



MACQUARIE

**Macquarie Credit Investment Management Inc.**

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Form ADV Part 2A

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**This brochure provides information about the qualifications and business practices of Macquarie Credit Investment Management Inc. (“MCIMI”, “us” or “we”). If you have any questions about the contents of this brochure, please contact us at (212) 231-1000 or by email at [MacquarieMCIMInotices@macquarie.com](mailto:MacquarieMCIMInotices@macquarie.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration as an investment adviser does not imply any level of skill or training. Additional information about MCIMI is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2 – Material Changes**

This amendment to Part 2A of Form ADV constitutes the annual update amendment. While we believe that this June 2014 update does not make material changes, this update reflects the addition of new clients and includes additional descriptions of investment strategies and related risk factors.

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## Item 4 – Advisory Business

MCIMI was formed as a Delaware corporation in February 2012, and is indirectly wholly-owned by Macquarie Group Limited (“MGL”), a publicly traded company listed on the Australian Securities Exchange (“ASX”) (ASX: MQG AU). As used herein, “Macquarie Group” refers to MGL and its affiliates and subsidiaries worldwide.

MCIMI operates as an investment management company which provides investment management services to a master-feeder fund structure which is as of the date hereof funded principally by proprietary capital invested by a subsidiary of the Macquarie Group. Interests in this master-feeder structure are offered solely to sophisticated investors. Such fund, and other private investment funds and pooled investment vehicles that may be managed by MCIMI in the future, are collectively referred to herein as the “Funds”. MCIMI also serves as an investment adviser to one or more institutional investors’ separately managed accounts (each, a “Separate Account”) and certain affiliated entities. In addition, it is expected that MCIMI may serve in the future as an investment adviser to one or more real estate investment trusts or other similar real estate finance entities (each, a “Real Estate SPV”) or special purpose vehicles that issue collateralized loan obligations (each, a “CLO”). Such Funds, Separate Accounts, Real Estate SPVs and CLOs are referred to herein as “Clients”. The investors in each Fund are herein referred to as “Fund Investors”.

We provide advice to Clients regarding: (i) loans of any kind, which may include, without limitation, investment grade, below investment grade or unrated, senior, subordinate or mezzanine, unsecured or secured, syndicated or unsyndicated; (ii) participations in loans (including pari passu, senior and subordinated participations); (iii) bonds (including, without limitation, corporate, municipal and sovereign bonds) of any kind, including, without limitation, investment grade, below investment grade (“high-yield” or “junk”) or unrated, senior, subordinate or mezzanine, unsecured or secured, convertible, exchangeable or neither; (iv) fixed income investments constituting, backed by, or representing an interest in, consumer debt payment obligations and other receivables (consumer or commercial) and financial assets (including, without limitation, asset-backed securities and mortgage-backed securities); (v) credit default swaps (including, without limitation, corporate, loan, sovereign, asset-backed and municipal bond credit default swaps), total return swaps, put and call options and other derivatives relating to fixed income and other investments, whether structured, over-the-counter or otherwise; (vi) futures, swaps, forwards, options and other derivative contracts or instruments, including, without limitation, single-name equity, credit index and equity index options; (vii) investments, including equity and debt investments, in other entities that make fixed income investments, including leveraged vehicles that issue securities commonly known as “collateralized bond obligations”, “collateralized debt obligations” or “collateralized loan obligations” and warehouse facilities relating to the foregoing and other entities, whether leveraged or unleveraged; (viii) distressed and special situation investments relating to the foregoing, including any of the foregoing acquired in debt-for-equity swaps and other kinds of transactions and trade claims; (ix) credit derivative indices; (x) single-name and index equities; (xi) commercial and residential mortgage whole loans, including non-performing loans; and (xii) cash or cash equivalents and other short term investments. We generally pursue long-short relative value strategies focused on credit markets, though we may undertake a variety of

investment strategies. Such services may be provided on a discretionary or a non-discretionary basis.

We may permit Clients to impose restrictions on their accounts with respect to: (1) the specific types of investments or asset classes that we will or will not purchase for their accounts; (2) the nature of the issuers of investments that we will or will not purchase for their accounts (e.g., specific industries or sectors); (3) the risk profile of instruments we will or will not purchase for their accounts; and/or (4) the risk profile of their accounts as a whole. Such restrictions may be implemented via an agreement between such Clients and us. While such Clients may as a consequence be afforded certain rights that are not afforded to Fund Investors that invest in any Fund with similar investment objectives, we do not believe such agreements would be prejudicial to the rights of such other Fund or Fund Investors.

We do not participate in wrap fee programs.

As of March 31, 2014, MCIMI had approximately \$1,538,740,357 in regulatory assets under management, which is managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

MCIMI does not have a standard fee schedule. MCIMI charges a base management fee and a performance or incentive fee for investment advisory services.

This base management fee is generally expressed as a percentage of net asset value of an account and is currently 2% per annum for Fund Clients. Although MCIMI expects that the management fees charged to its Clients in the future will be calculated in a similar manner, management fees for certain Clients may be a lower amount and may also be based on gross or net assets and may be calculated utilizing cost, par value, fair market value or other mutually agreed-upon measures. The management fee is generally calculated and debited from an account monthly in arrears.

For Fund Clients, we also generally receive a performance fee which is currently 20% of the net capital appreciation above a high-water mark of each sub-series of shares, subject to certain limitations. Such performance fees may also be calculated in respect of net capital appreciation above a high-water mark of each Fund Investor's investment in a Fund. Such amount is generally calculated and accrued monthly and paid on an annual basis or upon a redemption or withdrawal. The performance-based fee will be charged in compliance with Rule 205-3 of the Investment Advisers Act of 1940, as amended. Such performance fee may be subject to a "high-water mark" or loss carry-forward provision and/or may be payable only to the extent that a certain minimum rate of return is achieved.

The terms governing management fees and incentive fees in respect of Funds will be set forth in each Fund's offering materials and other constituent documents. For those Funds that are part of a master-feeder structure, fees are typically paid by the respective master fund on behalf of the feeder funds. The specific fee arrangements in respect of Separate Accounts and other Clients,

including the amount, timing and basis of calculation, will be determined through negotiations with each Client and documented in a written agreement.

Different series of interests in certain of the Funds offered in the future may have materially different terms, including terms regarding: (1) fees charged; (2) minimum subscription amounts; (3) withdrawal rights; and (4) investment options. In accordance with the anticipated terms of the Funds, we will be generally permitted to open new series for Funds that have different terms than those currently being offered.

In addition, because we (or our affiliates, principals, or employees) may in the future invest in certain of the Funds, we will participate alongside other investors in the investments of those Funds *pro rata* in accordance with our proportionate investment in such Fund. Such affiliated investors may be permitted to withdraw from the Funds more frequently than other investors and may not be required to pay management fees and/or incentive fees or may be subject to a reduced fee schedule. Furthermore, in connection with MCIMI's management of a CLO, one or more Funds may acquire one or more tranches of securities from such CLO, in which case MCIMI expects to waive all fees for the Funds associated with such investment, so that a Fund will not incur two levels of compensation payments.

Generally, management fees will be paid by Clients to MCIMI pursuant to an investment management agreement between the parties. The base management fee is typically deducted from a Client's assets. However, such fees may instead be billed quarterly in advance.

Performance compensation is also payable by Clients or Fund Investors at the time of any withdrawal or redemption. MCIMI may waive or modify any such fees for affiliated Clients or Fund Investors and employees.

Our fees in respect of the Funds are exclusive of certain administrative and operating costs and expenses, including, but not limited to, each Fund's legal, accounting, administrative expenses, auditing, tax preparation and other professional expenses, directors and officers insurance, the transaction expenses described below, filing fees and expenses, custodial fees, bank services fees, the costs of printing and distributing periodic and annual reports and statements, expenses related to updating Fund disclosure materials or terms of investment, regulatory and compliance expenses relating to each Fund, including regulatory filings and reports directly relating to the operations of each Fund that are required of MCIMI and any related software and consulting services, blue sky expenses, expenses paid to third-party vendors associated with each Fund's internal accounting systems, interest on any indebtedness and other borrowing charges, the costs of brokerage services, each Fund's *pro rata* share of its master fund's operational expenses and each Fund's *pro rata* share of the operational expenses of any acquisition vehicles utilized in its investment strategy. Each Fund also bears the expenses related to its organization and the initial offering of interests to Fund Investors, which may be amortized over a period of up to 60 months.

In connection with its trading activities, each Fund will bear transaction fees and costs in connection with its investments and trading, including assignment fees, hedging costs, spreads, mark-ups on securities, swaps and forwards, commodity trading related expenses, short

dividends, currency and other hedging costs, brokerage commissions (including options and futures trades), third party pricing and valuation services, interest expenses in respect of margin accounts, repurchase agreements and other indebtedness and other similar costs and expenses. Please refer to Item 12 for additional information regarding the factors we consider in selecting broker-dealers for Client transactions, and in determining the reasonableness of their compensation.

Expenses related to Separate Accounts and other Clients will be allocated in accordance with each Client's investment management agreement.

As noted above, certain management and performance fees may be payable in advance, as set forth in the relevant management agreement. In connection with a withdrawal or redemption, all or a portion of such fees may be subject to a refund, in each case in accordance with the terms of the relevant governing agreement.

*Prospective Fund Investors must refer to the offering documents for each applicable Fund for detailed information with respect to the fees associated with such Fund. The information presented herein is intended as an illustrative description and is qualified in all respects by the complete information contained in such offering documents.*

## **Item 6 – Performance Based Fees and Side By Side Management**

As noted in Item 5 above, MCIMI currently receives certain performance-based fees – typically 20% of annual net capital appreciation above a high-water mark of each sub-series of shares in a Fund – subject to certain limitations.

The receipt of a performance-based fee makes MCIMI subject to certain potential conflicts of interest. For instance, the receipt of performance-based fees may motivate us to make investments that are riskier or more speculative than we would make if we did not receive performance-based fees, particularly if payment of such fee is subject to exceeding a hurdle rate or high-water mark and the then current performance of a Fund is below any such applicable hurdle or high-water mark.

MCIMI does not currently manage any Funds or Clients which are charged hourly or flat fees or solely an asset-based fee.

MCIMI manages multiple Clients which have or may have different, similar or over-lapping investment objectives, including a focus on similar investment assets. In certain cases, the Macquarie Group may be a substantial, majority or entire owner of a Fund, particularly in instances in which the Macquarie Group has provided a seed investment for such Fund. Such circumstances could result in conflicts of interest in determining which Client will be allocated which investment opportunities.

In order to address any conflicts which may arise in such situations, MCIMI has adopted an allocation policy to address the manner in which investment opportunities will be allocated to

each Client. Due to potentially differing limitations, strategies and objectives of each Client and other relevant factors, there may be differences among the investments allocated to each Client.

## **Item 7 – Types of Clients**

MCIMI currently provides advice to a master-feeder fund structure, certain affiliated entities and a Separate Account and may in the future provide investment advice to other Funds, Separate Accounts, CLOs and Real Estate SPVs. With respect to prospective U.S. investors in the Funds and CLOs, MCIMI seeks investments from high net worth individuals, investment companies, corporations and other institutional investors. The minimum initial investment is generally \$5,000,000 and is limited to investors which are both “accredited investors” (“Accredited Investors”) as defined in Rule 501(a) of Regulation D of the Securities Act of 1933, as amended, and “qualified purchasers” (or “knowledgeable employees”) as defined in the Investment Company Act of 1940, as amended. Fund Investors will also be required to complete a subscription agreement and related questionnaire designed to establish their investment sophistication. MCIMI may in its discretion waive the minimum investment amount for certain Fund Investors, including affiliated investors. MCIMI may impose additional restrictions on prospective investors which are not U.S. persons. Investors in Separate Accounts are generally also limited to institutional persons who are “Accredited Investors.”

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

MCIMI follows a multi-strategy approach to investment management, based on fundamental research. MCIMI takes long and short positions in a variety of securities and derivatives, with a focus on credit markets. MCIMI will invest in corporate bonds and other fixed income securities, syndicated bank loans, credit derivatives (both index and single-name), securitized products including mortgage-backed securities, collateralized loan obligations and other asset-backed securities, equities, options, interest rate swaps and other derivatives, securities, loans and investments. MCIMI attempts to identify relative value investment opportunities and will pursue a number of different investment strategies, informed by its view on macro-economic factors.

As part of its investment process, MCIMI monitors its investment strategy via its Investment Risk Committee (“IRC”). The IRC is comprised of MCIMI’s Chief Executive Officer and Chief Risk Officer. The IRC generally meets formally at least once per week and informally on a day-to-day basis, to discuss overall market themes, portfolio positioning, capital allocation, and investment opportunities across strategies. The IRC will review the senior portfolio managers’ trading activity and may make strategic trading recommendations. Given the broad discretion of the IRC to allocate among asset classes and trading strategies, it is expected that the composition of trading portfolios will vary over time given the investment opportunities which may be available during any period. The IRC’s oversight responsibilities are designed to extend both to the review of activities and strategies across various Clients broadly and to the review and allocation of investments for a single Client.



MCIMI's portfolio managers make trading decisions and identify trading opportunities primarily by performing fundamental credit analysis (both with respect to individual credits and across sectors), including a review of a company's capital structure, cash flows and the likelihood of various events and corporate actions occurring. The portfolio managers also generally consider pricing technicals in the credit markets, price relationships among asset classes and market segments and macroeconomic viewpoints on interest rates, political risks and other similar factors. The portfolio managers will also consider the expected risk profile of any investment, including its expected liquidity and volatility. In certain circumstances, the portfolio managers may identify and seek to capitalize on short-term trading opportunities which may involve less fundamental analysis than a longer-term position.

The portfolio managers are subject to a specified set of internal credit and market risk limits ("Internal Limits") that are used to monitor their activity. Among other risks, the Internal Limits may monitor and constrain the following:

- Approved Products;
- Approved Currency and Country;
- Credit Risk;
- Basis Risk;
- Interest Rate Risk;
- Recovery Risk;
- Sector Risk; and
- Individual Security and Issuer Concentration.

The calculations of the risks involve multiple perturbations (e.g. parallel and inversion / steepening) of the various risk parameters and are designed to ensure that risks are appropriately measured. The risk management process is integral to the day-to-day operations of the portfolio management process and trading positions are monitored to assure compliance with the established framework. Internal Limits constitute hard limits for the portfolio managers, with any exceptions requiring IRC approval. If approval is not sought and obtained and a limit is exceeded, the position must be brought back within limits promptly. There can be no assurance, however, that this risk framework will work as designed or be effective in limiting portfolio losses. MCIMI's investment strategies may be further constrained by general Macquarie Group capital risk limitations, as described below.

The following chart identifies the primary investment strategies employed by MICMI:

Trading Strategy – Corporate Debt	Description
<b>Maturity Matched Basis</b>	Buy bonds and buy CDS that matures at the next standard date after the bond maturity.
<b>Non-Standard Basis</b>	Buy bonds and buy CDS to a call date or some other relevant hedge date.

<b>Secured/Unsecured Basis</b>	Buy secured bonds and buy unsecured CDS with a fundamentally-obtained hedge ratio.
<b>Curve Trades</b>	In a given credit, buy CDS to one date and sell CDS to a different date to take advantage of curve mispricing across tenors.
<b>Relative Value Trades</b>	Long one credit vs. shorting another credit or a credit derivative index to express richness or cheapness of a security.
<b>New Issues</b>	Identify new issues that we believe are undervalued or mispriced by the market.
<b>Capital Structure Arbitrage</b>	Long or short different parts of an issuer's capital structure.
<b>Event Driven Trades</b>	Outright long or shorts based on perceived catalysts or fundamental events.

<b>Trading Strategy – Securitized Debt</b>	<b>Description</b>
<b>ABS</b>	Long one securitized bond vs. shorting a CDS or a credit derivative index
<b>CLO</b>	Long one securitized bond vs. shorting a CDS, a credit derivative index, or out-of-the money put options
<b>MBS / CDO</b>	<p>Relative value trades: Long one securitized bond vs. shorting a CDS, a credit derivative index, or out-of-the money put options</p> <p>Basis Trade: Buy one wrapped bond vs. CDS on related monoline insurance company</p> <p>Relative value trades in credit derivative indices: Long one ABX/CMBX tranche vs. another ABX/CMBX tranche</p>

Investing in securities involves the risk of loss, including the entire amount of one's investment, and any Client must be prepared to bear such losses. The Funds managed by MCIMI are suitable only for sophisticated investors who can bear the risk of loss of their entire investment and have no need for liquidity of their investment. The past performance of a Fund or of MCIMI or its personnel generally is not indicative of future results.

All of the investments undertaken by MCIMI may decline in value and expose Clients to the risk of loss. MCIMI does not make any representation or provide any assurance that any investment objective will be achieved or that a Client will not be exposed to a loss. Certain investment strategies employed by MCIMI may carry additional risks. Among the material risks of MCIMI's investment strategies to its Clients are the following:

Liquidity of Investments. MCIMI's investment strategy may involve investments in securities for which no liquid market exists or which are subject to legal or other restrictions on transfer. MCIMI may be unable to sell such investments when desired or may only be able to do so at disadvantageous prices. Accordingly, MCIMI's ability to respond to market movements may be impaired and a Client may experience adverse price movements upon liquidation of its investments. In addition, the ongoing valuation of such investments may be subject to considerable uncertainty if no readily available market exists.

Hedging Transactions. The success of a hedging strategy is subject to MCIMI's ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a hedging strategy is also subject to MCIMI's ability to recalculate, readjust, and execute hedges continually and in an efficient and timely manner. While MCIMI may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if it had not engaged in any such hedging transactions. For a variety of reasons, MCIMI may not seek to establish a perfect correlation between such hedging instruments and the risks being hedged. Such imperfect correlation may prevent MCIMI from achieving the intended hedge result or expose a Client to greater risk of loss. In addition, MCIMI may not hedge a risk inherent in an investment because a hedge may not be available or may be too costly in light of the likelihood of the possible risk actually occurring, or because the risk simply was not anticipated.

Counterparty Risk. Most of the derivatives and securities markets in which MCIMI trades are over-the-counter markets in which transactions are executed with dealers in such products, rather than on an exchange. Accordingly, a Client is subject to the risk of the inability of a counterparty (including prime brokers) to perform with respect to transactions, whether due to insolvency, bankruptcy, trade disputes, liquidity problems or other causes. Although we intend only to enter into transactions with counterparties that we believe to be creditworthy and we attempt to reduce exposure by obtaining collateral in appropriate cases, there can be no assurance that a counterparty will not default and that Clients will not sustain a loss on a transaction as a

result. In addition, the concentration of transactions with a limited number of counterparties, including prime brokers, could increase the potential for such losses by Clients.

Additional Government or Market Regulation. The financial services industry has experienced significantly increased governmental as well as self-regulatory scrutiny, resulting in increased regulation of various products and sales practices. U.S. regulatory agencies have finalized certain rules and are continuing to engage in further rulemaking as a result of the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010. In addition, the European Union Market Infrastructure Regulation has entered into force and various other regulatory initiatives are proceeding in the European Union. Further legislation proposing additional regulation of the industry is considered periodically by the U.S. Congress, as well as the governing bodies of non-U.S. jurisdictions, including the European Parliament. It is impossible to predict what, if any, changes in the regulations applicable to MCIMI, the Funds, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. Any such laws or regulations could have a material adverse impact on the profit potential of the Funds, as well as require increased transparency as to the identity of Clients.

Volatility. The market value of certain Client account investments may be volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, among other things, the macro business and economic environment, specific developments or trends within a company or in any particular industry, the market's overall perception of risk, general economic conditions, the condition of certain financial markets, domestic and international economic and political events, prevailing credit spreads, changes in prevailing interest rates and the financial condition of counterparties.

Leverage. MCIMI may employ leverage for the purpose of making investments and to hedge exposure to market and credit risk. The use of leverage creates special risks and may significantly increase a Client's investment risk. Leverage creates an opportunity for greater yield and total return but, at the same time, increases a Client's exposure to greater losses. To obtain leverage, MCIMI may pledge securities or provide other forms of security or assurance in order to borrow additional funds for investment purposes. The term of the leverage may not always match the term of the assets. The providers of such financing often have broad discretion to reduce the amount of credit provided or to require additional collateral, which may require MCIMI to sell assets at unexpected times. MCIMI may also leverage investment returns with the use of derivative instruments which are inherently leveraged. The amount of borrowings or exposure which may be outstanding at any time may be large in relation to the capital available to a Client account.

Financial Model Risk. Certain of MCIMI's investment strategies require the use of quantitative and qualitative valuation models developed by MCIMI to evaluate investment opportunities. Such models are necessarily limited to a fixed set of factors and inputs. As market dynamics (for example, due to changed market conditions and participants) shift over time, there can be no assurance that such models will prove to be accurate, which may result in investment losses. MCIMI also licenses the use of models developed and administered by third parties and access to real-time and historical data which is used in conjunction with various models. The ability of

MCIMI to pursue certain investment strategies may be adversely affected if MCIMI were no longer able to obtain access to such models or data.

Spread Trading Risks. A part of MCIMI's trading operations may involve entering a transaction to realize gains from spread movements between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions may occur. In addition, such positions entail substantial risk that the price differential could change unfavorably, causing a loss to the spread position. Particularly in periods of low market volatility, such investment strategies may have materially diminished prospects for profitability.

Concentration of Investments. MCIMI generally seeks to maintain a diversified portfolio of investments, considering counterparty, issuer, industry and investment strategy. However, Client accounts may at certain times hold relatively few investments or be less diversified. Any such concentration may subject Clients to greater risk of loss than would a more diversified approach.

Event Risk. MCIMI may engage in transactions which seek to benefit from price or spread movements driven by anticipated catalysts or events. While MCIMI will seek to identify near- and intermediate-term catalysts which may allow for capital appreciation, such opportunities may be limited or may either fail to materialize altogether or such events may occur in an unexpected manner which is not advantageous to MCIMI's position.

Short Selling. MCIMI may engage in short selling. Short selling involves selling securities which may or may not be owned and borrowing the same class of securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to Clients of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase in the future. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, MCIMI could be forced to close out a short position at an inopportune time if the lender of such security demands the return of such security. Various jurisdictions, including the European Union, have implemented temporary or permanent bans on short positions in respect of certain designated entities, which restrictions may have an adverse impact on MCIMI's strategies.

Prepayment Risks. MCIMI may make significant investments in mortgage-backed securities ("MBS"), asset-backed securities ("ABS") and collateralized debt obligations ("CDOs") and residential and commercial mortgage loans in whole loan form. The value of MBS, ABS and whole loans tends to vary with changes in interest rates. However, when interest rates decline, the value of MBS and ABS with prepayment features and whole loans which allow prepayments without penalty may not increase as much as other fixed income securities, and for certain MBS may decrease, because prepayment of mortgages and other loans tends to accelerate during periods of declining interest rates as mortgagors refinance. In addition, to the extent MCIMI purchases MBS, ABS, CDOs and whole loans at a premium, prepayments (which except with

respect to commercial mortgage loans may in many cases be made without penalty) may result in loss of the premium paid. Furthermore, when whole mortgage loans held by Client accounts and/or mortgages and loans underlying MBS, ABS and CDOs held by Client accounts are prepaid, Clients will receive principal repayments on the whole loans, MBS, ABS and CDOs, which they will need to reinvest in other securities, which may be expected to have yields lower than the yield on the prepaid whole loans, MBS, ABS or CDOs. The value of whole loans, MBS, ABS and CDOs is also subject to extension risk, which is the reverse of prepayment risk. Extension, or slower prepayments of mortgage loans, may extend the time it takes to receive principal cash flows and generally compresses the yield on such whole loans, MBS, ABS and CDOs and makes such instruments more sensitive to rising interest rates and price declines.

Currency Exposure. Interests in the Funds are issued and withdrawn in U.S. Dollars. The assets of Funds may, however, be invested in securities and other investments which are denominated in currencies other than U.S. Dollars. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. MCIMI usually seeks to hedge the foreign currency exposure of assets. However, the Funds are necessarily subject to foreign exchange risks. In addition, prospective investors in the Funds whose assets and liabilities are predominately in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. Dollar and other currencies.

Arbitrage Transaction Risks. Arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. MCIMI may employ these arbitrage strategies. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur which can be magnified to the extent MCIMI is employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable “spreads,” which can also be identified, reduced or eliminated by other market participants.

Correlation Risk. MCIMI may employ strategies that attempt to take advantage of the expected correlation between assets, either directly or via structured credit products including, but not limited to, tranches, synthetic CDOs and first-to-default credit default swap baskets. Such strategies are dependent on the ability to determine accurately the correlation between such positions. There can be no assurance that the anticipated positive or negative correlation relationship will remain or develop, particularly in times of market stress.

Macquarie Group Risk Limitations. MCIMI, in conjunction with the Macquarie Group’s central risk management division, has developed a risk management framework, which imposes certain position and sector-level restrictions on the activities of the Funds. Due to internal Macquarie Group investment policies relating to Macquarie Group’s proprietary investments in the Funds, the Funds’ trading and investing activities are expected to remain subject to such risk management framework or similar risk monitoring procedures by Macquarie Group for so long as Macquarie Group maintains a substantial investment in a Fund. Although MCIMI believes the risk management framework provides appropriate limitations for its expected activities, such limitations may prevent the Funds from taking or maintaining certain positions in respect of its portfolio, or may otherwise constrain investment activity, resulting in the Funds not being able to take advantage of potential profit opportunities in the view of MCIMI or being exposed to losses.

MCIMI's investment strategies focus on the following types of investment products:

Fixed Income Obligations. Investments in fixed income obligations are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). With bonds and other fixed income securities, the price of such instruments generally moves inversely with interest rates, such that a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. Bonds and other fixed income securities generally involve less market risk than stocks. However, the risk of bonds can vary significantly depending upon factors such as the issuer and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise become unable to honor a financial obligation, resulting in losses.

Derivatives. MCIMI invests in derivative financial instruments. Derivative financial instruments include credit derivatives, interest rate swaps, total return swaps, options, forward currency contracts and futures. In addition, Clients may from time to time utilize both exchange-traded and over-the-counter futures and options as part of its investment strategy and for hedging purposes, as well as other derivatives. Such derivative instruments may be highly volatile, involve certain special risks and expose investors to a high risk of loss. The trading of over-the-counter derivatives subjects a Client to a variety of risks including counterparty, basis, interest rate, settlement, legal and operational risks. Transactions in over-the-counter derivatives may involve other risks as well, as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further losses exceeding any margin deposited. Further, when used for hedging purposes there may be an imperfect correlation between these instruments and the investments or market sectors being hedged. Lastly, regulatory restraints may restrict the notional amount of instruments that MCIMI may trade.

High-Yield Debt Securities. MCIMI invests in non-investment grade rated and unrated debt securities which are subject to greater risk of loss of principal and interest than higher-rated debt securities. High-yield corporate debt securities are often unsecured and are frequently issued in connection with leveraged acquisitions or recapitalizations which cause the issuer to incur substantially higher levels of indebtedness. Such securities may be subject to significant financial and business risks and have historically experienced greater rates of default. MCIMI may also invest in debt securities which rank junior to other outstanding securities and obligations of the issuer. Certain debt securities are not protected by financial covenants or limitations on additional indebtedness. Lower or unrated securities are more likely to react to developments affecting market and credit risk than are more highly rated securities. Investors should be aware that ratings are relative and subjective and are not absolute standards of quality. Subsequent to its purchase by MCIMI, an issue of securities may cease to be rated or its rating

may be reduced. Neither event will require the sale of such securities, although MCIMI may consider such event in its determination of whether a Client should continue to hold the securities. The market value of securities in lower-rated categories is generally more volatile than that of higher quality securities. In addition, MCIMI may have difficulty disposing of certain of these securities because there may be a thin trading market.

Mortgage-Backed and Asset-Backed Securities. MCIMI invests in mortgage-backed (“MBS”) and asset-backed (“ABS”) securities including, but not limited to, collateralized debt obligations, residential MBS and commercial MBS. These securities may be in the form of pass-through instruments or asset-backed obligations. Such securities are limited recourse obligations payable solely from the assets of the issuer. The payments of MBS and ABS are derived from underlying receivables and there can be no assurance as to the timing and amount of such payments. The governing documents for MBS and ABS may establish highly complex structures, with payments allocated according to complicated procedures to various classes of securities and with varying forms of credit enhancement. There is a risk that such governing documents may contain ambiguous terms, which may delay receipt of payments. Certain MBS and ABS may be subject to interest rate mismatches, if liabilities are fixed-rate and receivables bear interest at a floating-rate, or vice versa. MCIMI may invest in subordinate classes of MBS and ABS, which classes will be allocated losses prior to more senior classes and which may allow for the deferral of certain payments. MCIMI generally invests in private-label MBS, which are issued by non-governmental entities and carry no direct or indirect government guarantee.

Loan Assignments and Participations. MCIMI will invest in fixed- and floating-rate corporate loans, which investments generally are in the form of assignments, or less frequently, participations, of portions of such loans. While obligations in respect of such credit agreements are often secured by designated collateral and subject to a set of restrictive covenants, certain credit agreements may contain only a limited set of covenants or otherwise have more limited protections for a lender. Certain loans may obligate a lender to make additional extensions of credit from time to time. As a lender, Clients may also be exposed to certain lender liability risks under various legal theories. Lenders are also potentially subject to risks of fraudulent conveyance or avoidable preference or otherwise subject to the risk of equitable subordination based on actions of prior lenders. In addition, settlement of corporate loans may take an extended time period. In the case of a loan participation, MCIMI will have only an indirect claim to the related loan and will assume not only the credit risk of the corporate borrower, but also the credit risk of the interposed financial intermediary. Corporate loans are generally less liquid than the high yield bond market.

Options. MCIMI may engage in the trading of options. Such trading involves risks substantially similar to those involved in trading margined securities in that options are speculative and highly leveraged. The value of options will be affected by market volatility. Furthermore, specific market movements of the securities underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option bears the risk of loss resulting from the difference between the exercise price and the price of the instrument underlying the option which the writer must purchase or deliver upon exercise.



Convertible Securities. MCIMI may invest in convertible securities. Convertible securities are generally exchangeable into common shares of an issuer based on a specified formula or occurrence of a specified date or event; certain convertible securities are mandatorily convertible in certain circumstances. Convertible securities provide higher yields than the underlying equity securities, but generally offer lower yields than non-convertible securities of similar quality. The value of convertible securities fluctuates, as do bonds, in relation to changes in interest rates and, in addition, fluctuates in relation to the market price of the underlying common stock.

Foreign Securities. MCIMI may invest in securities and other instruments of foreign corporations and foreign countries. Investing in such securities involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. government, including, among other things: political and economic considerations, such as greater risks of expropriation, nationalization and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; imposition of withholdings and other taxes or currency or exchange controls; and certain government policies that may restrict local investment opportunities. In addition, accounting and financial reporting standards that prevail in many foreign countries are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in many foreign countries than in the U.S.

Structured Credit Products. MCIMI may invest in complex structured credit products both as a hedge and as an outright risk position. These products may include first-to-default credit default swap baskets as well as tranching CDS basket trades, both bespoke and index. While such products can be effective risk taking and risk management tools, such products are generally very illiquid and pricing of such products may be more volatile than more traditional investment products.

Equity Securities. MCIMI may invest in equity and equity-linked securities, including exchange traded funds, the value of which vary with the financial performance of the related issuer(s), including as a result of corporate actions and announcements, the related industry sector and also with movements in broader equity markets generally. Equity markets may be affected by economic data, investor sentiment and political developments, among other macroeconomic factors. The prices of equity securities have historically been subject to periodic cycles in which prices rise and fall.

Non-Performing Loans. MCIMI may invest in non-performing loans. Non-performing loans are subject to increased risks of credit loss for a variety of reasons, including, because the underlying property is too highly-leveraged or the borrower has experienced financial distress. Whatever the reason, the borrower may be unable to meet its contractual debt service obligation. Non-performing loans may require a substantial amount of workout negotiations and/or restructuring, which may divert MCIMI's attention from other activities and entail, among other things, a substantial reduction in the interest rate or capitalization of past due interest. However, even if restructurings are successfully accomplished, risks still exist that borrowers will not be able or

willing to maintain the restructured payments or refinance the restructured mortgage upon maturity. Additional risks inherent in the acquisition of non-performing loans include undisclosed claims, undisclosed tax liens that may have priority, higher legal costs and greater difficulties in determining the value of the underlying property.

*Prospective Fund Investors must refer to the offering documents for each applicable Fund for detailed information with respect to the strategies and related risk applicable to such Fund.*

## **Item 9 – Disciplinary Information**

MCIMI does not have any legal or disciplinary events to report which may be material to a Client or a prospective Client's evaluation of MCIMI's advisory business or the integrity of its management.

## **Item 10 – Other Financial Industry Activities and Affiliations**

MCIMI's President/Chief Executive Officer, Chief Risk Officer and Chief Compliance Officer are each also registered persons of Macquarie Capital (USA) Inc. ("MCUSA"), which is an affiliated broker-dealer entity registered with the SEC and a member of the Financial Industry Regulatory Association, Inc. MCIMI is registered with the Commodity Futures Trading Commission as a commodity pool operator and as a commodity trading advisor and is a member of the National Futures Association ("NFA") as a swaps firm. Certain staff members of MCIMI are registered with the NFA as "principals" or "associated persons" of MCIMI.

In addition, MCIMI has other related persons in addition to MCUSA which are US and non-US broker-dealers, investment advisors, futures commission merchants, commodity pool operators and/or commodity trading advisors, and other financial institutions described in Item 7 of MCIMI's Form ADV, Part 1. Except as described herein (including Item 11 below) or Section 7.A of Schedule D of MCIMI's Form ADV, Part 1, MCIMI has no material business dealings with such related persons in connection with advisory services we provide to our Clients.

Although certain securities transaction may be effected via MCUSA, all such transactions are subject to MCIMI's obligation to seek best execution for trades. The arrangements, however, present a potential conflict of interest because they provide an economic incentive for MCIMI and its personnel to use MCUSA in lieu of other brokers to effect such transactions. MCUSA is operated separately from MCIMI and is itself subject to compliance policies designed to mitigate such conflicts of interest.

MCIMI expects to offer one or more Funds via MCUSA and may engage MCUSA or other foreign affiliates to serve as a placement agent for such Funds. Any such activities would be effected pursuant to an arms-length written agreement which would provide for customary fee arrangements for the sales and marketing services provided by such affiliated brokers.

MCIMI does not recommend or select other investment advisors for its clients where it receives compensation directly or indirectly from those advisors, or have other business relationships with other advisors.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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

MCIMI has a written Code of Ethics (“Code”) to which all MCIMI Access Persons are required to adhere. The personal dealing policy in the Code imposes restrictions on the ability of its Access Persons to invest in securities that may be recommended or traded in MCIMI Client accounts. The personal dealing policy currently applies to most securities transactions (including transactions in equity or debt securities, municipal bonds, exchange-traded securities, securities indices, derivatives of securities and similar instruments) and registered fund transactions (including transactions in closed end funds, but excluding money market funds, open-end mutual funds and other mutual funds specifically designed for short-term investment).

Pursuant to the Code and MGL’s personal dealing policy, Access Persons are required to pre-clear all of their personal securities transactions in securities that are not exempt from MCIMI’s or MGL’s personal dealing policy. Access Persons must also receive prior approval before purchasing any securities in a private placement or pursuant to an initial public offering.

Access Persons are subject to a 14-calendar day holding period between purchases and sales in the same securities with certain exceptions (such as transactions in an external managed account that the Access Person exercises no discretion over, transactions subject to periodic purchase plans and other exceptions granted by Macquarie Group’s compliance department).

All Access Persons are subject to reporting obligations, including filing a quarterly personal securities transaction report (which provides information with regard to all securities and mutual fund transactions that are required to be reported, if any, effected during the previous quarter for their own accounts and any accounts over which they have direct or indirect beneficial interest, influence and/or control). Access Persons are also required to disclose their securities accounts to MCIMI upon hire and annually confirm the information.

Further, MCIMI Access Persons are also subject to additional approval procedures, restrictions and reporting requirements with respect to serving on a board of a publicly traded company, engaging in certain other outside activities that may conflict with MCIMI’s obligations to its Clients, giving or receiving gifts and entertainment and making political contributions.

Any Access Person who violates the Code may be subject to disciplinary actions, including possible dismissal. In addition, any securities transactions executed in violation of the Code, such as short-term trading or trading during blackout periods, may subject the Access Person to sanctions, ranging from warnings and trading privilege suspensions to financial penalties, including but not limited to, unwinding the trade and/or disgorging the profits as well as

additional disciplinary action. Violations and suspected violations of criminal laws will be reported to the appropriate authorities as required by applicable laws and regulations.

MCIMI's Clients and/or prospective Clients may obtain a copy of its Code of Ethics upon request.

In addition, MCIMI has a preclearance requirement for all political contributions and also has a policy requiring the disclosure of, and limiting the extent of, certain gifts and entertainment.

#### *B. Potential Conflicts of Interest and Participation or Interest in Client Transactions*

As discussed above, MCIMI's ultimate parent is MGL, a multi-national financial services company. Therefore, MCIMI is affiliated with a number of entities that may provide, and/or may engage in commercial banking, insurance, brokerage, investment banking, financial advisory, broker-dealer activities (including sales and trading), hedge funds, real estate and private equity investing, in addition to the provision of investment management services to institutional and individual investors. Since the Macquarie Group is engaged in businesses and has interests other than managing asset management accounts, such other activities may involve real, potential or apparent conflicts of interests. These interests and activities include potential advisory, transactional and financial activities and other interests in securities and companies that may be directly or indirectly purchased or sold by MCIMI for its Clients' accounts. These are considerations of which advisory Clients should be aware and which may cause conflicts that could be to the disadvantage of MCIMI's advisory Clients. Present and future activities of the Macquarie Group, in addition to those described herein, may also result in conflicts of interest that may be disadvantageous to MCIMI's Clients.

The Macquarie Group is a major participant in global financial markets and it acts as an investor, investment banker, investment manager, financier, advisor, market maker, trader, lender, agent and principal in the global fixed income, currency, commodity, equity and other markets in which Client accounts may directly and indirectly invest. As permitted by, and in conformity with, applicable laws and regulations, Client accounts will invest in, engage in transactions with, make voting decisions with respect to, or obtain services from entities for which the Macquarie Group performs or seeks to perform banking or other services. Additionally, it is likely that Client accounts will undertake transactions in securities in which the Macquarie Group makes a market or otherwise has direct or indirect interests. MCIMI makes decisions for its Clients in accordance with its fiduciary obligations as manager of its accounts. As noted below, however, certain activities of the Macquarie Group may have a negative or detrimental effect on Client accounts.

On occasion, other entities within the Macquarie Group may have engagements and responsibilities which could give the appearance of a conflict with MCIMI's duty of loyalty. To minimize these conflicts, as a general matter, MCIMI employees associated with the investment process (including portfolio managers and research analysts) have no contact with employees of the Macquarie Group outside of MCIMI regarding specific Clients, business matters or initiatives, unless permissible by internal procedures, or approved by MCIMI's

compliance department. MCIMI's affiliates do not have any obligation to refer investment opportunities to MCIMI.

The investment activities of the Macquarie Group may limit the investment opportunities for MCIMI's Client accounts. This may occur in certain regulated industries, private equity markets, emerging markets, and in certain futures and derivative transactions where restrictions may be imposed upon the aggregate amount of investment by affiliated investors. MCIMI may voluntarily limit transactions for Client accounts or limit the amount of voting securities purchased for Client accounts, or waive voting rights for certain securities held in Client accounts, which may limit positions, in order to avoid circumstances which, in the view of MCIMI, would require aggregation of such Client account positions with investments elsewhere in the Macquarie Group that would approach or exceed certain ownership thresholds.

MCIMI has established policies, procedures and disclosures designed to address conflicts of interest arising between Client accounts and the Macquarie Group's businesses. It is MCIMI's policy that MCIMI personnel involved in portfolio management for Client accounts must act in the best interests of their Clients and generally without knowledge of the interests of proprietary trading and other operations of the Macquarie Group and/or personnel of the Macquarie Group. Where advisory personnel do know of conflicts or potential conflicts among Client accounts or between Client accounts and the Macquarie Group and/or personnel of the Macquarie Group, it is MCIMI's policy to disclose the existence of such conflicts or potential conflicts in general form through this Brochure or in other disclosures to Clients.

MCIMI (i) has related parties that may act as principal, broker or agent in connection with securities transaction with or for Clients, (ii) may recommend that Clients buy or sell securities in which MCIMI or another affiliate has a financial interest; and (iii) may buy and sell for its own account securities that it recommends to Clients.

MCIMI may enter into arrangements with affiliates and third party service providers to perform various administrative, back-office and other services relating to Client accounts. Such service providers may be located in the US or in non-US jurisdictions. MCIMI will be charged by Macquarie Group on a monthly basis for work performed on its behalf by any affiliates; such charges are based on actual time allocated by Macquarie Group personnel to matters involving MCIMI.

MCIMI acts as a fiduciary with respect to its investment management activities and owes its Clients a duty of undivided loyalty. As a fiduciary, MCIMI is required to act in the best interests of the Clients whose assets it manages.

MCIMI may direct Client accounts to take investment positions in securities in which its other Clients or related persons within MGL or MCIMI itself have different investment positions. There may be instances in which MCIMI is purchasing or selling for certain Client accounts securities in which the Macquarie Group and/or MCIMI is undertaking the same or a differing strategy in respect of other Clients or proprietary investments. Prices, availability, liquidity and terms of the investments may be negatively impacted by the Macquarie Group's and MCIMI's activities and the transactions for MCIMI's Clients may, as a result, be less

favorable. The investment results for MCIMI's Clients may differ from the results achieved by the Macquarie Group, itself and other Clients of the Macquarie Group. In addition, results among MCIMI Clients may differ. For a summary of the restriction of the flow of certain information between MCIMI and other parts of the Macquarie Group, please see the discussion below regarding MCIMI's information barriers. As noted, MCIMI makes decisions for its Clients in accordance with its fiduciary obligations as manager of its Client accounts, which are independent of what decisions may be made by or in other parts of the Macquarie Group.

MCIMI may engage in securities transactions with brokers who coincidentally sell shares of registered investment companies advised by other Macquarie Group affiliates, provided that it reasonably believes that the broker will provide best execution. There are no quid pro quo arrangements or agreements in place with these brokers. However, trading with these brokers may raise the appearance of a conflict of interest.

The Macquarie Group may from time to time in its sole discretion invest in one or more Client accounts with no obligation to invest in any or all Client accounts. The Macquarie Group may also engage MCIMI to manage proprietary money in accounts or funds that are separate from Client accounts ("MGL proprietary accounts"). MCIMI may buy, sell, or hold securities or other instruments for MGL proprietary accounts while entering into different investment decisions for one or more Client accounts. As a result of such activities, the Macquarie Group may be able to exercise substantial influence or full control over matters requiring the vote of Clients. The interests of the Macquarie Group may be different from the interests of other Clients.

The Macquarie Group may come into possession of confidential, material non-public information particularly in connection with its commercial and investment banking activities. The Macquarie Group, including MCIMI, has internal procedures and information barriers in place intended to limit the potential flow of any such non-public information. Should MCIMI come into possession of material, non-public information, MCIMI has procedures that prohibit trading activities based on such information by MCIMI for its Clients and by MCIMI employees. MCIMI may not use material, non-public information obtained from any division of the Macquarie Group when making investment decisions for its Clients. As a result of these procedures and prohibitions, Client accounts may be precluded from purchasing or selling certain securities, which could have a detrimental effect on one or more Client accounts. There may be instances where members of MCIMI senior management who are not involved in the investment process may be privy to material, non-public information about transactions or securities due to discussions with senior personnel from other departments within the Macquarie Group. However, when in possession of material, non-public information, such members of senior management may not participate or use that information to influence trading decisions or securities; nor may they pass that information along to personnel within MCIMI involved in the investment process (e.g., portfolio managers, research analysts and traders).

There may also be periods during which MCIMI may not execute certain transactions for its Client accounts, or may otherwise restrict or limit its advice given to Clients in certain securities issued by or related to companies that the Macquarie Group is performing services, or

companies in which the Macquarie Group has a proprietary position. As a result, Client accounts may be precluded from purchasing or selling certain securities, which could have a detrimental effect on one or more Client accounts.

In accordance with the Macquarie Group's policy, MCIMI may invest and manage proprietary capital in certain products and strategies also managed by MCIMI for Clients; these investments may be hedged against market risk, while Client assets may not be so hedged. The portfolio management and trading of the proprietary capital investment as well as any associated hedge activity is undertaken in accordance with MCIMI policies and procedures. Proprietary capital may not perform the same as similarly managed Client accounts for a variety of reasons, including regulatory restrictions on the type and amount of securities in which the proprietary capital may be invested, differential credit and financing terms, as well as any hedging transactions. While MCIMI acts solely in the best interests of its Clients, these circumstances may give rise to the appearance of a conflict of interest.

## **Item 12 – Brokerage Practices**

MCIMI has several policies and procedures in place with respect to the selection of broker-dealers for portfolio transactions. These include Affiliated Broker, Best Execution, Soft Dollar Arrangements and Fair Allocation.

Unless otherwise instructed or directed by a Client for which it has discretion, MCIMI has the authority generally to determine the broker to be used to effect a Client's securities transactions and the commission rates to be paid in connection with a Client's securities transactions. When it has discretion to select broker-dealers to execute securities transactions for Clients, MCIMI selects brokers in accordance with its obligation to seek best execution and may use MCUSA, its affiliated broker-dealer, to effect a portion of the Client's transactions. Although MCIMI believes that MCUSA commission rates are generally competitive with that of unaffiliated broker-dealers providing comparable services and overall qualitative execution, MCIMI does not represent to Clients it will necessarily obtain the lowest possible commission charge on every trade. All affiliated broker-dealer transactions will be done according to applicable laws and regulations.

MCIMI places all orders for the purchase or sale of securities with the primary objective of seeking to obtain the best execution from responsible executing broker-dealers at competitive rates. MCIMI seeks to deal with executing broker-dealers that can provide high-quality execution services. MCIMI takes into account all factors that it considers to be relevant, including, by way of illustration, price, the size of the transaction, the nature of the market of the security, the amount of the commission, the timing and impact of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved, the willingness of the broker-dealer to commit capital, the need for anonymity in the market, and the quality of the services rendered by the broker-dealer in other transactions, including the quality of the research provided by the broker-dealer.

In addition to the foregoing factors, MCIMI may consider the value of research or other products or services other than execution which a broker-dealer may provide to MCIMI in connection with Client securities transactions, which are known as “soft dollar” benefits. Currently, MCIMI has no formalized “soft dollar” arrangement with any broker-dealer. If it were to establish such a practice, then MCIMI would be subject to a conflict of interest because it would have an incentive to allocate brokerage business to parties providing such services and benefits, rather than brokers providing the best execution.

MCIMI does not consider, in selecting or recommending broker-dealers, whether it or a MCIMI affiliate receives Client referrals from a broker-dealer or third party.

MCIMI does not have any directed brokerage arrangements.

As part of MCIMI’s duty to seek best execution, MCIMI may, but is not required to, aggregate purchases and sales of the same security for several Clients and allocate the trades, in a fair and equitable manner, across participating accounts. To address these circumstances, MCIMI has adopted the fair allocation policies described below. The procedures are designed to help assure that investment opportunities are allocated in a manner that is fair and equitable to each Client and that no Client of MCIMI is improperly favored over any other Client or account. Allocation decisions will be made in consideration of a variety of factors, including, but not limited to, the investment objective, time horizon, investment guidelines and restrictions, suitability, current portfolio holdings, concentration and liquidity considerations, legal restrictions, minimum denominations and round lot considerations and relative size of the account applicable to each Client. In determining the allocation of investment opportunities, we may also consider such factors as whether a Client is actively receiving additional investments, is subject to withdrawal requests or is being liquidated. Not all factors may be relevant in connection with every investment.

We may effect “cross” transactions between Client accounts for purposes of rebalancing transactions, if permitted by applicable law. In a “cross” transaction, one Client account will purchase securities held by another Client account. We will only effect these transactions: (i) when we deem the transaction to be in the best interests of both Client accounts; and (ii) at a price and under circumstances that we have determined by reference to independent market indicators, or other factors which we believe to constitute “best execution” for both accounts.

We have established policies and procedures regarding the handling of trading errors in Client accounts. Pursuant to these policies and procedures, errors are corrected as soon as practicable after discovery. MCIMI attempts to assess and determine on a case-by-case basis, consistent with applicable standards of care, when reimbursement is due to a Client due to a trading error. Such reimbursement will generally only be provided if MCIMI determines that the applicable standard of care has been violated. In this regard, MCIMI attempts in good faith to place Clients in the position that was intended at the time a decision to trade was made. Where trading errors result in gains for the Client account, the account is generally credited with such gains, though in certain circumstances MCIMI may determine when fair and equitable that it is appropriate to remove such gains. On the other hand, if a trading error results in a loss and the applicable standard of care has been violated, we generally try to make Clients whole by reversing out the



trade at our own expense in the form of a reimbursement paid by MCIMI. To the extent that a Fund is regulated under a different regulatory regime, we will follow that regime's different policies and procedures regarding error correction.

We and our affiliates sometimes enter into transactions with certain Fund investors or other Clients. The terms of these transactions are negotiated on an arm's-length basis. However, we and our affiliates are subject to a conflict of interest when determining such terms because we may ultimately benefit from retaining the investor or Client account.

We permit affiliates of broker-dealers that are selected to effect portfolio transactions for Clients, including the Funds, to invest in the Funds. These relationships may create a conflict of interest because there is a risk that we may select a broker-dealer to perform commission-earning services for the Clients as a result of the broker-dealer's (or its affiliate's) Client accounts and investments in the Funds. As described above, our selection of broker-dealers is based on a variety of factors and we do not consider the investment of assets with us in selecting brokers for Client execution purposes. Nonetheless, a conflict of interest exists.

### **Item 13 – Review of Accounts**

The senior portfolio managers will typically review each Client account and portfolio on a daily basis. As part of that review, the trading personnel will review the daily transaction activity to ensure that all trades have been entered into MCIMI's systems properly. Generally, the portfolio managers will review with the IRC on a weekly basis the relative performance of various trading strategies and consider changes in company and sector fundamentals, announced transactions and other news and general market conditions.

Fund investors generally receive unaudited monthly and quarterly reports describing the performance of the related Fund and a copy of annual audited financial statements for such Fund. MCIMI produces periodic letters for Fund investors reviewing Fund performance.

The offering materials for a Fund will provide more detailed information about the type and frequency with which reports are expected to be produced.

### **Item 14 – Client Referrals and Other Compensation**

No one who is not a Client of MCIMI provides an economic benefit to MCIMI for providing investment advice or other advisory services to its Clients.

MCIMI may avail itself of capital introduction services provided by a prime broker, which may sponsor conferences or other meetings with prospective investors. MCIMI will not pay any fees in connection with such capital introduction programs or otherwise incur any costs as a result. In addition, broker-dealers or their affiliates may in the future introduce us to prospective Fund Investors and thereafter maintain business relationships with MCIMI and provide brokerage services for our Clients.

The use of such services may create the appearance of a conflict of interest because MCIMI could be motivated to select such brokerage firms. Such services, however, are incidental to brokerage services and there is no expectation that firms making such introductions be compensated directly or indirectly. MCIMI does not incur higher commissions or fees as a result of participation in such arrangements.

In addition, certain counterparties, including affiliates of broker-dealers, have established platforms which may in the future allow their clients and customers to invest in our Funds through feeder funds or other structures. In such an arrangement, we may pay a portion of our management fees and/or performance fees to platform sponsors with respect to the assets invested through each respective platform. In the future, MCIMI and its affiliates may utilize both affiliated and non-affiliated third party placement agents. Payment of a referral fee does not result in additional cost to Clients. In the event MCIMI does enter into such arrangements, it intends to comply with disclosure and other requirements applicable to such relationships under applicable laws and regulations.

## **Item 15 – Custody**

MCIMI will not act directly as custodian of Clients' assets; neither does it hold physical custody of assets. However, MCIMI will be deemed to have custody of certain Client accounts because of its ability to debit its fees directly from the Funds' accounts. MCIMI also will be deemed to have custody of the assets of one of the Funds because it serves as the manager of such Fund pursuant to the Fund's limited liability company agreement. Client assets managed by MCIMI will be held at a third party independent custodian. Assets of CLOs will be held in the custody of their respective trustee.

Fund Investors will receive annual audited financial statements for each Fund in which they have invested.

## **Item 16 – Investment Discretion**

MCIMI will generally accept discretionary authority to manage investments on behalf of Clients, based on the investment objectives, policies and strategies applicable to the related Fund or Separate Account. Such discretion generally extends to all investment decisions, including which specific investments or asset classes to buy or sell, the amount and price for such transactions, and the overall risk profile and characteristics of the Fund or Separate Account. Any limitations to MCIMI's discretion will be set forth in a written agreement.

MCIMI's investment management agreements with each Fund or Client generally grant MCIMI a power of attorney to exercise such discretion.

## **Item 17 – Voting Client Securities**

MCIMI has adopted voting policies and procedures in respect of voting Client securities. Generally, the relevant investment management agreement grants MCIMI authority to vote such proxies. Where MCIMI votes proxies on behalf of its Clients and accounts, MCIMI shall do so in a manner that is consistent with the best interest of each of its Clients, considered as a group rather than individually, unless it determines that abstaining from the vote would be in the best interest of such Clients. For this purpose, "best interest" means in the best economic interest of each Client or account, as investors, without regard to any self-interest which MCIMI, its management or affiliates might have in a particular voting matter.

If we have a conflict with respect to a proxy, our policies require that we refer the vote to the Chief Compliance Officer for review and resolution (which may result in a recusal from voting).

We do not permit Clients to direct how we will vote on specific proxies. A Client may request a copy of our voting policy and procedures and the proxy voting record relating to the relevant Fund by contacting us at the email address or telephone number listed on the first page of this document.

## **Item 18 – Financial Information**

MCIMI is not currently aware of any financial condition relating to itself that is reasonably likely to impair its ability to meet any contractual commitments to its Clients. MCIMI has not been the subject of a bankruptcy petition at any time during the past ten years.