, the identity of the obligor, quality rating, and the domicile of the borrower.

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***ITEM 17***      **VOTING CLIENT SECURITIES**

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KDA currently has no authority to exercise voting rights with respect to client securities and therefore does not have a proxy voting policy. To the extent KDA in the future determines to accept authority to vote client securities, it will adopt a proxy voting policy in accordance with the requirements of the Advisers Act.

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***ITEM 18***      **FINANCIAL INFORMATION**

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The Firm does not require or solicit prepayment of fees six months or more in advance. The Firm has discretionary authority over the securities held by its clients. The Firm has no financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients. The Firm is not currently nor has it ever been the subject of any bankruptcy petition.