



FORM ADV, PART 2A

Item 1: Cover Page

Sound Harbor Partners LLC

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This brochure (this "Brochure") provides information about the qualifications and business practices of Sound Harbor Partners LLC. If you have any questions about the contents of this Brochure, please contact us at (212) 231-4200. 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.

Sound Harbor Partners LLC is a registered investment adviser. SEC registration does not imply any level of skill or training.

Additional information about Sound Harbor Partners LLC is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

Sound Harbor Partners LLC, a Delaware limited liability company and a registered investment adviser (“SHP”) is required to identify and discuss material changes made to this Brochure since its March 7, 2013 annual updating of this Brochure. Accordingly, please note the following changes:

Most items have been amended to show that SHP now advises separately managed account clients.

Currently, our Brochure may be requested by contacting Polai Chan at (212) 231-4209 or polai.chan@soundharbor.com.

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Item 4: Advisory Business

Sound Harbor Partners is a private investment management firm, including three registered investment advisory entities and other affiliated organizations (collectively “Sound Harbor”), that currently manages a private fund (the “Private Fund”), collateralized loan obligation (“CLO”) assets and separately managed accounts (“SMAs”). Michael J. Zupon is Sound Harbor’s principal owner. Sound Harbor Partners LLC, a Delaware limited liability company and a registered investment adviser (“SHP”), was formed in April 2009 and commenced advisory operations in February 2011. Sound Harbor GP LLC, a Delaware limited liability company (“SHGP”), and Landmark Funds, LLC, a Delaware limited liability company (“Landmark”), are SHP’s affiliated investment advisers and are registered under the Investment Adviser Act of 1940, as amended (the “Advisers Act”), pursuant to SHP’s registration in accordance with SEC guidance. This Brochure describes the business practices of SHP, SHGP and Landmark (the “Advisers”), which together operate a single advisory business.

The Advisers provide investment advisory services to the Private Fund, CLOs (collectively with the Private Fund, the “Funds” and individually a “Fund”) and SMAs, generally directing the investment, reinvestment and monitoring of the clients’ assets and performing certain administrative functions on behalf of the Funds. The Private Fund currently targets principally non-investment grade debt obligations of U.S. middle market companies, including secured loans, senior or subordinated debt and convertible securities, and also can invest in equity securities of such companies, including common stock and warrants. The CLOs invest primarily in syndicated and secondary loan purchases, secured bank loans and senior debt and loan funding for leveraged buyouts, refinancings, mergers and acquisitions and growth initiatives. The SMAs currently invest either like the Private Fund or like the CLOs.

The Advisers’ investment advisory services for the Funds are governed by and detailed in the Private Fund’s private placement memorandum, limited partnership agreement and investment advisory agreement (the “Private Fund Governing Documents”) and the CLOs’ offering circulars, trust indentures and collateral management agreements (the “CLO Governing Documents” and together with the Private Fund Governing Documents, “Governing Documents”), respectively. The Advisers’ investment advisory services for SMAs are governed by and detailed in the SMAs investment advisory agreement and related documents. The trust indentures and the limited partnership, collateral management and investment advisory agreements are negotiated prior to the commencement of the advisory relationship and set forth the specific services that will be provided by the Advisers on behalf of the client. These investment advisory services are further described in Item 8 below under “Methods of Analysis, Investment Strategies and Risk of Loss.”

Investors in the Private Fund participate in the overall investment program for the Private Fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints. The Private Fund or the Advisers may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing the Private Fund’s limited partnership agreement. Each of the Funds and SMA clients may impose limitations on the types of securities in which the Advisers may invest. In particular, each CLO for which the Advisers provide investment advisory services is governed by an indenture that places restrictions on the types of securities that may be purchased on behalf of the CLO.

From time to time, the senior principals or other personnel of SHP or its affiliates may serve on the boards of directors (or other governing bodies) of portfolio companies or otherwise act to influence control over management of portfolio companies held by the Private Fund or by certain SMAs.

As of December 31, 2013, the Advisers managed approximately \$1,313.5 million of client assets on a discretionary basis and \$9.1 million of client assets on a non-discretionary basis.

Item 5: Fees and Compensation

All of the Advisers' fees are negotiated with the Funds and SMA clients prior to the commencement of the advisory relationship and may include management fees, performance based carried interests or incentive fees, and other fees.

The amount of, and the timing, manner and calculation of, the management fee and carried interest for the Private Fund are established by the Advisers, as modified by negotiations with investors in the Private Fund, and are set forth in the Private Fund Governing Documents received by each investor prior to investment in the Private Fund. The management fee for the Private Fund may be offset by a portion of certain fees earned by the Advisers and their affiliates and by certain expenses incurred by the Private Fund as provided in the Private Fund Governing Documents. The Advisers or their affiliates may receive additional compensation in connection with management and other services performed (*e.g.*, monitoring and other fees) for portfolio companies of the Private Fund. This practice may present a conflict of interest and gives the Advisers' supervised persons and the Advisers an incentive to recommend investments based on the compensation received rather than the Private Fund's needs. SHP may reduce the management fee payable by any Private Fund investor (including any Private Fund investor who is an affiliate of SHP or SHGP). Principals or other employees of Sound Harbor may receive a portion of the management fees received by the Advisers.

The amount of, and the timing, manner and calculation of, the fees for the CLOs are set forth in the CLO Governing Documents, including the offering circulars received by every investor purchasing in the original issuance of CLO interests. CLO collateral management fees may include asset-based fees, including senior collateral management fees, which range from 0.10% to 0.25% of a CLO's assets annually, and subordinated collateral management fees, which range from 0.35% to 0.40% of a CLO's assets annually. Incentive collateral management fees constituting 20% of a CLO's distributions above a pre-determined hurdle rate are payable when the equity class of securities for such CLO has achieved a specified return on investment. Each of these CLO management fees, however, are payable only to the extent that funds are available for such purpose in accordance with the priority of payments described in the applicable CLO's indenture. CLO management fees are calculated by the indenture trustee and confirmed by the Advisers. Full disclosure of these fees is found in the applicable CLO Governing Documents.

The amount of, and the timing, manner and calculation of, the fees for SMAs are individually negotiated with the client and are as set forth in the SMA investment advisory agreement.

Generally fees are payable quarterly in arrears except for certain Funds that may be payable semi-annually partially in advance and partially in arrears. The Funds generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Funds' applicable Governing Documents, over the terms of the Funds. The Advisers will not permit a withdrawal of investment during the Private Fund's term, except under extraordinary limited circumstances.

Clients generally bear all of the expenses of their operations. Accordingly, the Funds and SMA clients may pay other fees and expenses in addition to the management fees paid to the Advisers. For example, expenses and fees the Funds and SMA clients may pay include but are not limited to legal fees, accounting fees, audit fees, tax preparation fees, research expenses, due diligence expenses, finders fees, investment banking fees, brokerage commissions, transaction fees, custodial fees, transfer fees and taxes, wire transfer fees, other fees and taxes charged to brokerage accounts and securities transactions, interest on borrowings and insurance premiums, which are unrelated to the fees collected by the Advisers. The

Advisers may be entitled to be reimbursed for some or all expenses that they incur on behalf of the Funds. Regarding brokerage practices, please see Item 12 “Brokerage Practices.”

Item 6: Performance-Based Fees and Side-by-Side Management

The payment of carried interests and incentive fees creates an incentive for the Advisers to make more speculative investments on behalf of clients than they would otherwise make in the absence of such compensation arrangements. As the Private Fund’s general partner, SHGP may exempt investors in the Private Fund (including any Private Fund investor who is an affiliate of SHGP) from the Private Fund’s carried interest. As controlling members of the Advisers, some of the Advisers’ supervised persons receive such performance-based fees.

Side-by-side management of client accounts may create a conflict of interest wherein the Advisers are incentivized to allocate certain investment opportunities to client accounts with a higher a fee structure. In order to mitigate conflicts of interest related to side-by-side management of client accounts with different fee structures, the Advisers have established a trade allocation policy for all client accounts that seeks to treat each client fairly.

Item 7: Types of Clients

The Private Fund is an investment partnership that is operated as an exempt investment pool under the Investment Company Act of 1940, as amended (the “Investment Company Act”). The investors participating in the Private Fund may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of the Advisers and their affiliates. The Advisers do not have a minimum size for the Private Fund. The Private Fund generally would require a minimum of \$2,000,000 for investors investing in the Private Fund but has the discretion to accept lesser amounts. The Private Fund generally requires all investors to be “accredited investors” as defined under Regulation D of the Securities Act, and all new investors that are charged a Carried Interest to be “qualified clients” as defined in Rule 205-3 under the Advisers Act. In addition, the Private Fund requires all investors make representations concerning their sophistication as investors and their ability to bear the risk of loss of their entire investment under the Advisers’ management.

SMA clients may include insurance companies, other investment entities, banks or thrift institutions, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities.

The CLOs are limited liability companies that are operated as exempt investment pools under the Investment Company Act. Interests in the CLOs are offered primarily to institutional investors that are qualified institutional buyers as defined under Rule 144A of the Securities Act of 1933, as amended (the “Securities Act”). The securities issued by the CLOs generally are in denominations of at least \$100,000.

Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss

The following discussion is a summary of the methods of analysis and investment strategies and the risks of loss involved in connection with the Advisers’ advisory services to the Funds and SMAs and for Fund clients and their investors, is qualified in its entirety by reference to the Private Fund Governing Documents, the CLO Governing Documents and the SMA investment advisory agreements, respectively.

Methods of Analysis

In advising the Private Fund and SMA clients investing in similar types of assets, the Advisers generally look to identify compelling fundamental value in companies that are believed to be operationally sound and have a sustainable competitive edge. The Advisers generally focus on identifying value in companies with some of the following attributes:

- Competitive Advantage
- Compelling Valuation
- Growth Expectations
- Market Leaders
- Strong Management
- Sound Governance
- Equity Upside

In managing the CLOs' collateral and SMAs investing in similar types of assets, the Advisers generally use a fundamentals-based credit analysis framework for underwriting and managing a portfolio of secured loans. The Advisers actively monitor the loan portfolio and focus on early identification of investment risk. The Advisers generally evaluate each investment based on the issuing company's overall credit risk and asset coverage measures such as cash flow coverage ratios, corporate asset values, the issue's seniority in the issuer's capital structure, the expected volatility of corporate cash flows and asset values, and the issue's particular credit covenants.

Investment Strategies

In advising the Private Fund and SMA clients investing in similar types of assets, the Advisers generally seek to provide financing to businesses in return for current income, seniority in the capital structure and the potential for meaningful equity upside. The Advisers principally target non-investment grade debt obligations of U.S. middle market companies across various industries with annual EBITDA between \$15 million and \$100 million. Through the Private Fund and SMA clients investing in similar types of assets, the Advisers generally seek to source secured loans, senior or subordinated debt, convertible securities and equity and equity-linked securities, which may be acquired below their fundamental value. These include long-term mezzanine, distressed and equity investments made with the intention of achieving multiples of cost by exerting influence to unlock shareholder value. This approach uses traditional private equity disciplines and creditors' rights, such as board seats, observer seats, blocking positions, contractual rights, covenants and creditors' committees. The Advisers generally seek to manage principal risk and achieve equity upside by funding restructurings, reorganizations, refinancings and growth initiatives (including new leveraged buyout transactions). The Advisers place a particular emphasis on those investment opportunities that they believe have significant potential for capital appreciation relative to their principal risk. These investment opportunities are frequently found in industries experiencing fundamental change and/or scarcity of capital. The Advisers generally seek investments that may offer the opportunity to exert meaningful influence during and after a financing event.

In managing the CLOs' collateral and SMA clients investing in similar types of assets, the Advisers invest principally in senior secured corporate loans. The Advisers' team focuses on careful investment selection and monitoring, which the Advisers believe are critical to credit outperformance. Their investment process seeks to minimize losses from defaults and generally targets high current income and consistent investment returns. The Advisers generally target North American companies with proven cash flows and substantial asset values, operating in businesses with high barriers to entry and sustainable competitive advantages, syndicated and secondary loan purchases, secured bank loans and senior debt, and funding for leveraged buyouts, refinancings, mergers and acquisitions and growth initiatives.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. The principal risks of the Advisers' investment strategies and the types of securities in which the Advisers invest and manage are set forth in the Private Fund Governing Documents and CLO Governing Documents and are summarized below:

Management Risk. The Advisers' ability to meet the clients' investment objectives is directly related to the Advisers' investment strategies. The value of the clients' investments may vary with the effectiveness of the Advisers' research, analysis and recommended asset allocation among portfolio securities and collateral. The performance of the Advisers' principals' prior investments is not necessarily indicative of the clients' future results. If the Advisers' investment strategies do not produce the expected results, the clients' assets could be diminished or even lost.

Credit Market Illiquidity. The credit markets experienced an extraordinary lack of liquidity during the global financial crisis of 2008-2009. While a future lack of liquidity may create opportunities for clients to acquire assets at prices that we believe are attractive, it creates a number of risks. There can be no assurance that the market will, in the future, be liquid and it may well continue to be volatile for the foreseeable future. If liquidity is not present, the clients will be adversely affected to the extent that the Advisers seek to dispose of the clients' assets into an illiquid market, and the Advisers may find themselves unable to sell a client's asset at a price that the Advisers believe reflects the asset's fair value. It is also possible that the illiquidity in the market could cause prices to decline further, which may have the result of forcing leveraged investment vehicles to sell assets to satisfy requirements under their borrowing arrangements or to meet margin calls, which could, in turn, create further downward price pressure.

Factors Relevant to Performance. The performance of the clients' portfolios could be adversely affected, by macroeconomic factors, including general economic conditions affecting capital markets and participants therein (such as the issuers of portfolio securities). Such macroeconomic factors include (i) the economic downturns and uncertainties affecting economies and capital markets worldwide, (ii) the effects of, and disruptions and uncertainties resulting from, the terrorist attacks of September 11, 2001 and the military responses thereto, the continuing military conflict in the Middle East and elsewhere, incidents of terrorism occurring outside the United States and other consequences thereof and similar events, (iii) recent concern about financial performance, accounting and other issues relating to various companies and (iv) recent and proposed changes in accounting and reporting standards.

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

portion of the underlying portfolio securities, some of which may be fixed rate. Although all or most floating rate obligations are expected to bear interest at rates based on the same index as the notes issued by the CLOs, some may be based on other indices, and even those based on the same index will likely have reset dates or periods different from those of the notes that the CLOs issue.

Loans and Participations. Loans may become non-performing for a variety of reasons and may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of principal. In addition, when a client holds a loan by way of participation, it may not have voting rights with respect to any waiver of enforcement of any restrictive covenant breached by a borrower. Selling institutions commonly reserve the right to administer the participations sold by them as they see fit (unless their actions constitute gross negligence or willful misconduct) and to amend the documentation evidencing the obligations in all respects. However, most participation agreements provide that the selling institutions may not vote in favor of any amendment, modification or waiver that forgives principal, interest or fees, reduces principal, interest or fees that are payable, postpones any payment of principal (whether a scheduled payment or a mandatory prepayment), interest or fees or releases any material guarantee or security without the consent of the participant (at least to the extent the participant would be affected by any such amendment, modification or waiver). Selling institutions voting in connection with a potential waiver of a restrictive covenant may have interests different from those of a client, and such selling institutions might not consider the interests of the client in connection with their votes. In addition, many participation agreements that provide voting rights to the holder of the participation further provide that if the holder does not vote in favor of amendments, modifications or waivers, the selling lender may repurchase such participation at par. Holders of participations are subject to additional risks not applicable to a holder of a direct interest in a loan. Participations typically result in a contractual relationship only with the selling institution, not with the underlying borrower. The holder of the participation has the right to receive payments of principal, interest and any fees to which it is entitled only from the selling institution selling the participation and only upon receipt by such selling institution of such payments from the borrower. In the event of the insolvency of the selling institution, under the laws of the United States and the various States thereof, a holder of a participation may be treated as a general creditor of the selling institution and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, the holder of a participation will be subject to the credit risk of the selling institution as well as of the borrower. Participants also generally do not benefit from the collateral (if any) supporting the loans in which they have a participation interest because participations generally do not provide a purchaser with direct rights to enforce compliance by the borrower with the terms of the loan agreement or any rights of set-off against the borrower. The holder of a participation may not have the right to vote to waive enforcement of any restrictive covenant breached by the underlying borrower or, if the holder does not vote as requested by the selling institution, it may be subject to repurchase of the participation at par. Selling institutions voting in connection with a potential waiver of a restrictive covenant may have interests different from those of the holder of the participation, and such selling institutions may not consider the interests of such holder in connection with their votes. The Advisers are not required, and do not expect, to perform independent credit analyses of the selling institutions.

Loans and Assignments. Clients also will purchase loans by way of 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 a client as an owner of a participation, the client, as an assignee, generally will 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 client and to promptly pay over to the client such amounts as are received. As a purchaser of an assignment, the client 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 client also will 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 supporting the loan. As a result, the client 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 client to continue to receive payments of principal, interest or fees from the obligor. The client 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, 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 loans and any such write-down or extension will likely also cause a significant decrease in the principal collections on the loans.

Liquidity Risks. Debt obligations in the form of loans rather than bonds are generally subject to additional liquidity risks and, in some cases, credit risks. In addition, because of the unique and customized nature of a loan agreement and the private syndication of a loan, certain loans may not be purchased or sold as easily as publicly traded securities, and, historically, the trading volume in the loan market has been small relative to other markets. Consequently, there can be no assurance that there will be any market for any loan if a client is required to sell or otherwise dispose of such loan. Trading in loans is subject to delays as transfers may require extensive and customized documentation, the payment of significant fees and the consent of the agent bank or underlying obligor. Furthermore, loans typically provide that the applicable interest rate may be computed by reference to any of several base indices, at the option of the obligor. Depending on the terms of the underlying loan documentation, consent of the borrower may be required for an assignment, and a purported assignee may not have any direct right to enforce compliance by the obligor with the terms of the loan agreement in the absence of this consent. Risks associated with bank loans include the fact that prepayments may occur at any time generally without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause the clients to reinvest prepayment proceeds in lower-yielding portfolio securities. Loans are not generally traded in organized markets but are traded by banks and other institutional investors engaged in syndications and loan participations, respectively. The liquidity of the loans therefore will depend on the liquidity of this market. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate loan trading that may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide any particular degree of liquidity or that the current level of liquidity will continue. In addition, historically the trading volume in the loan market has been small relative to the high-yield debt market. As a result of the limited liquidity of high-yield debt securities, their prices have at times experienced significant and rapid decline when a substantial number of holders decided to sell. In addition, the clients may have difficulty disposing of certain high-yield debt securities because there may be limited liquidity for such securities. To the extent that a secondary trading market for non-investment grade high-yield debt securities does exist, it is generally not as liquid as the secondary market for highly rated securities. Reduced secondary market liquidity may have an adverse impact on the clients' ability to dispose of particular issues in response to a specific economic event such as a deterioration in the creditworthiness of the issuer of such securities.

Equity Investments. The Private Fund and SMAs investing in similar types of assets may acquire, either directly or through conversion of its debt investments, equity securities in portfolio companies. Equity securities generally involve a high degree of risk and will be subordinate to the debt securities and

other indebtedness of the issuers of such equity securities. Prices of equity securities generally fluctuate more than prices of debt securities and are more likely to be affected by poor economic or market conditions. In some cases, the issuers of such equity securities may be highly leveraged or subject to other risks such as limited product lines, markets or financial resources.

Trade and Other General Unsecured Claims. The Private Fund and SMAs investing in similar types of assets may invest in various classes of investments that may include claims of trade creditors and other general unsecured claim holders of a debtor ("Trade Claims"). The repayment of trade claims is subject to significant uncertainties, including potential set-off by the debtor as well as the other uncertainties described herein with respect to other distressed securities. The Private Fund's and certain SMA's investments in Trade Claims and high risk receivables may also entail special risks including, but not limited to, fraud on the part of the assignor of the trade claim as well as logistical and mechanical issues which may affect the ability of the Fund, the SMA or its agent to collect the claim in whole or in part.

Risks Associated with Investments in High Yield Debt. A substantial portion of the high yield debt in which the Advisers recommend clients invest are rated below investment-grade by one or more nationally recognized statistical rating organizations or are unrated but of comparable credit quality to obligations rated below investment-grade, and have greater credit and liquidity risk than more highly rated debt obligations. High yield debt is generally unsecured and may be subordinate to other obligations of the obligor. The lower rating of high yield debt reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Many issuers of high yield debt are highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. In addition, many issuers of high yield debt may be (i) in poor financial condition, (ii) experiencing poor operating results, (iii) having substantial capital needs or negative net worth or (iv) facing special competitive or product obsolescence problems, and may include companies involved in bankruptcy or other reorganizations or liquidation proceedings. Certain of these securities may not be publicly traded, and therefore it may be difficult to obtain information as to the true condition of the issuers. Overall declines in the below investment-grade bond and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity. High yield debt is often less liquid than higher rated securities. High yield debt is often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. High yield debt has historically experienced greater default rates than has been the case for investment-grade securities. The Advisers also may recommend that the Private Fund and certain SMAs invest in equity securities issued by entities with unrated or below investment-grade debt.

Contingent Liabilities. Clients may from time to time incur contingent liabilities in connection with an investment that the Advisers recommend. For example, clients may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down the facility, the clients would be obligated to fund the amounts due. Clients may acquire delayed draw term loans, where the lender has made a commitment to the borrower to lend with a pre-defined future draw period and it may also enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third-party, and may, on the other hand, enter into agreements through which third-parties offer default protection to the clients.

Time Required to Maturity of Investment. The type of investments in which clients may invest may typically take from three to ten years from the date of initial investment until repayment.

Minority Positions in Portfolio Companies. As part of its overall investment strategy, clients may hold minority positions in one or more portfolio companies, and as such it may not be able to exercise control over such companies. In such cases, the clients will be significantly reliant on the existing management and board of directors of such companies, which may include representatives of other investors with whom the client is not affiliated and whose interests may conflict with the interests of the client.

Restricted or Illiquid Securities. The Advisers often recommend investments in illiquid securities, including restricted securities and other securities that are not readily marketable. The Advisers may recommend securities that are subject to restrictions on sale because they were acquired from the issuer in a “private placement.” Clients will not be able to sell these securities publicly unless their sale is registered under the Securities Act, and applicable state securities laws or unless an exemption from such registration requirements is available. In addition, through the Advisers or otherwise, clients may, from time to time, possess material, non-public information about a borrower or issuer. Such information may limit the ability of the clients to buy and sell investments. When securities are sold to the public, clients may be deemed an “underwriter” or a controlling person with respect thereto for purposes of the Securities Act and may be subject to liability as such under the Securities Act. Furthermore, contractual conditions or practical limitations may preclude, delay or otherwise restrict the clients’ ability to dispose of illiquid securities or reduce the proceeds that might otherwise be realized from any such disposition. Upon termination of a Private Fund, the Private Fund may make distributions in kind to its investors consisting of securities that are not publicly traded.

Reliance on Portfolio Company Management. Although the Advisers typically intend to recommend investments in companies with strong and stable management, there can be no assurance that the existing management team of a portfolio company, or any new one, will be able to operate such company successfully. Furthermore, although the Advisers will monitor the performance of the clients’ investments in each portfolio company, it will be primarily the responsibility of company management to operate the business on a day-to-day basis.

Risks Regarding Dispositions of Investments in Portfolio Companies. In connection with the disposition of an investment in a portfolio company, clients may be required to make representations and warranties about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. Clients may also be required to indemnify the purchasers of an investment to the extent that any of these representations and warranties turn out to be inaccurate or misleading. These arrangements may result in liabilities for clients.

Nature of Mezzanine Securities. Although mezzanine securities are typically senior to common stock or other equity securities, the preferred equity and debt securities that the Advisers may recommend will generally be unsecured and subordinated to substantial amounts of senior debt, all or a significant portion of which may be secured. In addition, these securities may not be protected by all of the financial covenants, such as limitations upon additional indebtedness, typically protecting such senior debt. Holders of mezzanine debt generally are not entitled to receive any payments in bankruptcy or liquidation until senior creditors are paid in full. Holders of preferred equity are not entitled to payments until all creditors are paid in full. In addition, the remedies available to holders of mezzanine debt are normally limited by restrictions benefiting senior creditors. If any portfolio company cannot generate adequate cash flow to meet senior debt service, clients may suffer a partial or total loss of capital invested. There can be no assurances that portfolio companies will not experience financial difficulties that may result in large losses.

Distressed Securities. The Advisers may recommend investments to the Private Fund and certain SMAs in “distressed securities”-securities, private claims and obligations of domestic and foreign entities

which are experiencing significant financial or business difficulties. Investments may include loans, commercial paper, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts and options or participations therein not publicly traded. Distressed securities may result in significant returns to the Private Fund and certain SMAs, but also involve a substantial degree of risk. The Private Fund and certain SMAs may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than the Private Fund's or SMA's original investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. In trading distressed securities, litigation sometimes arises. Such litigation can be time-consuming and expensive and can frequently lead to unpredicted delays or losses.

Competition for Investments. Clients will be competing with a significant number of other private equity, mezzanine and loan investment investors, as well as institutional and strategic (industry) investors, hedge funds, business development companies and other investment managers for investments in portfolio companies. Competition can have the effect of significantly reducing the number of attractively priced investment opportunities available to clients, which in turn could have a materially adverse impact on transaction structures and pricing as well as the length of time that is required for the clients to become fully invested.

Investments in Non-U.S. Countries. The Advisers may recommend that clients acquire securities of companies located in countries other than the United States. Investment in foreign issuers may involve certain special risks due to foreign economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of taxes on dividends, interest payments, or capital gains, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against foreign entities. Furthermore, issuers of foreign securities are subject to different, often less comprehensive accounting reporting and disclosure requirements than domestic issuers. The securities of some foreign governments and companies and foreign securities markets are less liquid and at times more volatile than comparable U.S. securities and securities markets. Foreign brokerage commissions and other fees are also generally higher than in the United States. There are also special tax considerations that apply to securities of foreign issuers and securities principally traded overseas. Moreover, the expenses normally associated with non-U.S. investments often exceed those associated with U.S.-based investments. Foreign markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of clients are uninvested and no return is earned thereon. The inability of clients to make intended portfolio securities purchases due to settlement problems or the risk of intermediary counterparty failures could cause clients to miss investment opportunities. The inability to dispose of a portfolio security due to settlement problems could result either in losses to a client due to subsequent declines in the value of such portfolio security or, if a client has entered into a contract to sell the security, could result in possible liability to the purchaser.

Risks of Certain Investments. The Advisers may recommend that clients acquire securities of companies formed for specific transactions and that have no operating histories, or of companies that are

highly leveraged, with significant burdens on cash flow resulting from acquisition, recapitalization or other debt service. Such companies' securities and the ability of such companies to pay debts could be adversely affected by interest rate movements, changes in the general economic climate or the economic factors affecting a particular industry, changes in tax law or specific developments within such companies.

Risks of Smaller Companies. Some portfolio companies in which the Advisers recommend investments will be either established companies with an operating history or new companies that were formed to acquire an established business. While these companies or their predecessors may be "established" and have an "operating history," these companies may be small, private companies, often relying on a very concentrated business strategy, product or service for their economic viability. Investments in small companies may be subject to more abrupt or erratic market movements and may involve greater risks than investments in other companies due to their limited product lines and markets and a dependence on management by one or a few key individuals.

Investments in Undervalued Assets. The Advisers may recommend to the Private Fund and certain SMAs investments in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. The Private Fund and certain SMAs may be forced to sell, at a substantial loss, assets that the Advisers believe are undervalued. In addition, the Private Fund and certain SMAs may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of the Private Fund's and SMAs' funds would be committed to assets purchased, thus possibly preventing the Private Fund and SMAs from investing in other opportunities. In addition, the Private Fund and SMAs may finance such purchases with borrowed funds and thus will have to pay interest on such funds during this waiting period. Finally, margin calls and other events related to the Private Fund's and SMAs' indebtedness could force the Private Fund and the SMAs to have to sell assets at prices that are less than their fair value.

Third Party Litigation. Clients' investment activities subject them to the normal risks of becoming involved in litigation by third parties. This risk is somewhat greater where a client exercises control or significant influence over a company's direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the clients and would reduce amounts distributable to the Funds' investors or SMA clients.

Currency Exchange Risk. Investments that the Advisers recommend may be denominated in currencies other than the U.S. dollar, and hence the value of such investments will depend in part on the relative strength of the U.S. dollar. Clients may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between foreign currencies and the U.S. dollar. Changes in foreign currency exchange rates may also affect the value of dividends and interest earned, and the level of gains and losses realized on the sale of securities. The rates of exchange between the U.S. dollar and other currencies are affected by many factors, including forces of supply and demand in the foreign exchange markets. These rates are also affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors.

Risks of the Bankruptcy Process Affecting Investments. There are a number of significant risks inherent in the bankruptcy process. Many events in a bankruptcy are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. There can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of the clients. The effect of a bankruptcy filing on a company may adversely and

permanently affect the company, including the loss of its market position, key employees and otherwise becoming incapable of restoring itself as a viable entity. If for this or any other reason the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is difficult to predict and a creditor's return on investment can be adversely affected by delays while the plan of reorganization is being negotiated and confirmed by the bankruptcy court and until it ultimately becomes effective. Bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that a client's influence with respect to the class of securities it owns can be lost by increases in the number and amount of claims in that class or by different classification and treatment. In the early stages of the bankruptcy process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Additionally, certain claims that have priority by law (for example, claims for taxes) may be quite significant. See "Fraudulent Conveyance and Preference Considerations" below.

Participation on Creditors' Committees. Clients may participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy or clients may seek to negotiate directly with the debtors with respect to restructuring issues. If clients do join a creditors' committee, the participants of the committee would be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results most favorable to the clients in such proceedings. By participating on such committees, clients may be deemed to have duties to other creditors represented by the committees, which might thereby expose the client to liability to such other creditors who disagree with the clients' actions.

Provision of Managerial Assistance. Following the Advisers' recommendations, clients may obtain rights to participate substantially in and to influence substantially the conduct of the management of the issuers in which it makes investments. Clients may designate directors (and non-executive chairmen) to serve on the boards of directors of issuers in which they make investments. The designation of directors and other measures contemplated could expose the assets of a client to claims by an issuer, its security holders and its creditors. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability that the limited liability characteristic of business operations usually ignored.

Lender Liability Considerations and Equitable Subordination. In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of clients' investments, clients could be subject to allegations of lender liability. In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of the other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." Because of the nature of certain of the clients' investments, clients could be subject to claims from creditors of an obligor that the clients' investments issued by such obligor that are held by the clients should be equitably subordinated. A significant number

of the clients' investments that the Advisers recommend typically will involve investments in which a client would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting the clients' investments could arise without the direct involvement of the clients.

Fraudulent Conveyance and Preference Considerations. Various federal and state laws enacted for the protection of creditors may apply to the purchases of clients' investments, which constitute the primary assets of the client accounts, by virtue of the clients' role as a creditor with respect to the borrowers under such investments. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a borrower, such as a trustee in bankruptcy or the borrower as debtor-in-possession, were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to the incurring of such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could invalidate, in whole or in part, such indebtedness and such security interest or other lien as fraudulent conveyances, could subordinate such indebtedness to existing or future creditors of the borrower or could allow the borrower to recover amounts previously paid by the borrower to the creditor (including to clients) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, in the event of the insolvency of an issuer of an investment, payments made on the clients' investments could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before insolvency depending on a number of factors, including the amount of equity of the borrower owned by clients and their affiliates and any contractual arrangement between the borrower, on the one hand, and the clients and their affiliates, on the other hand. The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction that is being applied. Generally, however, a borrower would be considered insolvent at a particular time if the sum of its debts was greater than all of its assets at a fair valuation or if the then-present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its then-existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether a borrower was insolvent after giving effect to the incurrence of the loan or that, regardless of the method of evaluation, a court would not determine that the borrower was "insolvent" upon giving effect to such incurrence. In general, if payments on an investment are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as clients) or from subsequent transferees of such payments, including the Funds' investors or the SMA clients.

Post-reorganization Securities. Post-reorganization securities typically entail a higher degree of risk than investments in securities that have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to heavy selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If the Advisers' evaluation of the anticipated outcome of an investment situation should prove incorrect, clients could experience a loss.

Leverage. The leveraged capital structures of the portfolio companies in which the Advisers recommend investment may increase the exposure to adverse economic factors such as significantly rising interest rates, severe downturns in the economy or deterioration in the condition of the portfolio company or its industry. If a portfolio company is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of a client's investment in such a company could be significantly reduced or even eliminated.

Risks Associated with Defensive Hedging Strategies. The Advisers may from time to time recommend that the Private Fund or certain SMAs employ defensive hedging techniques, including but not limited to options trading, short sales (possibly specific company shorts), swap transactions and currency and other hedging to minimize risk, particularly for toe-hold distressed investments that the Advisers anticipate building into control/active positions. There remains a substantial risk, however, that hedging techniques may not always be possible or effective in limiting losses.

Structured Products. The Advisers may recommend investments in structured products. These investments will typically consist of equity or subordinated debt securities issued by a private investment fund that invests, on a leveraged basis, in bank loans and/or high-yield bonds directly or through total return swaps or other credit derivatives. Clients' investments in structured products will be subject to a number of risks, including risks related to the structured products being leveraged. Use of leverage is a speculative investment technique and will generally magnify the opportunities for gain and risk of loss borne by an investor in the equity or subordinated debt securities issued by a structured product. Many structured products contain covenants designed to protect the providers of debt financing to such structured products. A failure to satisfy those covenants could result in the untimely liquidation of the structured product and a complete loss of the clients' investments therein. In addition, if the particular structured product is invested in a security in which a client is also invested, this would tend to increase that client's overall exposure to the credit of the issuer of such securities, at least on an absolute, if not on a relative basis. Structured products are a relatively recent development in the financial markets. Consequently, there are certain tax and market uncertainties that present risks relating to investing in structured products.

Expedited Transactions. Investment analyses and decisions by the Advisers frequently may be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to the Advisers at the time of an investment decision may be limited, and the Advisers may not have access to detailed information regarding the investment opportunity, in each case, to an extent that may not otherwise be the case had the Advisers been afforded more time to evaluate the investment opportunity. Therefore, no assurance can be given that the Advisers will have knowledge of all circumstances that may adversely affect an investment.

Reliance Upon Projections. The Advisers may rely upon projections, forecasts or estimates developed by them or a portfolio company concerning the portfolio company's future performance and cash flow. Projections, forecasts and estimates are forward-looking statements and are based upon certain assumptions. Actual events are difficult to predict and beyond the advisers' control. Actual events may differ from those assumed. Some important factors which could cause actual results to differ materially from those in any forward-looking statements include changes in interest rates; domestic and foreign business, market, financial or legal conditions; differences in the actual allocations of the clients' investments among asset groups from those assumed herein; the degree to which the clients' investments are hedged and the effectiveness of such hedges, among others. Accordingly, there can be no assurance that estimated returns or projections can be realized or that actual returns or results will not be materially lower than those estimated therein.

Lack of Diversification. It is expected that the Private Fund or certain SMAs will invest in a limited number of investments. A consequence of a limited number of investments is that the aggregate returns realized by the Private Fund's investors or the SMA client may be substantially adversely affected by the unfavorable performance of a small number of such investments. To the extent a Fund or SMA concentrates investments in a particular asset class, geographic region, security, sector or stage of investment, investments may become more susceptible to fluctuations in value resulting from adverse economic or business conditions applicable to such asset class, region, type of security, sector or stage of investment.

Reinvestment Risks. A client's income will decline if and when the client invests the proceeds from matured, prepaid, sold or called portfolio security into lower yielding instruments. The yield with respect to such portfolio security will depend on, among other factors, reinvestment rates available at the time, the availability of investments satisfying the criteria for the purchase of a portfolio security and acceptable to the Advisers, and market conditions related to the portfolio security in general. The need to satisfy the reinvestment criteria set forth in the applicable Governing Documents or investment advisory agreement and related documents and identify acceptable investments may require the purchase of a portfolio security with a lower yield than those replaced, with different characteristics than those replaced (including, but not limited to, coupon, spread, maturity, call features and/or credit quality) or require that such funds be maintained in cash equivalents pending reinvestment in portfolio security, which will further reduce the yield on the portfolio security. There can be no assurance as to the timing of the purchase of any such portfolio security or that in the event portfolio security are sold, prepaid, called, or matured, yields on portfolio security that are available and eligible for purchase will be at the same levels as those replaced. Leveraged loans and privately placed high-yield debt securities are not as easily (or as quickly) purchased or sold as publicly traded securities for a variety of reasons, including confidentiality requirements with respect to obligor information, the customized non-uniform nature of loan agreements and private syndication. The reduced liquidity and lower volume of trading in such debt obligations, in addition to restrictions on investment represented by the reinvestment criteria set forth in the applicable Governing Documents or investment advisory agreement and related documents, could result in periods of time during which the client is not able to fully invest its cash in a portfolio security. The longer the period before investment of cash in a portfolio security, the greater the adverse impact will be on client investment performance. In addition, loans are often prepayable by the borrowers with no, or limited, penalty or premium. As a result, loans generally prepay more frequently than other corporate obligations of the same borrower. Senior loans usually have shorter terms than more junior obligations and often require mandatory repayments from excess cash flow, asset dispositions and offerings of debt and/or equity securities. The increased levels of prepayments and amortization of loans increase the associated reinvestment risk on the portfolio security.

Synthetic Securities. The CLOs may invest in certain synthetic securities, which are any U.S. dollar denominated swap transaction, debt security, security issued by a trust or similar vehicle or other investment purchased from or entered into by the CLO with a synthetic Security obligor the returns on which (as determined by the Advisers) are linked to the credit performance of a reference obligation, but which may provide for a different maturity, payment dates or interest rate or interest rate basis than such reference obligation. When a CLO invests in a synthetic security, it will usually have a contractual relationship only with the counterparty of the synthetic security, and not the reference obligor. Therefore, the CLO generally will have no right directly to enforce compliance by the reference obligor with the terms of the reference obligation nor any rights of set-off against the reference obligor, nor have any voting rights with respect to the reference obligation. In the event of the insolvency of any counterparty, the CLO's recourse will be limited to the collateral, if any, posted by the counterparty and, in the absence of collateral, the CLO will be treated as a general creditor of the counterparty. Consequently, the CLO will be subject to the credit risk of the counterparty, any collateral posted by the counterparty, the reference obligor and the obligors of the "deliverable obligations" referred to in the synthetic security, if any. The Advisers will not perform independent credit analysis of the counterparties. While the CLO expects that returns on a synthetic security may reflect those of each related reference obligation, as a result of the terms of the synthetic security and the assumption of the credit risk of the counterparty, a synthetic security may have a different expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default. Upon the occurrence of a "credit event" (as specified in the underlying instruments), maturity, acceleration or other termination of a synthetic security, the terms of the synthetic security may permit or require the counterparty to satisfy its obligations under the synthetic security by delivering to the CLO one or more deliverable obligations

(which may not be the reference obligation) or a cash payment (which may be less than the then-current market value of the reference obligation). In addition, a synthetic security may provide for early termination at a price based upon a marked-to-market valuation, which may be less than the principal or notional amount of the synthetic security. Synthetic securities are specialized securities that are expected to be less liquid and not as readily tradeable as other portfolio securities and may be subject to more variability between their market value and actual sale price than other portfolio securities. In addition, there is no assurance that a buyer will be available if the CLO decides to sell a synthetic security.

Securities Lending. The Advisers, on behalf of the CLOs, may enter into securities lending agreements with respect to portfolio securities with respect to a portion of the CLOs' assets with banks, broker-dealers or other financial institutions which have specified short-term debt rating or a guarantor with specified short-term ratings. In the event that the related counterparty defaults on its obligation to return loaned portfolio security, because of insolvency or otherwise, the CLO indenture trustee could experience delays and costs in gaining access to any collateral posted by the counterparty (and in extreme circumstances could be restricted from selling the collateral). In the event that the borrower defaults, the CLO could suffer a loss to the extent that the realized value of the cash or securities securing the obligation of the borrower to return a loaned portfolio security (less expenses) is less than the amount required to purchase such portfolio security in the open market. This shortfall could be due to, among other things, discrepancies between the mark-to-market and actual transaction prices for the loaned portfolio security arising from limited liquidity or availability of the loaned portfolio security and, in extreme circumstances, the loaned portfolio security being unavailable at any price.

Item 9: Disciplinary Information

Item 9 is not applicable to us.

In March 2008, Carlyle Capital Corporation Limited ("CCC"), a fund affiliated with The Carlyle Group ("Carlyle") filed for insolvency protection in Guernsey. CCC had invested primarily in AAA-rated residential mortgage backed securities on a leveraged basis. After CCC's insolvency filing, shareholders and CCC's court-appointed liquidators have brought actions against Carlyle, certain of its affiliates, and the former directors of CCC. In general, they allege that Carlyle (in its capacity as the external manager of CCC) and the CCC board of directors misrepresented the risks associated with an investment in CCC and were negligent, grossly negligent or willfully mismanaged the CCC investment program in mortgage backed securities and breached certain duties allegedly owed to CCC and its shareholders.

Michael J. Zupon, SHP's current Chief Executive Officer who was at that time a Managing Director and the Head of U.S. Leveraged Finance at Carlyle, served only as a non-voting director of CCC and non-executive vice chairman of the Board but has been named as a party in several (although not all) of these actions. The actions contain no allegations of any wrongdoing related to those assets for which Mr. Zupon had responsibility, nor does it contain any specific allegations of wrongdoing against Mr. Zupon individually. CCC's offering memorandum describes Mr. Zupon as the leader of "Carlyle's U.S. Leveraged Finance investment unit," with his responsibilities focused on "non-mortgage assets." Substantially all of the non-mortgage assets for which he had responsibility under a sub-advisory agreement with CCC were sold off by September 2007.

Carlyle and Mr. Zupon are being represented by Williams & Connolly LLP, and Carlyle has indemnified Mr. Zupon. Carlyle has stated that it believes the claims are without merit and intends to vigorously contest all claims.

Item 10: Other Financial Industry Activities and Affiliations

As described above under Item 4 “Advisory Business,” Sound Harbor currently advises the CLOs and the Private Fund, which the Advisers or their affiliates have sponsored and in the case of the Private Fund, for which SHGP, has acted as the general partner.

Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

Code of Ethics

The Advisers have adopted a Code of Ethics in compliance with Rule 204A-1 under the Advisers Act, which establishes standards of conduct for their supervised persons. The Code of Ethics includes general requirements that the Advisers’ supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading and conflicts of interest. It requires certain of the Advisers’ supervised persons to report their personal securities transactions and holdings quarterly to the Chief Compliance Officer and requires the Advisers’ Chief Compliance Officer to review those reports. It also requires the Advisers’ supervised persons to report any violations of the Code of Ethics promptly to the Chief Compliance Officer. Each of the Advisers’ supervised persons receives a copy of the Code of Ethics and any amendments to it and must acknowledge in writing having received the materials. Annually, each of the Advisers’ supervised persons must certify that he or she complied with the Code of Ethics during that year. Clients and prospective clients may obtain a copy of our Code of Ethics by contacting Polai Chan at (212) 231-4209 or polai.chan@soundharbor.com.

Participation or Interest in Client Transactions

The Advisers and certain members, employees and affiliates of the Advisers may invest in (and alongside) the Funds, either through the Advisers, as direct investors in the Funds or otherwise, *e.g.*, the Private Fund may invest in one or more CLOs. The Private Fund or SHGP, as applicable, may reduce all or a portion of the management fee and Carried Interest related to investments held by such persons. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see “Conflicts of Interest” immediately below.

Due in part to the fact that potential investors in the Private Fund (including purchasers of an investor’s interests in a secondary transaction) or a co-investment opportunity (see below) may ask different questions and request different information, the Advisers may provide certain information to one or more prospective investors that it does not provide to all of the prospective investors or limited partners.

Personal Trading

Personal securities transactions by the Advisers’ supervised persons who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments. Supervised persons of the Advisers and their affiliates may directly or indirectly own an interest in the Funds. The Advisers and their affiliates, principals and employees may carry on investment activities for the Advisers and their own account and for family members, friends or others who do not invest in the Funds, and may give advice and recommend securities to vehicles that may differ from advice given to, or securities recommended or bought for, the Funds or the SMAs, even though their investment objectives may be the same or similar.

Potential Conflicts of Interest

Other Businesses. The Advisers intend to devote as much of their time and effort to the affairs of the Funds and the SMAs as may be necessary to seek to accomplish the investment objectives of the Funds and the SMAs. The Governing Documents and the SMA investment advisory agreements specifically provides that the Advisers and their affiliates may conduct other businesses, including the formation of, and provision of advisory services to, other investment vehicles and accounts for other investors, and for the Funds whether or not any such business is in competition with the Funds. The Advisers and their affiliates and principals may also have, make and maintain investments in their own name or through other entities, and may serve as officers, directors, consultants, partners or stockholders of one or more investment funds, partnerships, securities firms, advisory firms or portfolio companies.

SHGP intends to present to the Private Fund's investor advisory committee those transactions involving the Fund that SHGP determines, in its sole discretion, involve a potential conflict of interest, other than any transaction expressly permitted by the Private Fund's Governing Documents. In addition, the Advisers are permitted, in their sole discretion, to seek the approval of the Private Fund's investor advisory committee or, in the alternative, a majority in interest of the Private Fund's investors, in connection with (i) approvals required by clients of the Advisers with respect to the Private Fund under the Advisers Act, including, without limitation, any and all disclosures and approvals required under Section 206(3) thereof, and (ii) any consent to a transaction that would result in the "assignment" (within the meaning of the Advisers Act) of the advisory agreement between the Private Fund and SHP, and such disclosure to and approval of the investor advisory committee shall constitute all necessary disclosures to and consents of a client for purposes of the Advisers Act. There can be no assurance that SHGP will be able to resolve all conflicts in a manner that is favorable to the Private Fund, on the one hand, and any other person or entity for which the Advisers or their affiliates or principals may be advising or managing, on the other hand.

By acquiring an interest in the Private Fund, an investor in the Private Fund acknowledges and represents that it has carefully reviewed Part 8: "Risk and Potential Conflicts of Interest" of the Private Fund's private placement memorandum, as amended from time to time, and understands and consents to the existence of potential conflicts of interest relating to the Advisers and their affiliates and principals, including, without limitation, those described in that section and to the operation of the Private Fund subject to these conflicts of interest.

The Advisers and their affiliates and principals will not be restricted in their performance of any services or in the types of debt or equity investments which they may make on behalf of one or more other investment funds or accounts, including to potential and actual portfolio companies of the Funds or the SMAs. Such securities or investments in an issuer's securities may be "pari passu," senior or junior in ranking to an investment by the Funds or SMAs in the securities of such issuer. The Advisers and their affiliates and principals may also take positions, give advice and provide recommendations contrary to those which may be taken by, given or provided to the Funds or SMAs, and may hold interests potentially adverse to those of the Funds or the SMAs. The activities of the Advisers and their affiliates and principals could result in securities law restrictions on transactions in securities held by the Funds or SMAs, affect the prices of the Funds' or SMAs' investments or the ability of the Funds or the SMAs to dispose of such investments, or otherwise create conflicts of interest for the Funds or the SMAs, each of which could have an adverse impact on the performance of the Funds or the SMAs.

Material Non-Public Information. As a result of the financial, advisory, investment and other activities of the Advisers, their affiliates and principals frequently come into possession of confidential or material, non-public information. Disclosure of such information is on a need to know basis only. Therefore, the Advisers, the Funds or the SMAs may not have access to material non-public information

in the possession of the Advisers or any of their affiliates which might be relevant to an investment decision to be made for the Funds or the SMAs, and the Funds or SMAs may purchase or sell an investment which, if such information had been known to the Funds or SMAs, may not have been purchased and/or sold.

In the event any material non-public information is disclosed to any of the members of the Advisers and their affiliates and principals or any other person responsible for the affairs of the Funds or the SMAs, the Funds or the SMAs may be prohibited by applicable securities laws from acting upon any such information. Due to these restrictions, the Funds or SMAs may not be able to purchase or sell an investment that they otherwise might have purchased or sold.

Principal, Agency, Cross, and Other Securities Transactions. Subject to compliance with the terms of the applicable Governing Documents, SMA investment advisory and related agreements and applicable law, the Advisers and their affiliates and principals may, from time to time, act as principal for their own account in connection with investment securities transactions, including selling securities as principal to, and buying securities as principal from, the Fund or SMA. Furthermore, also subject to compliance with the terms of the applicable Governing Documents, SMA investment advisory and related agreements and applicable law, Advisers and their affiliates and principals may effect, on behalf of the Fund or SMA, transactions where one or more of the Advisers and their affiliates and principals are also acting on the other side of the same transaction for another client. These transactions are known as cross transactions. Cross transactions include an investment adviser effecting a purchase and sale transaction between two or more of its or its affiliate's advisory clients as well as the investment adviser effecting a transfer of a security from a third party to a client as a broker on both sides of the transaction. The Advisers and their affiliates and principals have potentially conflicting divisions of loyalties and responsibilities regarding the Fund, SMA and the other parties to those transactions.

Sales of securities for the account of clients may be bunched or aggregated with orders for other accounts advised or managed by one or more of the Advisers and their affiliates and principals (including accounts in which Advisers and their affiliates and principals may have a beneficial interest). Because of prevailing trading activity, it is frequently not possible to receive the same price or execution on the entire volume of securities sold. When this occurs, the various prices may be averaged, which may be disadvantageous to some of the clients.

By executing a subscription agreement for an interest in the Private Fund, an investor consents to all such transactions in which one or more members of the Advisers and their affiliates and principals act as a principal or underwriter, act for both the Private Fund and the other party to the transaction, or bunch or aggregate transactions with others, provided that SHGP is in compliance with the terms of the Private Fund's Governing Documents and applicable law pertaining to such transactions.

Diverse Fund Investor Group. Private Fund investors may have conflicting investment, tax, regulatory and other interests or limitations with respect to their investments in the Private Fund. The conflicting interests of investors may relate to or arise from, among other things, the nature of investments made by the Private Fund, the structuring or the acquisition of investments, the timing of dispositions of investments, and legal restrictions that prohibit an investor from fulfilling its obligations to the Private Fund (including, without limitation, policies or prohibitions on providing indemnification or returning distributions to satisfy liabilities or expenses of the Private Fund). As a consequence, conflicts of interest may arise in connection with decisions made by the Advisers, including with respect to the nature or structuring of investments or determining the timing and amount of distributions that may be more beneficial for one investor in the Private Fund than for another investor, especially with respect to an investor's own tax situations. In selecting, structuring investments appropriate for the Private Fund and disposing of such investments, the Advisers may be obligated to consider the investment, tax or other

objectives of any particular investor or regulatory other limitations applicable to the Advisers or an investor, including pursuant to a Side Letter (as defined below) or other agreement with an investor.

Advisory Committee Members Owe No Fiduciary Duty to the Private Fund or its Investors. SHGP has established an investor advisory committee for the Private Fund comprised of representatives of investors selected in the sole discretion of SHGP. SHGP anticipates that the advisory committee will review transactions and other matters pertaining to the Private Fund solely to the extent such transaction or matter involves a conflict of interest between the Private Fund and SHGP or any of its affiliates as determined by SHGP. Participation on the advisory committee is entirely voluntary, and no assurance can be given that the members of the advisory committee will perform the requested functions. In considering matters before the advisory committee, the members thereof have no fiduciary obligations to the Private Fund or SHGP or the investors other than to act in good faith and, therefore, members of the advisory committee may take into consideration their own interests in a particular matter and are not required to take into consideration the interests of the Private Fund or any of SHGP or the other investors. In addition, the Private Fund is required to indemnify each investor (and its representative) that is a member of the advisory committee for any claims, liabilities, damages and related expenses, including legal fees, incurred by it by reason of any action performed or omitted in connection with such member's service on the advisory committee.

Proposed Tax Legislation Potentially Adversely Affecting Members of the General Partner Group. Congress is currently considering proposed legislation that would treat carried interests as ordinary income for United States federal income tax purposes. Enactment of any such legislation could adversely affect employees or other individuals performing services for the Private Fund who hold direct or indirect interests in SHGP and benefit from carried interest. This could make it more difficult for the Advisers and their affiliates to incentivize, attract and retain individuals to perform services for the Private Fund. Any such developments could thus adversely affect the Private Fund's investment returns allocable to the Private Fund's investors. SHGP may take any action (including amending the Private Fund's Governing Documents) that it believes to be reasonably necessary to mitigate the impact of any such actual or contemplated change in law in a manner intended to reduce or eliminate the adverse impact of such change in law to SHGP (and its direct and indirect partners and members) while preserving the intended economic arrangement among the partners of the Private Fund in all material respects.

Side Letters. The Advisers and/or the Private Fund may enter into other written agreements ("Side Letters") with one or more Fund investor. These Side Letters may entitle a Fund investor to make an investment in the Private Fund on terms other than those set forth in the Private Fund's Governing Documents. Any such terms may be more favorable than those offered to any other investor or pursuant to other Side Letters. If SHGP and/or the Private Fund enter into a Side Letter entitling an investor to opt out of a particular Fund investment or withdraw from the Private Fund or excuse a Private Fund investor from fulfilling an obligation to the Private Fund under the Private Fund's Governing Documents, any election to opt out, withdraw or excuse by such investor may increase any other investors' pro rata interest in that particular investment (in the case of an opt-out) or all future investments (in the case of a withdrawal) or increase the other investors' pro rata share of any liability related to the Private Fund (in the case of an excused investor).

Trade Order Entry System Software. In 2013, Sound Harbor entered into a software license agreement with Black Mountain Systems, LLC ("Black Mountain") for Black Mountain's trade order entry system software for use for advisory accounts that hold loans. Sound Harbor will begin using such software in the spring of 2014, allocating the cost of the software to those accounts. Two partners of Sound Harbor have minority interests in Black Mountain.

Item 12: Brokerage Practices

The Advisers focus on securities transactions of private companies and generally recommend and negotiate purchases and sales of such companies through privately negotiated transactions in which the services of a broker-dealer may not be retained. However, the Private Fund's general partner may also distribute securities to investors in the Private Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. To the extent the Advisers engage in public securities transactions, the Advisers follow the brokerage practices described below.

If the Advisers sell publicly traded securities for a Fund or an SMA, the Advisers are responsible for directing orders to broker-dealers to effect securities transactions for the Fund or SMA. In such event, the Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including but not limited to: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; (iv) gross compensation paid to the broker; and (v) the financial strength of the broker.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, the Advisers may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time and have not made use of such services since their inception. As a general matter, research provided by these brokers would be used to service all of the Funds and SMAs. However, each and every research service may not be used for the benefit of each and every Fund and SMA, and brokerage commissions paid by one Fund or SMA may apply towards payment for research services that might not be used in the service of such Fund or SMA.

To the extent that the Advisers allocate brokerage business on the basis of research services, the Advisers may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services without paying for them themselves, rather than based on the Fund's or SMA's interest in receiving most favorable execution.

To the extent that the Advisers engage in any public securities transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Funds and SMAs are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Funds or SMAs simultaneously. From time to time, the Advisers may, but are not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Fund or SMA is favored over any other Fund or SMA. When an aggregated order is filled in its entirety, each participating Fund and SMA generally will receive the average price obtained on all such purchases or sales made during such trading day. When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata*

basis to each Fund and SMA participating in such buy or sell order in accordance with the amount of securities originally requested for such Fund and SMA. Each Fund and SMA generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to each Fund and SMA over time.

Item 13: Review of Accounts

The investments made by the Funds and SMAs are generally private, illiquid and long-term in nature. Accordingly, the Advisers review process is not directed toward a short-term decision to dispose of securities. However, the Advisers closely monitor the financial conditions of companies in which the Funds and SMAs invest, and the Advisers' investment staff, led by the Chief Investment Officer periodically monitors the investment (not less frequently than quarterly) and confirms that the Funds SMAs are maintained in accordance with their stated objectives.

The Private Fund generally will provide to its investors annual GAAP audited and quarterly unaudited financial statements and annual tax information necessary for each investor's tax return. The holders of a CLO's notes receive monthly written reports from the CLO indenture trustee setting forth certain information regarding the CLO's portfolio securities and for months in which note payments are due, regarding the note payments.

Item 14: Client Referrals and Other Compensation

The Advisers or their affiliates may provide certain business or consulting services to companies in the Private Fund's portfolios and may receive compensation from these companies in connection with such services. As described in the Governing Documents, this compensation may, in many cases, offset a portion of the management fees paid by the Private Fund. See Item 5 "Fees and Compensation."

From time to time, the Advisers or their affiliates may enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a potential investor becoming an investor in the Funds. Any Private Fund fees and expenses payable to any such placement agents may be borne by us indirectly through an offset against the Advisers' management fees.

Item 15: Custody

Item 15 is not applicable to us.

Item 16: Investment Discretion

The Advisers have discretionary authority to manage investments on behalf of the Funds and some SMAs while for some SMAs the Advisers do not have discretionary authority. Investment advice is given to the Funds and not individually to the investors in the Funds. As a general policy, the Advisers do not allow the Funds' investors to place limitations on this authority except pursuant to the Funds' applicable Governing Documents. Pursuant to the terms of the Private Fund's Governing Documents, however, the Private Fund's general partner may enter into "side letter" arrangements with certain Private Fund investors whereby the terms applicable to such investor's investment in the Private Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. SHGP assumes its discretionary authority pursuant to the terms of the Private Fund's Governing Documents and powers of attorney executed by the Private Fund's investors. SMA clients may negotiate to impose limitations on the Advisers' authority.

Item 17: Voting Client Securities

For any discretionary client account, the Advisers have adopted the Sound Harbor Proxy Voting Policies and Procedures (the “Proxy Policy”) to address how the Advisers will vote proxies, as applicable, for the discretionary client’s portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Funds or SMAs, including where there may be material conflicts of interest in voting proxies. The Advisers generally believe their interests are aligned with those of the Funds’ investors through the Advisers’ principals’ beneficial ownership interests in the Funds and therefore will not seek investor approval or direction when voting proxies. If there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Advisers may address the conflict using several alternatives, including by seeking the approval or concurrence of the Private Fund’s advisory board, if any, on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, the Private Fund’s advisory board, if any, may approve the Advisers’ vote in a particular solicitation. The Advisers do not consider service on portfolio company boards by their affiliates’ personnel or their receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Funds. A client can obtain a copy of the Advisers’ proxy voting policy and a record of votes cast by the Advisers on behalf of that client by contacting Polai Chan at (212) 231-4209 or polai.chan@soundharbor.com.

Item 18: Financial Information

Item 18 is not applicable to the Advisers.

Item 19: Requirements for State-Registered Advisers

Item 19 is not applicable to the Advisers.