

## **OZ Management LP**

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Form ADV Part 2 — July 24, 2015

### **Item 1 – Cover Page**

**This brochure provides information about the qualifications and business practices of OZ Management LP (the “Registrant”) and its Relying Advisers OZ Management II LP, Och-Ziff Real Estate Advisors LP, Och-Ziff Loan Management LP, Och-Ziff Management Europe Limited, Och-Ziff Capital Management Hong Kong Limited, Och-Ziff India Private Limited, Och-Ziff (Shanghai) Overseas Investment Fund Management Co., Ltd., and Och-Ziff Consulting (Beijing) Company Limited (collectively “Och-Ziff,” “us” or “we”). If you have any questions about the contents of this brochure, please contact us at (212) 790-0041 or by email at [ADV@ozcap.com](mailto:ADV@ozcap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration as an investment adviser does not imply any level of skill or training.**

**Additional information about Och-Ziff is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

### **Item 2 – Material Changes**

The following is a discussion of material changes to the brochure since the Registrant’s last annual updating amendment on March 31, 2015.

We have included new disclosure in Item 9 relating to the settlement, on July 14, 2015, of an administrative proceeding instituted by the SEC relating to Registrant’s provision of certain data to prime brokers and its compliance with Regulation M of the U.S. Securities Exchange Act of 1934 (“Exchange Act”).

You may request the most recent version of this brochure by contacting us at [ADV@ozcap.com](mailto:ADV@ozcap.com).

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## **Item 4 – Advisory Business**

The Registrant was founded in 1994, and along with its affiliated entities, is indirectly owned by Och-Ziff Capital Management Group LLC (“OZCMG”), a publicly traded company listed on the New York Stock Exchange (NYSE: OZM). The Registrant is also owned in part by its limited partners, who are principals of the Registrant or of other affiliated entities, including Daniel S. Och, who is the CEO and an Executive Managing Director of the Registrant. As of December 31, 2014, Mr. Och remains the controlling shareholder of OZCMG. Och-Ziff is a global institutional asset management firm providing advice on a discretionary basis to approximately \$47.9 billion in assets under management as of March 1, 2015. Och-Ziff and its affiliates serve as the management companies and general partners for alternative asset and real estate funds (the “Funds”) and manage investment advisory accounts (including separate vehicles set up for a single “investor” for a variety of purposes) for institutional clients (such as separately managed accounts) (together with the Funds, collectively referred to herein as “Clients”). We provide advice to Clients regarding equity securities, convertible securities, debt instruments, options, futures, swaps, other types of derivatives, private securities, loans, structured products, individual real estate assets, multi-property portfolios, joint ventures, public and private real estate related securities and other investments and instruments. We generally permit separately managed account Clients to impose restrictions on their accounts with respect to: (1) the specific types of investments or asset classes that we will or will not purchase for their account; (2) the nature of the issuers of investments that we will or will not purchase for their account (*e.g.*, specific industries or sectors); (3) the risk profile of instruments we will or will not purchase for their account; or (4) the risk profile of the account as a whole. Throughout this brochure, we disclose a number of conflicts of interest and provide summaries of a number of our policies and procedures designed to detect and address these conflicts and others that may arise. We encourage Fund investors, Clients and prospective Clients to review our policies and procedures and inquire directly with us about our conflicts. Our compliance policies and procedures are available for review by Fund investors and Clients in our New York, London, Dubai and Hong Kong offices. In addition, certain conflicts of interest and specific risks are identified in the offering materials of Funds that we manage. Please request a copy of the relevant Fund’s most current offering materials for a description of other conflicts and risks that might exist.

## **Item 5 – Fees and Compensation**

With respect to all types of Clients, we receive a management fee (a percentage of assets under management) and incentive income (based on net capital appreciation).

## ***Funds***

Typically, Funds that are managed on a multi-strategy basis pay us a management fee that generally ranges from 1.5% to 2.5% annually. Typically, Funds that are managed pursuant to a credit strategy pay us a management fee that generally ranges from 1.0% to 1.75% annually. Other Funds generally pay us a management fee that ranges from 1.0% to 1.75% annually. Furthermore, we may offer lower fees for Fund investors that exceed a certain amount of capital commitment. The management fee is typically based on the net asset value of the Fund and is generally accrued monthly and billed quarterly in advance. However, fees for our real estate Funds are calculated differently, as the management fee rate applicable to a real estate Fund investor is based on the amount of capital committed by each investor (see the chart below). More detailed information regarding management fees is identified in the offering materials of Funds that we manage. In addition, for more detailed information on investment strategies, please refer to “Investment Strategies and Related Risks” under Item 8 below.

Management fees for real estate Funds are generally determined based on the following fee schedule:

Capital Commitment	Management Fee
Up to and including \$50,000,000	1.50%
\$50,000,001 to \$100,000,000	1.25%
\$100,000,001 to \$199,999,999	1.00%
\$200,000,000 or more	0.75%

We also receive incentive income, typically 20% of the net capital appreciation allocated to each Fund, subject to certain limitations. Management fees and incentive allocations are calculated based on the terms set forth in each Fund’s offering materials and other constituent documents. In addition, because we (or our partners, principals, or employees) may invest in certain of the Funds, we participate alongside other investors in the investments of those Funds *pro rata* in accordance with our capital accounts in the Fund. Investors should carefully review the specific terms set forth in the relevant Fund’s offering documents.

We may negotiate specific terms of investment for certain prospective investors that will differ from the terms applicable to other investors. However, when we enter into these arrangements, certain terms are not negotiable, including: (1) the kinds of investments the particular Fund will invest in; and (2) the management fee or incentive allocation we receive with respect to a tranche of interests in the Fund.

Different tranches of interests in certain of the Funds may have materially different terms, including terms regarding: (1) fees charged; (2) minimum subscriptions; (3) withdrawal rights; and (4) investment options. In accordance with the terms of the Funds, we are generally permitted to open new tranches for Funds that have different terms at the request of an incoming investor. When we open these new tranches, we sometimes grant requests from existing investors to transfer their interest in the relevant Fund to the newly established tranche, subject to certain terms and conditions; we may also issue interests in the new tranche to persons and

entities with whom we are affiliated. Such affiliated investors are permitted to withdraw from the Funds more frequently than other investors and may not pay management fees and incentive allocations.

Certain other types of Funds we manage are assessed fees on a different basis. These Funds are charged a management fee generally based on capital commitments or contributed capital, and our incentive income is paid out upon divestment of portfolio holdings, subject to the distribution waterfall specified in the Fund's organizational documents. Management fees for Funds that are collateralized loan obligation vehicles sponsored or managed by Och-Ziff or its affiliates (each an "Affiliated CLO") are generally 0.50% of the par value of the collateral and cash held in the Affiliated CLOs. Incentive income from our Affiliated CLOs is equal to 20% of the excess cash flows due to the holders of the subordinated notes, subject to a stated hurdle rate. You should carefully review the fees and expenses associated with any investment product in which you invest.

### ***Separately Managed Accounts***

Separately managed account Clients generally have fee arrangements that are similar to the Funds, as described above. However, we may negotiate different terms and conditions (including different fee and redemption arrangements) in respect of separately managed account Clients than the terms and conditions that apply to any of the Funds.

### ***Additional Expenses***

Our fees are exclusive of brokerage commissions, transaction fees, custodial fees, expenses relating to short sales, clearing and settlement charges, initial and variation margin, bank service fees, interest expense, pricing services, exchange and clearinghouse fees, consulting and other professional fees relating to particular investments (including consulting fees and expenses payable to our affiliates), travel expenses incurred in connection with due diligence and the expenses related to investments, legal and compliance expenses, systems and technology expenses, research related expenses, audit and tax preparation expenses, custodial fees, corporate licensing, organizational expenses, government and registration fees and other related costs and expenses, all of which are incurred by the Client or Clients to which they are applicable. Expenses incurred in connection with a Special Investment (as described in Item 8) will generally be borne by those investors participating in such Special Investment, including expenses related to the use of SPVs or Financing Subsidiaries (as described in Item 12 below). Further, any expenses related to the use of SPVs or Financing Subsidiaries in relation to other investment opportunities (*i.e.*, non-Special Investments) will generally be borne by those Clients participating or eligible to participate in such investments. To the extent that a Special Investment has been realized, expenses incurred post realization will be borne *pro rata* by the Clients that participated in such Special Investment to the extent such Client has capital remaining in such Fund (including capital invested solely in other Special Investments). If a Client has no further balances, the relevant Fund may be charged such former Client's balance of such expenses. In addition, Funds also bear expenses incurred in connection with the offering and sale of interests in the Fund and the fees and expenses of the Fund's administrator(s), if applicable, and certain other service providers. To the extent that we initially bear any of these expenses, Clients reimburse us.

Please refer to Item 12 below for additional information regarding the factors we consider in selecting broker-dealers for Client transactions and in assessing the reasonableness of their compensation.

### ***Related Conflicts***

Strategic Relationships and Joint Ventures. We or our affiliates may invest (either directly or through joint ventures or other strategic relationships, and in minority or majority positions) in asset managers, general partners or other entities (“Management Entities”). Our Clients may invest in investment funds managed by Management Entities, without receiving any economic interest in the Management Entities. In the event that a Client makes an incentive allocation or pays a management fee to a Management Entity, that portion of such allocation or fee that benefits us or our affiliates will be offset against other fees or allocations due to us or such of our affiliates. Any incentive allocation, performance fee or management fee which accrues to the benefit of any owner of a Management Entity (other than us, our affiliates or any of our respective employees) or any expenses of such Management Entities, or expenses charged to underlying funds or vehicles in which a Client is directly or indirectly invested, will not be offset against other fees due to us or our affiliates. Notwithstanding any offset of fees as described above, we will nonetheless benefit indirectly from the allocation of Client capital to the funds or vehicles with economic arrangements with Management Entities.

From time to time, Clients may be allocated subordinated notes or equity investments in Affiliated CLOs as we believe appropriate in accordance with each Client’s investment objectives and our allocation policies and procedures. Please refer to “Allocation of Aggregated Orders and Other Investment Opportunities” in Item 12 for more detailed information regarding our allocation policies. Clients may also, under certain circumstances, purchase other tranches of securities (in addition to subordinated notes) issued by an Affiliated CLO and purchase subordinated notes or such other tranches of securities in the secondary market. We will waive or rebate all fees and incentive income payable by the Affiliated CLO in proportion to the Client’s investment therein so that a Client will not bear two layers of fees and incentive income with respect to such investments. Investors should note that when a Client purchases newly-issued subordinated notes or equity tranches of an Affiliated CLO, such purchase may facilitate a successful launch of such Affiliated CLO and, although Och-Ziff and our affiliates will not receive additional fees or performance-based compensation from the Client’s investment in the Affiliated CLO, such investment in the newly-issued subordinated notes or equity may provide additional tangible and intangible benefits to us, such as the development of good will.

Affiliated and Unaffiliated Sub-Advisers. As discussed in Item 8 below, from time to time, we may retain sub-advisers to provide investment research and analysis and/or discretionary management to the Funds and other Clients (directly or through investment funds, managed accounts or other structures) with respect to discrete portions of such Clients’ assets. Compensation (including, without limitation, management and other fees, carried interest, profit participation and reimbursement of operating and other expenses) to sub-advisers that are not affiliated with us will be borne by Clients, and we will not offset, or compensate such sub-advisers from, our management fees or incentive income. However, we do offset the compensation we receive against compensation received by sub-advisers that are our wholly-owned subsidiaries.

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

As noted in Item 5 above, all Clients pay us certain performance-based fees in the form of incentive income—typically 20% of annual net capital appreciation allocated to each investor in a Fund or, in the case of managed account Clients, the net capital appreciation allocated to such managed account Clients, subject to certain limitations. Net capital appreciation generally includes: (1) unrealized appreciation of assets; (2) realized gains and losses; and (3) with respect to Special Investments (as defined in Item 8 below), gains or losses that we have deemed to have been realized. A minority of the Funds calculate incentive income solely with respect to realized gains (*i.e.*, for those Funds, we do not receive incentive income with respect to unrealized gains). For certain other Funds we manage, we receive our incentive income upon divestment of portfolio holdings, subject to the distribution waterfall specified in the Fund’s organizational documents. All performance-based income is charged in accordance with Section 205 and Rule 205-3 under the Investment Advisers Act of 1940.

Our receipt of incentive income may motivate us to make investments that are riskier or more speculative than we would make if we did not receive such incentive income. This incentive may be particularly acute when our incentive fee is payable only upon exceeding a hurdle rate or high water mark and performance of Client accounts is below any such hurdle or high water mark. Because net capital appreciation generally includes unrealized appreciation of Client assets (other than unrealized appreciation of Special Investments), it may result in our receiving more incentive income than if net capital appreciation were based solely on realized gains. Where applicable, we face a conflict of interest when we deem a Special Investment to be realized, but not sold, because we will receive incentive income based, in part, on any gain from the deemed realized Special Investment. We also face a potential conflict of interest when determining whether to realize a Special Investment at a loss because to do so would reduce the amount of incentive income payable to us. We have adopted procedures to assist us in identifying those Special Investments that should be considered for realization at a loss.

We and our affiliates sponsor or manage other investment funds and managed accounts, some of which have objectives that are similar to, or which overlap with, those of other Clients. Additionally, we and our affiliates typically own interests in those investment funds. In certain circumstances, particularly when we or our affiliates sponsor a new product or platform (because we and our affiliates may provide most of the initial seed money), such product or platform may be wholly or majority owned by us or our affiliates. In such a case, we face a potential conflict of interest in determining the allocation of investment opportunities because we may allocate those opportunities believed to be attractive to those accounts in which we have an ownership interest.

We and our affiliates may give advice and recommend securities to Clients which differs or conflicts with advice given to, or securities recommended or bought for, other Clients, even though the investment objectives of the respective Clients are the same or similar. As discussed in Item 12 below, we and our affiliates seek to allocate investment opportunities fairly and equitably across Clients to the extent such opportunities are appropriate for such Clients. However, there may be certain situations in which a Client or group of Clients has a specific

geographical, sector or strategy focus; situations in which specific Clients may receive priority in allocations as disclosed in Item 12 below; or situations where an agreement exists with an unaffiliated co-sponsor or joint venture partner or other Client, such that investment opportunities that may be appropriate for one Client are first referred to and/or allocated to other Clients, with any remaining portions allocated to other Clients, as appropriate. Client accounts that receive investment opportunities in priority over other Clients may have been initially seeded by us or our affiliates, and, at the time of a referral or priority allocation, may, to the extent there has been only limited investment by third party investors, remain wholly or principally owned by us or our affiliates. If a Client does not receive an investment opportunity, it will not benefit from, and will have no right to profits arising out of, investments made by Clients that did receive the investment opportunity. Certain Clients seek more concentrated exposures to the same securities than are acceptable for other Clients. In such case we will implement procedures to help ensure that all Clients are treated fairly in regard to allocations. For additional information regarding allocation procedures, please see Item 12 below.

Sometimes, following an investment by a Client (or Clients), we have the opportunity to make an additional or follow-on investment in the same entity or a related entity. Generally, such allocations will be made *pro rata* based on the allocation of the initial investment. Occasionally, rather than allocate these additional or follow-on investment opportunities to the Client(s) that made the original investment, we may allocate the opportunity among other Clients (including Clients that may be wholly or principally owned by us or our affiliates) and one or more strategic investors (which may include third parties and/or other Clients). Typically, this is done when the additional investment opportunity or follow-on investment could not, because of available capital, liquidity, risk limits, size, tax considerations, concentration or other reasons, be allocated in the same manner as the original investment to which it relates. Additional investment opportunities and follow-on investments may be more or less profitable than the original investment to which they relate. Follow-on investments related to Special Investments are described in Item 12 below.

From time to time, a Client account may make firm commitments to provide capital for investments at a certain date in the future. At the time any such investment requires funding, we may allocate the investment opportunity among such Client, other Clients eligible to participate in the investment (including other Clients that may be wholly or principally owned by us or our affiliates) and/or one or more strategic investors (which may include third parties and/or Clients). In addition, we and our affiliates may establish investment platforms or strategic relationships with institutional and other clients to facilitate the investment of Clients in certain opportunities. To the extent that any other Clients make an initial investment in or increase their investment in an investment platform, such investment will dilute the existing interest holders (and the underlying investments therein) unless we determine to increase the other interest holders' commitment to the platform on a proportionate basis. Accordingly, Clients may be disadvantaged if we allocate profitable opportunities away from them or if we allocate unprofitable opportunities to them.



The portfolio strategies we and our affiliates use for certain Clients could conflict with the transactions and strategies we employ in managing other Clients and may affect the prices and availability of the securities and other financial instruments in which Clients invest.

## **Item 7 – Types of Clients**

As noted in Item 4 above, we provide portfolio management services to the Funds (which may be organized as domestic or foreign partnerships, corporations, incorporated or unincorporated entities, or other similar entities), corporations, collateralized loan obligations and separately managed accounts for institutions, including pension plans. Certain Funds require a minimum initial investment of \$5 million, which may generally be waived at our discretion.

Termination provisions for advisory contracts are as follows: (1) generally, the Funds' investment advisory contracts may be terminated as of December 31 of any year upon 90 days' prior written notice, although certain Funds' advisory contracts may be terminated under other conditions set forth in each specific contract; (2) investment advisory contracts for real estate Funds generally may be terminated upon 60 days' prior written notice by either party, although certain advisory contracts may be terminated under other conditions set forth in each specific contract; (3) termination provisions for advisory contracts for separately managed accounts are subject to negotiation but generally may be terminated upon mutually agreeable terms; and (4) generally, the collateral management agreement for an Affiliated CLO will terminate upon the liquidation of the Affiliated CLO or the satisfaction and discharge of the Affiliated CLO's indenture in accordance with its terms.

The beneficial owners of separately managed accounts generally receive more information (including portfolio composition information) and have more favorable liquidity rights than investors in our other Clients. We may also negotiate fees with beneficial owners of separately managed accounts that may be more favorable than the fees in place for comparable Fund tranches. The opportunity to open a separately managed account with us is not available to all prospective Clients and is generally subject to minimum asset levels at our sole discretion. Our decision on whether to allow a prospective Client to open a separately managed account with us is made based on a variety of factors.

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

We employ a wide range of investment strategies in managing Client assets, which include, but are not limited to:

- Risk or Merger Arbitrage
- Convertible/Derivative Arbitrage
- Corporate Credit
- Structured Credit
- Long/Short Equity Special Situations
- Capital Structure Arbitrage
- Private Investments
- Real Estate

Please note that a Client may pursue one or more of the above strategies or one or more strategies that are not included in the list above. Each of the strategies set forth above may incorporate sub-strategies in addition to the broad strategy described. In this regard, you should carefully review the periodic reports provided for your account. Furthermore, we may pursue additional strategies in the future.

## ***Investment Strategies and Related Risks***

Risk or Merger Arbitrage. Merger arbitrage strategies involve the purchase and sale of securities of companies involved in corporate reorganizations and business combinations, such as mergers, exchange offers, cash tender offers, spin-offs, leveraged buy-outs, restructurings and liquidations. Such strategies require an assessment of the likelihood of consummation of the proposed transaction and an evaluation of the potential profits involved. If the event fails to occur or it does not have the anticipated effect, Clients may incur losses. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including, without limitation: (1) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (2) intervention of a regulatory agency; (3) efforts by the target company to pursue a “defensive” strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (4) in the case of a merger, failure to obtain the necessary stockholder or third party approvals; (5) market conditions resulting in material changes in securities prices; (6) compliance with applicable securities laws; and (7) inability to obtain adequate financing. Merger arbitrage positions also are subject to the risk of overall market movements. To the extent that a general increase or decline in equity values affects the stocks involved in a merger arbitrage position differently, the position may be exposed to loss. The success of merger arbitrage strategies depends on the overall volume of merger activity, which historically has been cyclical in nature.

The difference between the price paid by Clients for securities of a company involved in an announced extraordinary corporate transaction and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. Since the price for the securities of a company involved in an announced extraordinary corporate transaction is generally at a significant premium above the market price prior to the announcement, if the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the securities may decline sharply, often by more than the profit we anticipate for Clients, even if the security’s market price returns to a level comparable to that which existed prior to the announcement of the deal. Because of the inherently speculative nature of corporate event-driven investing, the results of Client investments using this strategy may be expected to fluctuate from period to period. Accordingly, Clients should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

Long/Short Equity Special Situations. This strategy involves, among other things: (1) fundamental value-driven investing and (2) event-driven investing where various corporate, legal or regulatory events would lead to a restructuring or alteration of the capital structure or operations of a corporation. This can involve investing and trading in a portfolio of equity securities and other assets, including: common stock; preferred stock; cash and cash equivalents (including money market funds); options; futures; swaps; other derivatives or any other equity-

like securities. Our allocation of capital across asset classes within this strategy will vary depending on market opportunities and other factors. This strategy uses both long and short positions, and investments may be made on exchanges, in over-the-counter (“OTC”) market transactions and in private transactions. We perform analyses in order to assess risks of various types. We regularly employ a variety of hedging techniques in order to reduce exposure to specific events, systematic risks, market risks, macro-economic risks and other factors.

Convertible and Derivative Arbitrage. Convertible and derivative arbitrage strategies generally involve price spreads between the convertible and/or derivative security(s) and the underlying security or another derivative security. To the extent the price relationships between such positions remain constant, no gain or loss on the position is likely to occur other than financing and repurchase or securities loan costs or the costs of options positions. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position. Substantial risks also are involved in borrowing and lending against such investments. The prices of these investments can be volatile, market movements are difficult to predict, and financing sources and related interest and exchange rates are subject to rapid change. Changes in expected future volatility may result in a gain or loss on the positions. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks. Government policies, especially those of the Federal Reserve Board and foreign central banks, have profound effects on interest and exchange rates that, in turn, affect prices in areas of the investment and trading activities of convertible and derivative arbitrage strategies. Many other unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations. Furthermore, derivative arbitrage may also include trading and holding positions in certain types of commodity interests, which gives rise to commodity risk in the context of natural events (*e.g.*, weather). Adverse natural events could negatively affect the underlying commodity and ultimately the value of the securities that are linked to the commodity.

Capital Structure Arbitrage. This strategy is based on identifying and exploiting inefficiencies in the investment grade, high yield and distressed debt securities markets related to the pricing and valuations of competing creditors within the same capital structure. The success of this strategy will depend on our ability to identify and exploit the relationships and discrepancies in price between movements in different securities and instruments within an issuer’s capital structure (*e.g.*, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock and options on common stock and credit default swaps). Identification and exploitation of these opportunities involves uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer’s securities and instruments were to fail to materialize as we expected, Clients may incur a loss.

Corporate Credit. This strategy targets debt-oriented investment opportunities that are generated during the various phases of credit and economic cycles. The segment is comprised of Opportunistic Corporate as well as our Institutional Credit Strategies. Opportunistic Credit focuses on distressed credit, special situation credit (long/short bonds) and investments in sovereign, municipal, high yield, senior secured credit, mezzanine, and other opportunistic credit securities. The strategy may also employ derivatives (*i.e.*, swaps, forwards, options and futures (and options thereon)) for hedging, risk management or speculative purposes, but generally does not employ structured credit (see “Structured Credit” section below). Our Institutional Credit

Strategies Segment is comprised of our CLO management platform and other customized solutions, primarily focused on investing in senior secured bank loans.

Structured Credit. We have broadly organized the structured credit market opportunity into four distinct underlying credit categories: residential real estate credit, commercial real estate credit, corporate credit and other/esoteric. Based on current market conditions, this strategy generally involves investment broadly within the four areas, including more liquid, CUSIP-based securities, as well as less liquid, non-CUSIP investments such as whole loans and other related structured transactions. We could determine at any time to invest in other areas or products within our discretion. Structured Credit may include investments in securities and other instruments that have a limited or no trading market. Such investments will not necessarily be designated Special Investments (described below). Accordingly, a significant portion of a Structured Credit portfolio may be composed of illiquid securities or securities that could become illiquid should market circumstances change.

Structured Credit generally includes investments in collateralized debt obligations (“CDOs”) (including, without limitation, collateralized loan obligations, trust preferred CDOs, commercial real estate CDOs, collateralized synthetic obligations, multi-sector CDOs, other corporate CDOs and asset backed securities CDOs), asset backed securities (including, without limitation, residential mortgage backed securities, commercial mortgage backed securities, agency residential mortgage backed derivatives and non-mortgage asset backed securities), re-securitizations, re-REMICs, and residential, commercial and other asset backed loans and debt instruments, as well as synthetic or structured versions of any of the foregoing. Structured credit investments are subject to risks associated with defaults in the underlying assets as well as interest rate, market, documentation, prepayments, sovereign and other risks.

Private Investments. Certain Clients may acquire assets through private placements or in privately negotiated transactions and certain Client’s investment programs are focused primarily on acquiring assets through privately negotiated transactions within a particular industry or investment strategy. Funds whose investment programs are focused on a particular sector may be subject to greater risk than an investment in a portfolio of securities representing a broader range of industries and may be subject to risks associated with concentration in a relatively small number of investments. In our sole discretion, we may designate assets or securities acquired through direct investments or private placements which we believe either lack a readily assessable market value, are illiquid, or should be held until the resolution of a special event or circumstance as “Special Investments” for some or all of our Clients. Such designation is made taking into account all relevant factors, including, without limitation, (a) the existence and depth of a trading market for such investment or the likelihood that one will develop (including based on markets for comparable investments and degree of syndication of such investment), (b) availability of reliable pricing information, (c) contractual limitations on transfers, (d) ability to finance such investment, (e) the anticipated manner of trade or settlement and its effect on liquidity, (f) availability and access to information about the issuer and (g) the investment/exit thesis (*i.e.*, whether the intent is to hold the investment until a specific event occurs, such as maturity of a debt instrument). Investments in Special Investments may be limited in certain Funds and, in respect of any such Fund, we generally do not expect Special Investments to comprise more than 20% of the total assets of such Fund, as determined at the time the

investment is made. However, this percentage may be exceeded due to market impact on portfolio holdings, a decline in value of other investments or redemptions.

With respect to Special Investments held by Funds, only investors that hold an interest in the Fund at the time a Special Investment is designated by the Fund will have an interest in the related Special Investment. Accordingly, because the value and performance of Special Investments may vary, the return on investment among investors of that Fund may vary significantly depending on when an investor contributed capital to that Fund. Funds will generally only receive a return of capital and realize gains (if any) on Special Investments upon the partial or complete disposition of the asset. While it may be possible to sell certain Special Investments at any time, disposition of Special Investments is in our absolute discretion and such Special Investments may be held for a number of years after the investment has been made.

Real Estate. In managing the real estate Funds, we employ a value-based, situationally-opportunistic investment rationale, investing primarily throughout the United States, and expect to pursue transactions with one or more of the following characteristics:

- Distressed situations both at the ownership level and asset level, in which alternative capital sources are unavailable or unwilling to participate in highly-complex restructurings, notwithstanding attractive underlying property fundamentals;
- Operational expertise in transactions that are operationally-intensive and allow us to differentiate ourselves through our experience and platform in working with operating partners to manage properties in certain distinct asset classes;
- Value enhancement opportunities where we can identify and reposition underperforming assets with correctable, temporary flaws, including volatile tenancies, physical problems, disjointed ownership structures and liquidity constraints;
- Lack of capital/contrarian investments where a particular geographic area, industry or asset type is out of favor and therefore mispriced due to fluctuations in capital flows;
- Pricing arbitrage where high-quality assets can be purchased at better than market pricing by identifying some arbitrage in the transaction that is causing the seller to transact apart from direct economic motivations (often driven by restrictive time constraints, structuring requirements, tax and estate planning and/or regulatory restrictions);
- Custom-tailored capital to meet a seller's objectives distinct from valuation that may offer more attractive risk return profiles; and
- Absentee ownership transactions from inadvertent owners of assets, including banks and other financial institutions, as well as owners of large portfolios, where individual assets may be overlooked or less strategic.

Our real estate Funds also seek to preserve capital and mitigate risk through pursuing generally non-competitive investments, proprietary sourcing, discretion in deal selection, thorough due

diligence, intensive asset management, multiple defined exit strategies and structured downside protection. We continually monitor our investments in an effort to proactively manage risk and adapt our investment strategies in anticipation of changes in capital market and property market conditions. Finally, we seek to diversify investments across geography, asset types and transaction structures to actively balance our Funds' portfolios.

### ***Other Risks of Investing and Trading***

Investing in securities and trading derivatives involves risk of loss that Clients should be prepared to bear. In addition, the investment and trading strategies described above may also involve the following risks:

Liquidity of Investments. Our strategies may involve investments in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists, as not all such securities are designated as Special Investments. The market prices, if any, for such securities tend to be volatile and Clients may be unable to sell them when desired or to realize our perceived fair value of the investments in the event of a sale. The sale of restricted or illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the OTC markets. Restricted securities may sell at a price lower than similar securities that are not subject to transfer restrictions.

Non-U.S. Securities. Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated, or whose prices are quoted, in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of Clients, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of a financial instrument may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. In addition, less information may be available regarding securities of certain non-U.S. issuers who may also not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers. Transaction costs of investing in non-U.S. securities markets are generally higher than in the United States. There is generally less government supervision and regulation of exchanges, brokers and issuers outside the United States than there is in the United States. Clients might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the performance of Client accounts. Debt instruments issued by certain non-U.S. sovereign nations have recently suffered significant declines in value and are subject to potential default. Client accounts may be invested in such securities. Furthermore, certain hedging techniques may not be effective in limiting the downside risks of such investments.

The income Clients receive from sources within some non-U.S. countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes that Clients pay will reduce the net income or return from investments in such securities.

Uncertain Exit Strategies. Due to the illiquid nature of many of the positions which we expect Clients to invest in, we are unable to predict with confidence what the exit strategy will ultimately be for any such investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initially made may be unavailable at the time the investment is ready to be realized due to economic, legal, political or other factors.

Risks Associated with Distressed Investment Strategies. The success of many of our investment activities will depend to an extent on our ability to identify and exploit inefficiencies in the high yield and distressed debt securities markets. Identification and exploitation of these opportunities involves uncertainty. We cannot be certain that we will be able to locate investment opportunities or to correctly exploit inefficiencies in the markets. A reduction in inefficiencies that provide opportunities, for example, for covenant arbitrage or capital structure arbitrage will reduce the scope for those investment strategies. In the event that our perceived mispricings underlying Client positions fail to converge toward, or diverge further from, the relationships we expected, Clients may incur a loss. Further, the investments utilized in implementing such strategies will include derivatives, such as futures and options, which are themselves inherently volatile in the context of specific market movements.

Some of the distressed investment strategies we employ are based on historical relationships between prices. We cannot be certain that such historical relationships will continue, and we make no representations as to what results Clients will or are likely to achieve based on such trends and relationships.

Furthermore, distressed investment strategies may result in increased risk of conflicts of interest when our Clients hold interests at different levels of an issuer's capital structure, as described in Item 11 below.

Risks of Arbitrage Strategies. Some of the arbitrage strategies employed on behalf of Clients may result in high portfolio turnover and, consequently, greater transaction costs. Depending upon the investment strategies employed and market conditions, Clients may be adversely affected by unforeseen events involving such matters as changes in interest rates or the credit status of an issuer, forced redemptions of securities, acquisition proposals, break-ups of a planned merger, unexpected changes in relative value, short squeezes, inability to short stock or changes in tax treatment. There can be no assurance that we will be able to locate investment opportunities or exploit pricing discrepancies.

Use of Leverage. In managing Client accounts, we sometimes employ leverage when we believe that the use of leverage may enable Clients to achieve a higher rate of return. Accordingly, we may cause Clients to pledge securities or provide other forms of security or assurance in order to borrow additional funds for investment purposes. We may also cause Clients to leverage investment returns with derivatives (*i.e.*, swaps, forwards, options and futures (and options thereon), short sales and other derivative instruments. The amount of borrowings which Clients may have outstanding at any time may be large in relation to the capital contributed to their

account. Certain Funds have limitations on their ability to utilize leverage, which are described in their respective offering materials.

The financing used by certain Clients to leverage their portfolio is obtained from securities brokers and dealers in the marketplace in which the Clients invest. While the Clients attempt to negotiate the terms of these financing arrangements with such brokers and dealers, their ability to do so is limited. The Clients are therefore subject to changes in the value that the broker-dealer ascribes to given securities or positions, the amount of margin required to support such securities or positions, the borrowing rate to finance such securities or positions and/or such broker-dealer's willingness to continue to provide any such credit to the Client. The Clients could be forced to liquidate their portfolio on short notice to meet financing obligations. The forced liquidation of all or a portion of the Client's portfolio at distressed prices could result in significant losses to the Client. In addition, the Registrants may be able to negotiate more favorable terms or benefit from the economies of scale for financing arrangements with such broker-dealers on behalf of Clients. In such cases, the terms of a financing arrangement applicable to such Clients may be adversely affected by actions related to such Clients' portfolio at such broker-dealer, including, without limitation, violation of specified diversification or concentration limits or transactions related to specified types of securities exceeding a certain percentage of the total of all transactions, as measured across all such Clients. Furthermore, certain arrangements may permit Clients to increase or decrease the exposure to financing during the term of such financing. In such case, the Registrant will exercise discretion with respect to the appropriate levels of financing for Clients based on the desired level of financing for each Client. To the extent that such financing arrangements are limited, Clients may not be able to achieve the desired level of financing.

Clients may enter into OTC derivatives (including, but not limited to, swap transactions and repurchase agreements) for speculative or hedging purposes. Clients may also enter into term financing commitments with prime brokers. Certain of the agreements governing these relationships are subject to termination or require additional collateral to be posted in the event that the net asset value of a Client's account falls below a certain level, due to either a decline in value, withdrawals or a combination thereof. If a Client is required to terminate the relevant agreement, it could be required to sell some or all of its assets at a discounted value. Additionally, certain of the agreements governing these relationships are subject to termination if a key person or multiple key persons were to cease to be involved with Och-Ziff.

While leverage presents opportunities for increasing Clients' total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of a Client's investment would be magnified to the extent that such Client's account is leveraged. This may result in a substantial loss to Client accounts, which would be greater than if we had not employed leverage in managing the account.

Short Selling. We may use short sales in managing Client accounts. Short selling involves selling securities which may or may not be owned and borrowing the same class of securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which we engage in short sales in each Client's account varies by investment strategy and also depends on our perception of market direction. A short sale creates the risk of a theoretically



unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to Clients of buying those securities to cover the short position. There can be no assurance that Clients will be able to maintain the ability to borrow securities sold short. There also can be no assurance that the securities necessary to cover a short position will be available at or near prices quoted for purchase in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices, in the OTC market, or with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and a Client may be entirely dependent on the willingness of OTC market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis.

In many jurisdictions, the practice of "naked" short selling is prohibited. "Naked" short selling involves selling securities short without first having secured appropriate cover (for example, by borrowing or agreeing to borrow securities or locating securities that are available to borrow in the relevant quantity in time for settlement of the short sale transaction). In jurisdictions where naked short sales are prohibited, if a Client is unable to secure appropriate cover, the Client may not be able to enter into short sales and may therefore not be able to express fully its negative views in relation to the relevant securities. In jurisdictions where naked short selling is permitted, the entry by a Client into naked short sales may expose the Client to increased risk of liability for costs or losses suffered by the transaction counterparty or other relevant parties as a result of a settlement failure (if it transpires, after entering into the short sale, that the Client is unable to borrow the requisite amount of securities in time for the settlement date), including, without limitation, as the result of the exercise by the transaction counterparty, an exchange or a central counterparty of a "buy-in" and the imposition by an exchange or central counterparty of penalties or fines for the settlement failure. The SEC and other regulatory authorities outside of the United States have established rules imposing trading and reporting requirements on short selling, which could adversely affect trading opportunities, including hedging opportunities for Client accounts.

Trading in Currencies. From time to time, we may engage in opportunistic currency trading strategies, which may include the use of swaps, forwards and futures (and options thereon). A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex factors such as monetary supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments may intervene, directly or by regulation, in currency markets, with the specific effect, or intention, of influencing currency exchange rates, which may, together with other factors, cause rapid movements in currency exchange rates, which could adversely affect our currency trading strategies.

Interest Rate Risk. Changes in interest rates may affect a number of different investment strategies we use in managing Client accounts. For example, with respect to collateralized debt obligations and collateralized loan obligations ("Structured Products"), the collateral of a Structured Product may bear interest at a fixed rate while the Structured Product itself bears

interest at a floating rate (or vice versa), with a resultant mismatch in payment obligations of the collateral and the relevant Structured Products. As a result of such mismatches, fluctuations in floating rate indices may adversely impact the ability of the issuer of the relevant Structured Products to make payments. In addition, the value of most mortgage-backed securities (“MBS”) and asset-backed securities (“ABS”), like traditional debt securities, tends to vary inversely with changes in interest rates. When interest rates rise, the value of MBS and ABS generally will decline; however, when interest rates decline, the value of MBS and ABS with prepayment features may not increase as much as other fixed income securities because prepayment of mortgages and other loans tends to accelerate during periods of declining interest rates. To the extent that Clients purchase MBS and ABS at a premium, prepayments (which may generally be made without penalty) may result in loss of the premium paid. Further, when mortgages and loans underlying MBS and ABS held by Clients are prepaid, Clients will receive principal repayments on the MBS and ABS, which they may reinvest in other securities where the yields will reflect interest rates prevailing at the time, which may be lower than the yield on the prepaid MBS or ABS. The value of MBS and ABS is also subject to extension risk, which is the reverse of prepayment risk. Extension, or slower payment of the underlying mortgages and loans, extends the time it takes to receive cash flows and generally compresses the yield on MBS and ABS and makes such instruments more sensitive to rising interest rates and price declines.

Counterparty Risk. Many of the markets in which we effect transactions for Client accounts are OTC or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight to the same extent as members of “exchange-based” markets. This exposes Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Client to suffer a loss. Although we intend that Clients will only enter into transactions with counterparties that we believe to be creditworthy and we attempt to reduce exposure by obtaining collateral in appropriate cases, there can be no assurance that a counterparty will not default and that Clients will not sustain a loss on a transaction as a result. In addition, concentration of transactions with a limited number of counterparties could increase the potential for losses by Clients. The ability of Clients to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties’ financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for Client losses. Clients could be subject to additional counterparty-related risks that are not described above and these risks may be material. A description of additional risks is located in the offering materials of each Fund.

Risks Associated with Derivatives. From time to time, we may use derivatives, including swaps, forwards, options and futures (and options thereon), among other instruments, for hedging, risk management or to seek to enhance returns. The use of derivatives carries significant risks. Among other things, derivatives involve leverage, which serves to magnify losses and gains; the pricing of derivatives can be volatile or illiquid, particularly during periods of market stress; certain derivatives may be difficult to exit in a timely and cost-effective manner; derivatives with swap dealers are subject to counterparty credit risk; derivatives positions could be negatively impacted by the failure of a swap dealer or a futures commission merchant; trading in derivatives outside of the U.S. may expose Clients to credit and regulatory risks; hedging, risk management and risk reduction strategies may be ineffective or based upon ineffective models, data or inputs;

and speculating with derivatives is inherently risky and may lead to large losses. The derivatives markets are generally subject to changing regulation, including the ongoing impact of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended, and similar regulation outside of the United States, that may impose substantial costs on the operation of our business and the implications of pending and/or future regulation may also create additional regulatory risk. Furthermore, our operational resources will likely need to be augmented to stay in compliance with such regulations.

### ***Real Estate Fund Related Risks***

Investing in securities involves a risk of loss that Clients should be prepared to bear. The following are inherent risks involved with real estate investment strategies employed by some of the Funds:

General Real Estate Considerations. Real property investments are subject to varying degrees of risk. Real estate values are affected by a number of factors, including changes in the general economic climate, local conditions, the quality and philosophy of management, competition based on rental rates, attractiveness and location of the properties, physical condition of the properties, financial condition of buyers and sellers of properties, quality of maintenance, insurance and management services, and changes in operating costs. If investments do not generate sufficient revenues or proceeds to meet their operating expenses, including debt service and capital expenditures, a Fund's cash flow and ability to pay distributions to Clients will be adversely affected. Certain significant expenditures associated with each equity investment (such as mortgage payments, real estate taxes, lease obligations and insurance and maintenance costs) are generally not reduced when circumstances cause a reduction in income from such investment. Real estate historically has experienced significant fluctuations and cycles in value and a real estate Fund may buy and/or sell investments at less than optimal times. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes); interest rate levels; the availability of financing; participation by other investors in the financial markets; potential liability under changing laws; acts of God, including earthquakes, hurricanes and other natural disasters; acts of war; and acts of terrorism (any of which may result in uninsured losses).

Investment in Troubled Assets. A Fund may make investments in non-performing or other troubled assets utilizing leveraged capital structures. By their nature, these investments can involve a high degree of financial risk, and there can be no assurance that a Fund's rate of return objectives will be realized or that there will be any return of capital. Investments in troubled assets are sometimes subject to certain additional potential liabilities which may exceed the value of a Fund's original investment. For example, under certain circumstances, lenders that have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Numerous other risks also arise in workout and bankruptcy contexts, including the possibility that payments to a Fund and distributions by the Fund to investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Och-Ziff may also find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by a Fund. The foreclosure process varies by jurisdiction and can be lengthy and expensive. Borrowers often assert claims, counterclaims and defenses to delay or prevent foreclosure actions, which can prolong and complicate an already difficult and time-consuming process. In some states or other jurisdictions, foreclosure actions can take up to several years or more to conclude. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy, which would have the effect of staying the foreclosure action and further delaying the process, and materially increasing the expense thereof which may or may not be recoverable by a Fund. Foreclosure litigation may create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property. In addition, antideficiency and related laws in certain states limit recourse and remedies available against borrowers in connection with or as a result of foreclosure proceedings or other enforcement actions taken with respect to such borrowers. Such laws can result in the loss of liens on collateral or the loss of personal recourse against a borrower altogether.

Investments in Real Estate Developments. A Fund may acquire for development direct or indirect interests in undeveloped real property, which is initially non-income producing property. To the extent that a Fund invests in such assets, it will be subject to the risks normally associated with such assets and development activities. Such risks include those relating to the availability, expense and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of such Fund, such as weather, labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the financial condition and results of operations of such Fund and on the amount of funds available for distribution to investors. Properties under development or properties acquired for development may receive little or no cash flow from the date of acquisition through the date of completion of development and may still experience operating deficits well after the date of completion. In addition, market conditions may change during the course of development that make such investments less attractive than at the time they were commenced.

Potential Environmental Liability. The properties that we target for investment by real estate Funds will be subject to a variety of U.S. federal, state and local statutes, ordinances, rules and regulations concerning the protection of health and the environment. The particular environmental laws that apply to any given community vary greatly according to the community site, the site's environmental conditions and the present and former use of the site. Environmental laws may result in delays, may cause a Fund to incur substantial compliance and other costs and may prohibit or severely restrict development in certain environmentally sensitive regions or areas. Under various environmental laws, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property (including, without limitation, asbestos, mold, petroleum products and other pollutants). Such enactments often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. For example, the current owner of a parcel of land may be liable for environmental problems at, or emanating from, the parcel of land that were caused by a past owner or current operator of the site. The cost of any required remediation and the owner's liability in respect thereof is

generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral. In addition, remediated property may attract a limited number of potential purchasers because of the property's history of contamination, which might also adversely affect the owner's ability to sell the property. Further, a transfer of property does not relieve from liability a person who owned the property at a time when hazardous or toxic substances were disposed of on, or released from, such property. Also, noncompliance with environmental regulations may allow a governmental authority to order the owner/operator to cease operations at the property or to incur substantial costs and expenses to bring the property into compliance through the implementation of burdensome remediation or prophylactic measures. It is also possible that the owners of properties with significant contamination could be exposed to property damage in personal injury claims by adjoining or nearby landowners or residents. Finally, there can be no assurance that environmental laws relating to real estate transactions will not be amended in the future in ways that could adversely affect the Fund's investments.

Government Regulation. The real estate industry is extensively regulated and subject to frequent regulatory change. The adoption of new legislation, changes in existing laws or new interpretations of existing laws can have a significant impact on methods of doing business, costs of doing business and amounts of reimbursement from governmental and other agencies. The real estate industry is and will continue to be subject to varying degrees of regulation and licensing by federal and state regulatory authorities in various states and localities.

Use of Leverage. In employing our investment strategies, we may cause a Fund to leverage its investments with non-recourse debt financing, in which case a third party lender would be entitled to the cash flow generated by such investment prior to the Fund receiving a return of or on its investment. A Fund may also obtain recourse debt financing to allow the Fund to close transactions quickly and/or obtain more favorable terms. Although the use of leverage may enhance returns and increase the number of investments that can be made, it involves a heightened degree of risk, is inherently more sensitive to adverse economic factors (such as a significant rise in interest rates, a downturn in the economy, deterioration in the condition of such investments, declines in revenues and increases in expenses) and can exaggerate the financial effect of any increase or decrease in the value of such investments. Borrowings under a proposed credit facility may be secured, among other things, by the Clients' obligations to make capital contributions. Any inability of a Fund to repay such borrowings could enable a lender to cause the Clients to make capital contributions for the repayment of such borrowings.

Any Client could be subject to material risks that are not described above and additional risks regarding Funds are disclosed in the offering materials of each Fund. We encourage investors to carefully review the full description of risk factors presented in their Fund's offering materials.

## ***Methods of Analysis***

In evaluating potential investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business,

financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment bankers may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third party research. The due diligence that we carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, and such an evaluation will not necessarily result in the investment being successful. Moreover, the level of due diligence conducted with respect to a particular investment will vary and we may not properly assess the appropriate amount of diligence for each investment, which may result in losses to Clients.

Risk management is central to the operation of our business. We use both quantitative and qualitative analyses to monitor financial and event risk and manage volatility. We may seek to hedge credit, interest rate, currency and market exposures; however, there can be no assurances that appropriate hedges will be available or in place to successfully limit losses. We place substantial emphasis on portfolio diversification by asset class, industry sector and geography. The active management of positions in our funds allows for timely reallocation of capital in response to changes in business, market or economic conditions.

Our risk management processes are overseen by our Risk Committee. The Risk Committee meets regularly to review, among other information, sophisticated risk analysis, including the results of stress testing our portfolios under numerous scenarios. The Risk Committee also discusses other general risks, including, but not limited to, global economic, geopolitical, counterparty and operational risks. Additionally, our portfolio managers meet with our analysts daily to review inherent risks associated with the positions in each fund. The Risk Committee generally reviews Client portfolios as a whole and will not review the risks associated with each investment contained in a portfolio. Accordingly, the risks associated with each investment may not be specifically reviewed by the Risk Committee. Notwithstanding the diligence that is conducted in connection with any investment, there can be no assurance that all risks will be identified or reviewed and that we will be able to prevent investment losses. Furthermore, it may not be possible to uncover fraud and other misconduct by issuers of securities in which we invest.

In addition to our longer term investment strategies, we also seek to capitalize on short-term trading opportunities in certain circumstances, which do not involve the extensive risk analysis described above.

Generally, the investment programs we employ for Clients give us the discretion to allocate capital to a wide variety of investment/asset types. Accordingly, Client portfolios will evolve over time and exposures to specific sectors, geographies, strategies and instruments will fluctuate. We make a reasonable effort to keep Clients (including Fund investors) informed of any investment strategies that constitute a material portion of their portfolio as soon as reasonably practicable.

## ***Master Funds***

Although we may invest the assets of certain Funds directly, we typically invest Fund assets in one or more master funds (collectively, the “Master Funds”). The use of a master-feeder structure in some Funds may create a conflict of interest among different feeders in that different tax and other structuring considerations for a Fund and other feeder funds may cause the Master Fund to structure or dispose of an investment in a manner that is more advantageous to one feeder fund. In addition, tax and regulatory considerations and other factors may require that investments be made in certain feeder funds and not others. As a result, participating feeder funds may experience higher portfolio concentration in certain sectors or strategies.

## ***Frequent Trading***

Some of the investment strategies we employ for Client accounts involve frequent trading of securities. When we employ these strategies for Clients, their portfolio turnover will be substantially greater than the turnover rates of other types of investment strategies that do not involve trading to such an extent. Consequently, certain expenses (*e.g.*, brokerage commissions) may be greater than for other types of strategies and there may also be additional tax considerations for certain types of Clients and Fund investors.

## ***Sub-Advisers***

We may allocate a portion of Client assets to other affiliated or unaffiliated portfolio managers for management through managed accounts, investment funds or other structures (“Sub-Advisers”). Sub-Advisers will generally be retained for the purpose of allowing the Funds to participate in investments that are of strategic value. Some of these allocations may take the form of investments in public or private real estate investment trusts (“REITs”). For additional information regarding the fee arrangements related to sub-advisory relationships, please see Item 5 above.

## ***Other Related Procedures and Conflicts***

Valuation of Portfolio Holdings. Och-Ziff’s Compliance Manual includes a valuation policy and procedure document (“Valuation Policy”) that was established to help ensure that all of the assets held by Clients reflect fair values. The Valuation Policy was created by our Valuation Committee, which is comprised of the Chief Financial Officer, the Chief Legal Officer, certain General Counsels responsible for various business units at the Registrant, the Senior Controller, the Valuation Controller, the Senior Compliance Officer and certain Controllers responsible for various funds at the Registrant including real estate, private equity and hedge funds. In addition to describing our valuation and pricing guidelines, the Valuation Policy addresses the specific pricing methodologies and hierarchies across a broad range of investment types.

Certain participants in the hedge fund industry and regulators have identified various conflicts of interest that may arise in connection with the valuation of Client assets. Specifically, higher valuations of Client assets may result in increased incentive and management fees, and in some cases, increased compensation for personnel. Investment advisers may also have an incentive to inflate valuations to report better performance which may preserve or enhance the investment

adviser's reputation and allow it to secure more investments in its funds. Conflicts of interest may be heightened in the case of assets that do not have readily ascertainable market values.

Our valuation policy generally provides that investments are valued as follows. Securities that are traded on an exchange will generally be priced at the closing price on the principal exchange. Bank debt and OTC securities will be priced using third party prices such as broker quotes and, in certain circumstances, independent pricing services. Certain investments, such as Special Investments (as defined in Item 8 herein), other investments held in side pockets and certain other private investments are valued monthly and sent to an independent third party for verification on a quarterly basis. Such independent third party provides positive assurance of the value or point estimates ascribed to each such investment.

Och-Ziff engages Citco Fund Services (Cayman Islands) Limited ("Citco") to provide independent third party asset and pricing verification services to most of the Funds. Citco performs verification procedures on all items on a Fund's balance sheet and independent valuation of a Fund's assets on a monthly basis, and issues a letter directly to all investors in the Fund approximately 45 days after the end of each month detailing its findings. Internal valuation policies and procedures are also subject to review by Och-Ziff's external independent auditor, Ernst & Young LLP. Och-Ziff uses price verification services including IDC, LPC, JPM PricingDirect®, Duff & Phelps, Markit™ and Bloomberg.

A copy of the Valuation Policy is available on the investor website, which is available to investors in the Funds. In addition, our valuation methodology is also described in the offering memorandum for each Fund. Please note that we may modify these policies and procedures at our sole discretion without notice to Clients or Fund investors.

Due Diligence Trips. From time to time, our analysts may go on due diligence trips related to a prospective investment. The expenses related to these trips may be paid for by the company in which the prospective investment would be made. To the extent we believe it appropriate, we may invest Client assets in these companies.

## **Item 9 – Disciplinary Information**

Form ADV Part 2 requires investment advisers to disclose legal or disciplinary events involving us or our partners, officers, or principals that are material to your evaluation of our advisory business or the integrity of our management.

On July 14, 2015, in settlement of an administrative proceeding, the SEC entered a cease-and-desist order against the Registrant. The SEC found that the Registrant caused several of its prime brokers to violate their legal obligations to maintain accurate books and records in accordance with Section 17(a) of the Exchange Act and rules thereunder. The Registrant sent, between January 2008 and December 2013, trade files that identified trades based not on the relevant fund's overall net position in the security, but rather on the net position of the fund in such security with the relevant prime broker. The SEC also found that, in March 2011, the Registrant violated Rule 105 of Regulation M of the Exchange Act, as a result of a compliance associate's miscalculation of the Rule 105 restricted period, by purchasing shares in a public offering after it had sold shares of the same type short during the Rule 105 restricted period. The SEC order



required the Registrant, to pay a civil penalty of \$4.25 million, disgorgement of \$214,380 and prejudgment interest of \$29,047. In addition, the SEC ordered the Registrant to cease and desist from causing any future violations of Section 17(a) of the Exchange Act and Rules 17a-3(a)(3) and 17a-25 thereunder and from committing or causing any violations or future violations of Rule 105 of Regulation M of the Exchange Act.

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

The Registrant and its affiliates provide a global institutional asset management business, with its accounting, compliance and legal functions centralized at its headquarters in New York. The Registrant has a number of material global relationships. OZ Management II LP, a Relying Adviser and a wholly-owned subsidiary of the Registrant, serves as the investment manager to certain related funds and managed accounts. Och-Ziff Real Estate Advisors, LP, a Relying Adviser and a wholly-owned subsidiary of the Registrant, serves as the investment manager to certain related real estate funds and managed accounts. OZ Advisors LP, an affiliate of the Registrant, generally serves as the direct or indirect general partner of the Funds organized in the United States. OZ Advisors II LP, another affiliate of the Registrant (a wholly-owned subsidiary thereof) generally serves as the direct or indirect general partner of the Funds organized outside of the United States. Och-Ziff Real Estate Capital L.P. and Och-Ziff Real Estate Capital II L.P. are affiliates of the Registrant and generally serve as the direct or indirect general partners of Och-Ziff's real estate funds. Och-Ziff Loan Management LP, is another affiliate of the Registrant and generally serves as investment manager to the Affiliated CLOs. All direct general partners for Och-Ziff's Funds are listed in Schedule D of the Registrant's Form ADV.

The Registrant, OZ Management II LP, and OZ Advisors LP are each registered as Commodity Pool Operators, and the Registrant and OZ Management II LP are also registered as Commodity Trading Advisors with the Commodity Futures Trading Commission and are members of the National Futures Association. Och-Ziff Management Europe Limited, a private company limited by shares under the laws of England and Wales, is a Relying Adviser and a wholly-owned subsidiary of the Registrant, an entity regulated by the U.K.'s Financial Conduct Authority, and has a representative office registered with the Dubai Financial Services Authority and Och-Ziff Capital Management Hong Kong Limited, an entity regulated by the Hong Kong Securities and Futures Commission and a Relying Adviser and a wholly-owned subsidiary of the Registrant, serve as sub-advisers to the Registrant and OZ Management II LP. Och-Ziff India Private Limited and Och-Ziff Consulting (Beijing) Company Limited are both Relying Advisers and provide research services to the Registrant and to Och-Ziff Capital Management Hong Kong Limited. Och-Ziff (Shanghai) Overseas Investment Fund Management Co., Ltd., an affiliate of the Registrant, is a newly-formed Relying Adviser and a wholly-owned subsidiary of the Registrant that will act as general partner and/or investment adviser to Funds in Asia. As noted in Item 5 above, we pay affiliated sub-advisers from the compensation we receive from Clients and no additional fees are charged by affiliated sub-advisers.

OZ Institutional Credit Management LP ("OZ CM") is a separately-registered investment adviser affiliate of the Registrant. It is expected that OZ CM will serve as the investment adviser (or sub-adviser) to registered funds, including business development companies ("BDCs"), and

potentially other types of Clients. These registered funds may pursue investment strategies similar to those of the Registrant's Clients. We and OZ CM may have conflicts in allocating investment opportunities among our Clients and OZ CM's Clients. As discussed in Item 12 below, we have implemented policies and procedures intended to ensure that such opportunities are allocated fairly and equitably over time to our Clients and OZ CM's Clients, although no assurances can be given that each Client will participate in every eligible investment opportunity.

### ***Other Related Conflicts***

Fees Payable to Service Providers Which are Our Affiliates. Clients' portfolio investments may pay fees to our affiliates in connection with the operation of a business related to a portfolio investment (*e.g.*, fees to operate or develop a business which are distinct from fees paid in connection with investment advisory services provided by us to the Client). These fees may include, for example, fees paid to consulting companies, real estate development companies or other operating businesses in which we have an interest. These fees will not be incurred for investment management services but rather they relate to the day-to-day operations of portfolio investments.

We seek to ensure that the economic terms of any arrangement with our affiliates will be consistent with the terms that can be obtained in arm's-length, commercial negotiations with third parties for similar services, as we determine in our sole discretion. Fees paid to our affiliates that relate to the day-to-day operation of portfolio investments will not reduce or offset any fees we receive. We have a conflict of interest in selecting (or influencing a portfolio investment to select) any of our affiliates to provide these types of services.

In order to address this conflict, whenever a situation arises where we (or a portfolio investment) seek to hire an affiliate to provide these types of services, we generally bring the matter before our internal Conflicts Committee (discussed in greater detail in Item 11 below) to review and approve the hiring.

Publicly Held Company. OZCMG, our indirect parent company, is a publicly traded company listed on the New York Stock Exchange. OZCMG has significant economic and business interests and objectives that are different than or conflict with those of Clients. Accordingly, the interests of shareholders of OZCMG may not be aligned with the interests of Fund investors or other Clients. In situations where these interests are not aligned, we face a conflict of interest when we act or fail to act.

In this regard, OZCMG has direct relationships with Client counterparties—certain counterparties provide underwriting, consulting, administration and financing services to OZCMG. In particular, a financial services firm which provides a significant amount of services to Clients (such as prime brokerage, custodial and other services) has underwritten an offering of senior notes by OZCMG and has been a source of liquidity for OZCMG through a revolving credit facility. The terms of these transactions are disclosed in OZCMG's public disclosure documents which are available at [www.sec.gov](http://www.sec.gov). Moreover, certain Client counterparties have in the past, and may in the future, underwrite and analyze OZCMG's Class A shares.

In addition, third party service providers and counterparties that provide services to, or engage in transactions with, OZCMG or its subsidiaries also provide services to, or engage in transactions with, Clients. These service providers and counterparties also provide services to, or engage in transactions with, our partners and principals. We have a conflict of interest in selecting these service providers and counterparties on behalf of Clients because we may favor service providers and counterparties that provide service to OZCMG or its principals or subsidiaries for attractive fees or other terms of service. In order to address these conflicts, in certain situations, Och-Ziff may bring matters like these before its internal Conflicts Committee for review and approval. Refer to “Other Related Conflicts and Practices” of Item 11 below for more detailed information on the Conflicts Committee.

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

Code of Ethics and Personal Trading. We strive to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust, and we have adopted a Code of Ethics (the “Code”) to help us meet these standards. The Code incorporates the following principles, among others:

- Employees must place the interests of Clients first at all times;
- Personal securities transactions in certain types of securities or asset classes are prohibited for all covered persons under Och-Ziff’s Code. Further details are provided in the first paragraph below;
- All other personal securities transactions that are permitted must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee’s position of trust and responsibility must be avoided;
- Employees must not take any inappropriate advantage of their positions; and
- Information concerning the identity of securities and financial circumstances of Clients (and Fund investors, as applicable) must be kept confidential (except in furtherance of Client investment objectives and goals).

The Code places restrictions on personal trades by covered persons in their *personal accounts*. Pursuant to the Code, the term “personal account” means any securities account that has the ability or functionality to invest in securities in which an employee has any direct or indirect “beneficial ownership,” and includes any personal account of an employee’s immediate family member either living in the employee’s household or financially dependent on the employee (immediate family member is defined as any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, person in an adoptive relationship, or domestic partner sharing a household with such employee). With limited exceptions, the prohibited security types largely include: common stocks; bonds or debt instruments of public companies; options, futures and derivatives; and interests in third party hedge funds. Employees are required to disclose their personal securities holdings and transactions to us on a periodic basis. The Compliance department is responsible for monitoring any personal securities holdings and transactions

activity. Employees are also required to seek pre-approval for personal securities transactions in certain security types that are not included in the category of prohibited investments. As such, provided that they comply with the Code and pre-approval requirements, our personnel are permitted to engage in limited personal securities transactions (including, in limited circumstances, transactions in securities currently held in Client accounts or that may be appropriate for investment in such accounts) that will not result in a new or augmented position in such employee's personal account. Clients, prospective Clients, Fund investors, and prospective Fund investors may obtain access to the Code for review purposes by contacting us at the email address or telephone number listed on the first page of this document. A copy of the Code is also posted on the Client investor website at <http://ir.ozcap.com>, which is available to investors in certain of the Funds.

Personal Trading. Subject to the Code, as described above, we and our partners, principals, employees, and other affiliates may engage in limited investment activities for our own account or for the accounts of immediate family members and/or domestic partners living in the same household or in the accounts of persons financially dependent on our employees. These activities may involve the sale or purchase of securities that are similar to or the same as, but in different concentrations or effected at different times and prices than, those purchased or sold for Client accounts. However, since entering into new or augmented positions of most publicly traded equity and debt securities (and options, futures and derivatives thereon) is generally prohibited under our Code, the aforementioned activities would generally only occur when there is a sale of a security that was either entered into prior to an employee's start date or previously pre-approved by Compliance prior to the date when the policy that effected the prohibition was implemented. These activities may also involve the purchase and sale of certain types of securities that are different from those purchased for Client accounts.

The Funds typically impose minimum holding periods during which interest holders may not withdraw from the Funds in which they have invested. To the extent that our partners, principals, employees and their respective family members (and those of our affiliates) also own interests in Funds, they will generally be permitted to withdraw from the Funds at more frequent intervals than other investors. If a Fund is required to liquidate holdings to satisfy these withdrawal requests, additional costs and expenses will be incurred and will be borne primarily by the remaining investors in such Fund.

As noted above, our partners, principals, employees and those of our affiliates invest in the Funds—in fact, many investors insist upon such personal investments in a Fund before committing their own capital. The amount of proprietary investment by our partners, principals, employees and other affiliates differs from Fund to Fund, with the highest percentage of aggregate proprietary versus non-proprietary investments tending to occur in the early, ramp-up phase of a Fund. To the extent that third party investments in such Funds are limited, a substantial level of proprietary ownership may continue for an indefinite period. Because our allocation policies are designed to facilitate new Client accounts reaching a fully invested posture quickly, we may make greater allocations of investment opportunities (including limited investment opportunities) to new Funds, even if such Funds are predominantly comprised of affiliated capital. In making these allocations, we face a potential conflict of interest with other Clients for whom the same investments would be appropriate, because the over-allocation to the new Fund in a ramp-up phase could be seen as favorably allocating investment opportunities to

the proprietary accounts of our partners, principals, and employees, or those of our affiliates, to the extent they comprise a substantial portion of the investor base of such new Fund. In addition, certain Funds in which our partners, principals and employees invest may focus on a specific investment strategy, sector or geographic region. Under our allocation policies, these types of Funds receive increased allocations of opportunities within their specific focus, which generally continues for the life of the Fund. Please also see Item 12 below for additional information regarding our allocation policies.

Service on Boards of Directors and Other Outside Activities. An employee's service on the board of directors of an outside company, as well as other outside activities generally, could lead to the potential for conflicts of interest and insider trading problems, and may otherwise interfere with an employee's duties to us. Accordingly, employees are prohibited from serving on the boards of directors of any public or private outside company, unless the service: (1) would be in the best interests of us or our Clients; and (2) relates to an outside company that is a portfolio holding and the employee is the senior investment professional (or such other person as is approved by the Chief Legal Officer or his designee) responsible for the investment on our behalf. In addition, employees are prohibited from serving on the boards of directors of any non-profit organization, unless the service has been approved by the Chief Legal Officer or his designee. Any employee serving on the board of an outside company or non-profit organization may be required to resign at any time if we determine that the employee's continued service on the board may no longer be in the best interests of us or our Clients.

Gifts and Entertainment; Political Contributions. Brokers, counterparties, service providers and other third parties with whom we do business occasionally provide gifts and entertainment to our partners, principals, and employees; we may provide gifts and entertainment to third parties as well. We and our affiliates may enter into business transactions and relationships on behalf of a Client with such entities. Such gifts and entertainment may create a conflict of interest in our selection and retention of these donors. To address this conflict, we have adopted policies and procedures to: (1) monitor gifts and entertainment provided to or received by our partners, principals, and employees; and (2) limit the value of gifts and monitor the appropriateness of entertainment received. We also have policies and procedures in place to help us monitor, and in certain cases limit, the political contributions that our partners, principals, and employees make to public officials and candidates for elected office.

### ***Other Related Conflicts and Practices***

Conflicts Committee. From time to time, under circumstances addressed in this brochure or as otherwise appropriate, we bring issues that raise potential conflicts of interest before our internal conflicts committee ("Conflicts Committee") to determine how we will proceed. The Conflicts Committee is composed of our Chief Financial Officer, Chief Legal Officer/Chief Compliance Officer, Chief Operating Officer, Fund Controller, and certain General Counsels responsible for various business units. The Conflicts Committee is responsible for reviewing conflicts and potential conflicts among us, our Clients, Clients of our affiliates, and/or the public shareholders of our parent company, OZCMG. Conflicts Committee meetings may involve participation by outside parties or our employees including, but not limited to, members of our research, portfolio management, accounting, legal, compliance or internal audit groups. However, only members of

the Conflicts Committee are permitted to vote on any actions put before the Conflicts Committee.

Capital Structure. As described in this brochure, the Registrant and its affiliates employ a wide range of investment strategies for Clients. In specific instances, these strategies result in buying and selling different securities and instruments within an issuer's capital structure (as described in Item 8) for different Clients. In pursuing these investment strategies for Clients, one affiliate may acquire an instrument for Clients that is senior on the capital structure of an issuer relative to an instrument another affiliate may acquire for Clients that is more junior on the capital structure, or even common stock (that is clearly junior to a senior or secured creditor). These investment decisions can be made by the same team of investment professionals for the same or different Clients depending upon the investment strategy employed. Under normal circumstances, investments in instruments that have different rankings of seniority in an issuer's capital structure do not raise conflicts of interest. However, in other circumstances, such as when an issuer defaults on its debt or seeks protection from creditors in bankruptcy or reorganizations, as is often the case with the investments we make in distressed issuers, an appearance of a conflict of interest can arise in that action taken to protect the interest of one set of holders (such as senior bank debt holders or preferred stockholders) may be at the potential detriment of other holders of the same issuer's securities or instruments (such as unsecured debt holders or common stock holders). When Clients of the Registrant and its affiliated entities own securities and instruments of the same issuer in different ranks of seniority, action taken for the benefit of one set of Clients may appear to favor that set of Clients at the expense of another.

We seek to mitigate this risk in a number of ways. To the extent that one Client might invest in an instrument at a more senior level in the capital structure than another Client, the investment decisions related to such investments are made on independent grounds based on the economics and investment objectives of each investing Client. In addition, while there may be opportunities for the Registrant, a particular affiliate or team to participate in discussions of an issuer's financial issues (such as participating on a creditors' committee) with the intention of influencing the outcome, neither the Registrant, nor any of its affiliates or teams singularly controls decisions ultimately made by or concerning that issuer. Clients should expect that in employing our various strategies for Clients with differing investment objectives we will make investment decisions that result in some Clients owning senior positions and other Clients owning junior positions. Lastly, in the event that an actual conflict should arise, the investment professionals involved will bring the matter to the Conflicts Committee to determine appropriate action to take on behalf of the various Clients involved.

Furthermore, due to regulatory requirements and our related policies, certain of our Clients may be unable to invest in investments or issuers in which certain of our other Clients (*e.g.*, BDC Clients (as defined in Item 12 below)) are investing or already hold an interest. As a result of these policies, Clients may be unable to participate in certain investments that may have otherwise been profitable for them.

Side Letters. We and our affiliates enter into agreements with prospective investors that allow for different terms of investment in a Fund than the terms applicable to other Fund investors ("Side Letters"). As a result of such Side Letters, certain Fund investors receive additional benefits that other investors in the same Fund will not receive. In general, we will not notify

Fund investors when we enter into these agreements. In addition, Fund investors may review redacted versions of any Side Letter agreements we have entered into with respect to their Fund at our offices.

Disclosure of Portfolio and Other Information. We sometimes provide portfolio holdings information to entities or third party service providers that have been retained by Fund investors to evaluate portfolio risk, facilitate the filing of class action claims or for various other purposes. We provide this information in our sole discretion, and reserve the right to cease providing information at any time. We make reasonable efforts to preserve the confidentiality of the information we provide, such as by entering into non-disclosure agreements, but we cannot ensure that the entities to which we provide information will fulfill their confidentiality obligations.

In the course of conducting due diligence, Fund investors periodically request information pertaining to their investments, and pertaining to us and our affiliates. We may respond to these requests, and may provide information that is not generally made available to other Fund investors. When we provide this information, we do so without an obligation to inform other Fund investors or to update any such information provided.

## Item 12 – Brokerage Practices

### ***General Brokerage Practices***

We allocate portfolio transactions for Client accounts to broker-dealers on the basis of the best execution we believe is available—*i.e.*, execution in a manner that the Client receives the most favorable execution services under the circumstances (which may not be the lowest cost option available). For portfolio transactions executed in our New York office, we consider a variety of factors regarding broker-dealers in seeking best execution, including, but not limited to:

- Quality of execution
- Financial strength and stability
- Willingness and ability to execute difficult transactions
- Access to underwritten offerings and secondary markets
- Overall cost of trade (including commissions, mark-ups, mark-downs, spreads, and other costs)
- Desired timing of the transaction
- Confidentiality of trading activity
- Idea generation
- Deal sourcing
- Provision of financing and similar services
- Provision of research or brokerage services
- Reputation
- Block trading and block positioning capabilities
- Willingness and ability to commit capital (*i.e.*, loss ratios)
- Ongoing reliability
- Nature of the security and available market makers
- Desired size of the trade
- Market intelligence
- Availability of stocks to borrow
- Quality and timeliness of market information provided
- Other similar services
- Ability to provide competitive term financing across a variety of asset classes

Certain affiliated offices are prohibited by applicable regulatory authority from taking certain of the above referenced factors into account prior to executing portfolio transactions.

Clients should expect that their securities transactions will generate a substantial amount of brokerage commissions and other costs, all of which is borne by the Client, and not us. Unless we receive instructions from a separately managed account Client to use a specific broker-dealer, we generally have complete discretion to decide what broker-dealers or other counterparties will be used in executing transactions for Clients, and we negotiate the rates of compensation that Clients will pay. We do not currently have any such instructions. Some of these broker-dealers and other counterparties we select have (or are affiliates of entities that have) other material business relationships with us or our affiliates, with our parent company OZCMG, or with our principals. In addition, certain managed account Clients may not have clearing, custodial or financing arrangements (including ISDA agreements, repurchase agreements, securities lending agreements, futures agreements or give up/clearing agreements) with all counterparties that have relationships with our Funds. While we attempt to negotiate similar arrangements on behalf of all of Funds and managed account Clients, there can be no assurance that such arrangements will be uniform across all Clients or that we will be able to establish uniform arrangements in a timely



manner or that such arrangements will be established at all. Accordingly, certain Fund and managed account Clients may be subject to higher clearing, custodial and financing expenses.

In addition to using brokers as “agents” and paying resulting commissions, we sometimes cause Client accounts to buy or sell securities directly from or to dealers acting as principals at prices that include mark-ups or mark-downs, and may also cause Client accounts to buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

With respect to transactions in derivatives (*i.e.*, swaps, forwards, options and futures (and options thereon)), we execute such transactions through regulated or exempt swap dealers, non-swap dealers or futures commission merchants. From time to time, we may use the services of introducing brokers.

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

General Information. We may use brokerage commissions generated from Client accounts (“Soft Dollars”) to obtain research and other products or services other than execution (“Soft Dollar Benefits”). Soft Dollar Benefits may be proprietary (*i.e.*, created or developed and provided directly by a broker-dealer) or third-party (*i.e.*, created or developed by a third-party but provided by a broker-dealer). We intend that all Soft Dollar Benefits will qualify for the safe harbor in Section 28(e) of the Securities Exchange Act of 1934, as amended.

To obtain Soft Dollar Benefits, we may cause Clients to pay brokerage commission rates higher than those charged by other broker-dealers. We do not seek to allocate Soft Dollar Benefits to each Client in proportion to the amount of commissions that each Client has generated. In addition, not every Client will receive Soft Dollar Benefits on every transaction. As a result, Clients that do not receive Soft Dollar Benefits may effectively pay the same or higher commission rates as those that do.

Broker-dealers sometimes suggest the level of commissions they would like to receive in return for the various services they provide. While we may budget for these, we have no obligation to meet such levels.

We receive a benefit from Soft Dollars to the extent that we do not have to pay for Soft Dollar Benefits ourselves. We, therefore, have a conflict of interest to select broker-dealers based on this benefit, rather than selecting broker-dealers based on our Clients’ interests in receiving the most favorable execution.

Soft Dollar Benefits. Soft Dollar Benefits that may be obtained by us, include, without limitation: (1) research reports on companies, industries and securities; (2) economic and financial data; (3) narrowly marketed and specialized financial publications; (4) quantitative analytical software; and (5) market data-related software and services. Our Compliance Department reviews and approves the use of all Soft Dollar arrangements, including Soft Dollar Benefits and providers of Soft Dollar Benefits.

In the event that Soft Dollars are used to purchase mixed-use products or services (*e.g.*, a product or service of which a portion is both eligible and non-eligible under Section 28(e)), our Compliance Department will make a good faith determination as to the cost of the Soft Dollar eligible portion of the mixed-use product or service and pay only that amount with Soft Dollars; the remainder will be paid with “Hard Dollars” (*i.e.*, cash from our own resources). In addition, as a matter of internal policy, we may, under certain circumstances, use Hard Dollars to pay for certain products or services that could be paid for entirely with Soft Dollars. Lastly, the use of Soft Dollars in non-U.S. jurisdictions may be subject to varying and sometimes more rigorous local regulation and we have policies and procedures to ensure compliance with these rules.

### ***Brokerage for Client Referrals***

Please refer to Item 14 below regarding our brokerage practices with respect to capital introduction events sponsored by broker-dealers.

### ***Directed Brokerage***

We may permit separately managed account Clients to select their own counterparties and direct us to execute transactions through a specified broker-dealer or broker-dealers. However, when acting pursuant to these instructions we may be unable to achieve most favorable execution, which can result in additional costs and expenses for the Client. For example, Clients may pay higher brokerage commissions and may receive a less favorable price when buying or selling if they cannot participate in an aggregated trade along with other Client orders executed through broker-dealers that we have selected. We do not currently have any directed brokerage arrangements.

### ***Trade Aggregation***

When buying and selling securities for Clients, we generally aggregate multiple transactions into one order so that as many eligible Clients may participate equally over time on a fair and equitable basis, in terms of best available cost, efficiency and terms under the circumstances. We also may aggregate orders for Clients together with orders for the various pooled investment vehicles and managed accounts advised by our affiliates. We will not aggregate orders unless we believe that aggregation is consistent with our duty to Clients to seek to obtain best execution and unless aggregation is consistent with the investment guidelines and restrictions of each Client for which trades are aggregated.

Although certain Clients may be excluded from a given aggregated order, no Client is favored over any other on an overall, long-term basis. Generally, orders are not aggregated across multiple investment strategies; as a result, the price at which an order may be executed for one strategy may be higher or lower than another order in the same security for a different strategy on the same day. Each Client that participates in an aggregated order participates at the average price for all transactions with respect to that aggregated order in that security on a given business day, except as noted below. Typically, transaction costs are shared *pro rata* based on each Client’s participation in the transaction. In certain transactions, prices may differ as a result of differences in fees, taxes and transaction charges that are assessed on each participating Client and vary depending upon a number of factors including, but not limited to, the domicile of the

Client, the size of participating Client accounts, amounts allocated or whether some or all of the transaction was effected via a derivative instrument. We do not earn any additional compensation as a result of aggregating orders and allocating them consistently with our procedures.

In assembling an aggregated order in specific securities (including Limited Opportunities (as defined below) and Special Investments (as defined in Item 8 above)), we consider the appropriateness of the investment for each Client based on their investment strategies and objectives, as well as other factors (collectively, the “Allocation Factors”) such as:

- Whether a Client has a sector or geographic regional focus
- Individual Client relationships and counterparties
- Degree of leverage employed
- Timing of capital contributions and withdrawals
- Tolerance for volatility/risk
- Domicile of the Client
- Desired portfolio and/or strategy diversification
- Desired hedge ratio
- Client-specific limitations or requirements
- Availability of credit facilities (and their terms)
- Tax or regulatory considerations
- Investment capacity
- Liquidity needs of the Client
- Investment or ramp-up phase of one or more Client(s)
- Other relevant factors

### ***Allocation of Aggregated Orders and Other Investment Opportunities***

We consider a number of factors when allocating aggregated orders and other investment opportunities to individual Client accounts, including the Allocation Factors above. For example, when a Client is in its investment or ramp-up phase, is seeking to rebalance its portfolio or has received a capital infusion or withdrawal request (including Funds with substantial investments by our partners, principals, employees and other affiliates), preference may be given to that Client so that it reaches its desired position quickly. Clients may also employ different securities or different amounts of the same securities as a hedge depending upon availability of securities, timing of investments, risk tolerances and other factors we consider relevant. Due to the weight we give to these factors and other factors we deem relevant, such as the determination of the relative ratio (as described below), Client portfolios may hold differing proportional amounts of investments. In this regard, Clients may not participate in each aggregated transaction on a *pro rata* basis if we determine that to do so would not be in the best interests of each participating Client. We strive to provide all Clients with meaningful investment allocations over time, although each and every Client will not receive an allocation of each and every profitable investment.

Investment Strategies. When allocating investment opportunities (including Limited Opportunities and Special Investments), we believe that fairness requires us to consider the specific investment programs we employ for our Clients. Specifically, certain Clients invest on a global, multi-strategy basis while others focus on specific strategies or geographic regions. As

discussed below, we seek to classify investment opportunities based on into which combination of investment strategy (or sub-strategy) and geographic region (each such combination, a “Regional Investment Strategy”) the opportunity falls. We then seek to allocate such opportunity primarily to the Clients that participate in such Regional Investment Strategy.

Client Allocation Ratios. Generally when determining allocations of aggregated orders and investment opportunities, we establish for each Regional Investment Strategy a ratio for each participating Client, without reference to any specific investment opportunity, that reflects the portion of a given investment opportunity in such strategy that it will be allocated, subject to further modification in accordance with our procedures. Determination of each Client’s ratio is based on the Allocation Factors listed above, as well as any other factors that the portfolio managers believe are consistent with the fair and equitable treatment of all Clients over time.

In this regard, we may, for example, allocate a greater proportionate allocation (within reasonable risk tolerance levels) of certain types of investments to those Clients with principal investment strategies that focus on specific strategies and/or geographic regions than Clients with more diverse investment programs. As noted in Item 11 above, our allocation policies may sometimes cause us to make greater proportional allocations to certain Client accounts, even if the interests of our partners, principals, and employees constitute a majority or substantial portion of such Client’s assets. Allocations to all Clients are generally different than what would be the case if allocations were done on a mechanical, *pro rata* basis based on net asset value or other parameters. Furthermore, if a Client does not or cannot establish a relationship with a given counterparty, such Client (1) may be excluded from an aggregated order, (2) may be subject to greater costs and expenses (including adverse price movements in the underlying security) in connection with a given transaction or (3) may be excluded from an investment opportunity.

We review all ratios at least on a monthly basis and at times more frequently, taking into account actual and anticipated capital changes and changes in the risk profile within each Client account and relative sizes of Client accounts, recognizing that the appropriate ratio for each Client may change over time. We initially base the ratio on estimated Client account changes at the beginning of a particular month and then adjust the ratio as necessary once Client account changes are finalized that month and also as necessary to reflect changes in Client circumstances. Accordingly, the pre-determined ratios may be adjusted one or more times during a given month depending on the circumstances related to a given Client.

For investment opportunities that have unlimited availability, a Client’s portfolio manager may determine to adjust the allocation that such Client would have otherwise received if the portfolio manager believes based on the Allocation Factors that doing so would be in the individual best interest of such Client.

For investment opportunities that have limited availability (“Limited Opportunities”), *i.e.*, any (1) primary or secondary offering of equity or debt or (2) other investment opportunity that we believe is too limited for all Clients to participate in to the full extent that would otherwise be in their individual best interest, a Client’s portfolio manager may determine to reduce the allocation that such Client would have otherwise received if the portfolio manager believes based on the Allocation Factors that doing so would be in the individual best interest of such Client.

Special Investments. In order to ensure all participating Clients receive appropriate exposure to Special Investments, we allocate such Special Investments among participating Clients on a basis other than the ratios in accordance with our policies and procedures. Allocations of Special Investments are determined based on a variety of factors, including, among other things, investment capacity for Special Investments, the liquidity profile of the Clients at such time, the expected timing of realization of such investment or any other held by a Client, the level of risk that we believe that Clients should absorb, the desired level of hedging, and any other Allocation Factors set forth above as applied to such Special Investment. For example, Special Investments might be deemed to possess inherently more risk than more liquid investments or other non-Special Investments. Risk assessment is an ever-adjusting, subjective determination but it is necessary for each Client. Therefore, a Client's portfolio manager may want to limit the risk by limiting the size of the Special Investment in relation to the net asset value of a fund or other parameters. This will require that a formulaic approach to allocating exposure for Special Investments to a Client be adjusted to take into account the risks associated with a specific opportunity or strategy. These risk considerations will change over time.

Allocations of Special Investments that are appropriate for BDC Clients and other Clients will first be allocated between the BDC Clients, on the one hand, and the other Clients, on the other hand, *pro rata* based on the aggregate available capital of each group. Allocations of such an opportunity among the non-BDC Clients would then be made in the manner described above.

"Follow-On" Investments. The allocation of Special Investments to participating Clients may differ depending on whether we designate an additional investment opportunity in or relating to an existing Special Investment as a "Follow-On" investment or as a "new" Special Investment, which designation is made in the sole discretion of Och-Ziff. In determining whether to designate such additional investment opportunity as a Follow-On investment or as a new Special Investment we will consider many factors, including, but not limited to, whether such investment is accretive to, or necessary to protect the value of, an existing Special Investment, and whether such investment can be allocated in the same manner as the original Special Investment to which it relates, taking into consideration the Allocation Factors. If such additional investment opportunity is designated as a "new" Special Investment, a new allocation will be determined as described above, including with respect to participation by a Non-Discretionary Client, as applicable. Accordingly, a Client that participates in the original Special Investment may have an increased or decreased allocation to such new Special Investment as compared to the original Special Investment. If such additional investment opportunity is designated as a "Follow-On" Special Investment, then we will seek to allocate the Follow-On investment in the same manner as the original Special Investment. However, if, due to any of the Allocation Factors, or if we otherwise believe that it would not be appropriate for a Client to participate (or fully participate) in a Follow-On investment opportunity, then the Follow-On investment opportunity (or the remaining portion thereof) will be allocated first to other Clients that participated in the original Special Investment, second to other Clients that did *not* participate in the original Special Investment for which the investment would be appropriate (and this can include Non-Discretionary Clients), and last to third parties, if any additional allocation remains.

Special Purpose Vehicles. In certain limited circumstances, such as where bank debt or private securities are purchased in an aggregated order, we may not be able to allocate a portion of the order to a particular Client due to considerations including, without limitation, minimum

denomination requirements, excessive costs or negative tax or regulatory consequences. For this reason, we may establish one or more special purpose vehicles ("SPV") to help facilitate these transactions. Eligible Clients will generally participate in the SPV subject to Client-imposed investment guidelines or restrictions and tax and regulatory considerations. In such cases, non-participating Clients may be subject to higher costs with respect to such transactions. We may, in our discretion, also decide not to have certain non-participating Clients invest in such transactions if we believe that the costs (*e.g.*, assignment fees in the case of bank debt) or tax or regulatory consequences associated with the non-participating Clients' investment are or could be too high.

Financing Subsidiaries. In the context of Special Investments or Limited Opportunities in a specific investment program in which multiple Clients participate, we may seek to finance such investments via the formation of a financing subsidiary ("Financing Subsidiary") whereby a lender to such Financing Subsidiary will have a lien on all of the Financing Subsidiary's assets. In order to ensure that all Clients holding investments through the Financing Subsidiary are fairly and equitably subject to such lien, we may establish a fixed allocation ratio for all investments held through such Financing Subsidiary. In which case, the Clients' allocation of the initial investment held by such Financing Subsidiary will be determined in accordance with our allocation procedures. All subsequent investments for such Clients made through such Financing Subsidiary will be subject to the same allocation ratio for a set period (*e.g.*, 12 months) which will be determined by us at the time of the initial investment (the "Investment Period") except as described below. We will determine the Investment Period based on a variety of factors, including (a) the nature, and expected timing of realization, of the investments expected to be held by the Financing Subsidiary, (b) the investment objectives, guidelines and restrictions, investment programs and investment periods of the participating Clients, (c) tax and regulatory considerations, (d) investment capacity of the participating Clients and (e) such other factors that we believe are consistent with the fair and equitable treatment of all Clients over time. Upon expiry of the Investment Period of a Financing Subsidiary, we will review the applicable allocation ratio (including by comparing such ratio to the ratio that would otherwise apply at such time under our allocation procedures) for the participating Clients to determine whether it should remain the same or be adjusted in order to promote the fair and equitable treatment of such participating Clients over time. Upon such review, we may either (a) extend the Investment Period (with the length of such period being determined as described above) for such Financing Subsidiary without adjusting the allocation ratio, (b) extend the Investment Period (with the length of such period being determined as described above) for such Financing Subsidiary and adjust the allocation ratio in accordance with the allocation procedures for future investments to be held through the Financing Subsidiary or (c) close the Financing Subsidiary to future investments and establish a new Financing Subsidiary in accordance with this paragraph to facilitate the financing of future investments by our Clients. At any point prior to the expiry of a Financing Subsidiary's Investment Period, we may terminate such Investment Period if we determine that material changes to the circumstances of one or more participating Clients have rendered the applicable allocation ratio unfair or inequitable. In the event a financing arrangement permits Clients to hold such investments directly, as opposed to through a Financing Subsidiary, we may establish a fixed allocation ratio for all such investments subject to such financing arrangement in accordance with these procedures as though such investments were held through a Financing Subsidiary.

Non-Discretionary Clients. Certain Client accounts are managed by Och-Ziff on a non-discretionary basis (“Non-Discretionary Clients”). The terms of the Non-Discretionary Client’s investment program will govern which investments may be offered to the applicable Non-Discretionary Clients (*e.g.*, geography, sector, instrument type, risk tolerance, etc.). Subject to such terms, Non-Discretionary Clients may be included in the allocation for an investment opportunity after taking into account the Allocation Factors, in accordance with our policies and procedures.

Regardless of such allocation, Non-Discretionary Clients may elect to take less than all (including none) of their share of any such investment opportunity, including Limited Opportunities, Special Investments and Follow-On investments. Depending on the allocation selected by the Non-Discretionary Client (including if the Non-Discretionary Client chooses not to participate in such investment opportunity), we may adjust (either up or down) the allocation to all other eligible Clients to ensure all participating Clients (including the Non-Discretionary Client(s)) receive the appropriate exposure to the investment opportunity. Accordingly, the ability of a Non-Discretionary Client to select exposure to any investment to which it has received an initial allocation will impact (either increase or decrease) amounts available to allocate to other participating Clients over which Och-Ziff has discretion.

Individual Investment Advice. Individual investment advice and treatment will be accorded to each Client. In this regard, we may exclude a Client from participating in any investment opportunity or adjust such Client’s relative participation if we believe that the opportunity is not appropriate (including a *pro rata* level of participation) for such Client. Reasons may include the risk of the investment, desired portfolio and/or strategy diversification, the liquidity profile of the Client, the overall volatility of the Client’s portfolio or other factors deemed relevant at such time. In this regard, separately managed account Clients directly, and the portfolio managers of the Funds, may request or establish, respectively, greater or lesser portfolio concentrations which may cause us to allocate aggregated orders on other than a *pro rata* basis.

OZRE Clients. Notwithstanding our standard allocation procedures, we may initially allocate up to 100% of investment opportunities sourced, on or before June 30, 2015, by OZRE to clients of OZRE (“OZRE Clients”). Any remaining portion of such opportunity will be allocated among Clients in accordance with the allocation procedures for Special Investments described above. As a result, all Clients may not participate (i) in every opportunity sourced by OZRE or (ii) *pro rata* in those opportunities sourced by OZRE in which they do participate.

Furthermore, we may initially allocate 100% of all private real estate investment opportunities that arise on or after July 1, 2015 to OZRE Clients. Each such opportunity will be allocated among OZRE Clients in accordance with the allocation procedures for Special Investments described above. Any remaining portion of such opportunity will be allocated among the other Clients in accordance with the allocation procedures for Special Investments described above. As a result, all Clients may not participate (i) in every private real estate investment opportunity or (ii) *pro rata* in those private real estate investment opportunities in which they do participate.

Energy-Specific Clients. Notwithstanding our standard allocation procedures, we may initially allocate 100% of all private energy investment opportunities that arise on or after July 1, 2015 to Clients whose investment strategy is primarily focused on energy-related investments, including

all successor funds to such Clients (such Clients, “Energy-Specific Clients”). Each such opportunity will be allocated among Energy-Specific Clients in accordance with the allocation procedures for Special Investments described above. Any remaining portion of such opportunity will be allocated among the other Clients in accordance with the allocation procedures for Special Investments. As a result, all Clients may not participate (i) in every private energy investment opportunity or (ii) pro rata in those private energy investment opportunities in which they do participate.

Business Development Company Clients. We have implemented allocation procedures in order to enable the participation of our, or our affiliate adviser OZ CM’s, Clients that are business development companies (“BDC Clients”) in the aggregation and allocation of investment opportunities among Clients. As a result of applicable regulations and our related policies, other Clients may be unable to participate in investment opportunities in issuers in which a BDC Client is investing or already holds an interest (as described in Item 11 above). As a result, Clients may from time to time not participate in investment opportunities that would have otherwise been profitable for them.

Application for Exemptive Order. In connection with the regulatory restrictions involving participation of BDC Clients in co-investment opportunities, we intend to apply to the SEC for an exemptive order (the “Order”) that would enable BDC Clients and other Clients to co-invest in investment opportunities that would otherwise be prohibited by applicable law. In the event the Order is granted, our allocation policies provide that they will be updated to reflect the requirements of the Order. We expect that allocations of opportunities under the Order, if granted, will be subject to certain conditions including a requirement that such opportunities first be allocated between BDC Clients, on the one hand, and the other participating Clients, on the other hand, *pro rata* based on the aggregate available capital of each group, instead of the ratios as described above in accordance with our current procedures, before then being allocated among the participating non-BDC Clients in accordance with our allocation procedures. Allocations of investment opportunities in reliance on the Order may result in some Clients receiving a smaller allocation than they would have otherwise, or not participating in investment opportunities that would have otherwise been profitable for them.

Risk Assessment. When we make an investment decision, we assess the amount of risk the Clients should bear. Our risk assessment is an inherently subjective determination—we do not follow a pre-established formula to determine or modify Client risk capacity. Furthermore, risk assessments will vary depending on the nature of an investment and the strategy deployed. Because allocation of investment opportunities is based on these risk assessments, a portion of our allocation decision is itself subjective as a result.

Pre-Settlement Order Adjustments. From time to time, circumstances arise before settlement of a transaction that result in us adjusting the original order to make securities settle into a different account than was called for under the original order. This is generally done to avoid a violation of Client investment restrictions or guidelines, to avoid a negative tax consequence for a Client, or for a variety of other reasons. The effect of this is to allocate more or less to one or more Clients than what would have otherwise been the case in accordance with the original allocation. Please see our complete Order Aggregation and Allocation Procedures on the investor website for additional detail.



Over-Allocations to Funds With Substantial Proprietary Investments. As described above, our allocation procedures factor in the need to bring new Clients (including new Funds) to a fully invested position as quickly as possible. This objective may raise a conflict of interest between us and our Clients to the extent that we and our partners, principals, and employees have contributed the majority of a new Fund's capital. Our interest in new Funds may remain substantial for an extended period of time, depending on the degree of investments by third party investors. The same issue applies to investments by our partners, principals, and employees also in other, more seasoned Funds, which also may be substantially comprised of proprietary investments.

Special Considerations for New Clients and Allocations of Public Investments. When a new Client or a Client experiencing a large cash infusion or capital withdrawal invests in aggregated orders of investments (including Limited Opportunities and Special Investments), we may determine not to allocate such orders on a *pro rata* basis, but instead, may allocate a larger proportion of an order (including up to 100% of the order) to such Client to achieve the desired exposure to such issuer (or in the case of a withdrawal, the desired liquidity). As a result of these factors and processes, all Clients will not participate equally in every order placed for the purchase or sale of an investment opportunity, including those that may have very limited availability.

Allocations of Primary and Secondary Offerings. With respect to allocations of primary and secondary offerings, we will determine whether and the extent to which a particular offering will be allocated among Clients and the amount of such allocation in accordance with the procedures outlined above for Limited Opportunities and, as applicable, Special Investments (including available capital) and in a manner consistent with applicable regulations (*e.g.* Financial Industry Regulatory Authority Rules 5130 and 5131, as amended, supplemented and interpreted from time to time, collectively the "FINRA Rules"). We may modify our procedures related to the allocation of orders in offerings so as to comply with any rule or interpretation thereof adopted by any applicable regulatory authority or if we otherwise believe that a modification is necessary to ensure that all Clients are treated fairly over time.

We will allocate appreciation and depreciation from "new issues," as defined under the FINRA Rules, and other restricted investments, only to Clients in which beneficial owners are eligible to participate therein. Under the FINRA Rules, certain persons (including, without limitation, persons associated with a broker-dealer, portfolio managers, executive officers, and directors of public companies and certain family members of such persons) may be "restricted" with respect to their participation in new issues. As a matter of fairness to Fund investors that do not participate in a Fund's investments in new issues and other restricted investments, we may debit a use-of-funds charge to the capital accounts of those investors that do participate in new issues and credit that amount to the capital accounts of all other investors. The decision of whether or not to debit a use of funds charge is made on a case-by-case basis. Historically, we have not exercised our authority to impose such a charge.

Dilution of Investment Opportunities. We have entered into, and will enter into, business relationships with entities that provide us with investment ideas and opportunities that are appropriate for one or more of our Clients. In addition, Clients retain us to provide non-discretionary advice, as noted above, and, in some cases, retain consent rights over their

investments. To the extent that our business expands in these directions, the investment opportunities given to any specific Client will likely be diluted over time as more Clients and joint ventures (including joint ventures from which we derive an economic benefit) will compete for a limited pool of opportunities or as specific groups of Clients receive priority in allocations of investment opportunities related to specific investment strategies (such as described in Item 12 herein in “OZRE Clients” and “Energy-Specific Clients”). As a result of this dilution, investment opportunities that are appropriate for a Client may not be allocated (or allocated in lesser amounts) to such Client and may instead be allocated to other Clients and joint ventures (including joint ventures from which we derive an economic benefit). Clients should understand the extent of our business, and that they should only contribute capital to a Fund or establish a separately managed account with the knowledge that the advisory services we provide are not exclusive. We may permit one or more strategic investors, which may include third parties and/or Fund investors, to co-invest in certain investment opportunities (including Limited Opportunities and Special Investments), if we determine that Client accounts have received a full allocation of such investment opportunity in accordance with our allocation policy. Any such co-investment opportunity may be subject to a placement fee, management fee and/or an incentive allocation payable to us or our affiliates. Our decision to permit co-investments by third parties may be based on a business relationship between us and the third party (including investment by the third party in one or more investment vehicles managed by us or our affiliates).

We will provide additional detail about our order aggregation and allocation policy to current Clients and Fund investors upon request, and the policy is available on the investor website at <http://ir.ozcap.com>, which is available to investors in certain of the Funds. Although the above discussion provides a summary of our policy, we may revise or amend our policy at any time, without notice to Clients or Fund investors except as required by applicable law. We encourage Clients and Fund investors to review the full text of our policy at our New York, London, Dubai and Hong Kong offices.

### ***Other Brokerage Practices, Issues, and Conflicts***

Separate Trading Desks and Strategies. We have separate trading desks which are managed by different traders and portfolio managers. Our portfolio managers and traders also employ separate strategies pursuant to which they may invest and trade in the same or similar securities. These trading activities may result in our trading desks placing simultaneous competing orders or opposite orders for the same securities which could cause the price of these securities to increase or decrease. These competing trades may therefore cause a Client to pay a higher purchase price or receive a lower sale price than it otherwise would have paid or received, as the case may be, if competing orders had not been placed.

Step Out Transactions. We sometimes engage in “step-out” brokerage transactions. In a typical step-out trade, we direct the executing broker to allocate all or a certain number of shares of an executed trade to another broker-dealer (the “stepped-out broker”) for clearance and settlement. The executing broker receives a commission on the number of shares of an order that it executes, clears and settles while the stepped-out broker negotiates and receives the commission for the number of shares it clears and settles. The executing broker may not know what commission is paid to the stepped-out broker or what services (other than clearance and settlement) the stepped-

out broker provides to us. In a step-out trade, Clients will generally not be paying the lowest commission possible.

OTC Transactions. When OTC transactions are placed, Och-Ziff generally employs primary market-makers, except when it is believed that better executions can be obtained from other market participants. From time to time, OTC trades may be executed on an agency basis rather than on a principal basis. In these situations, the broker we select may acquire or dispose of a security through a market-maker. The transaction may thus be subject to both a commission (from the agency broker) and a mark-up or mark-down (from the market maker) and, therefore, the net price may be greater than what might otherwise be available. We believe that the use of a broker in such instances is consistent with our duty to seek to obtain best execution for Clients, in light of the factors we consider. For example, the use of a broker can provide anonymity in connection with a transaction, and a broker may, in certain cases, have greater expertise or greater capability in connection with both accessing the market and executing a transaction.

Cross Trades. We may effect “cross” transactions between Client accounts, if permitted by applicable law. In a “cross” transaction, one Client account will purchase securities held by another Client account. We will only effect these transactions:

- (1) when we deem the transaction to be in the best interests of both Client accounts;
- (2) at a price and under circumstances that we have determined by reference to independent market indicators, or other factors, which we believe to constitute best execution for both Client accounts; and
- (3) when approved by the Conflicts Committee in advance.

We do not receive any compensation in connection with cross transactions. “Inadvertent” cross transactions may also occur when trades cross in the market. For example, when we periodically rebalance Client accounts, certain accounts may sell securities into the market at the same time that other accounts are purchasing the same securities in the market, resulting in an inadvertent or “deemed” market cross. In these cases, we do not instruct the independent broker-dealer to directly move positions between Clients’ accounts and, in addition, such independent broker-dealer establishes the price for the transaction.

Trade Errors. We have established policies and procedures regarding the handling of trade errors in Client accounts. Pursuant to these policies and procedures, errors are corrected as soon as practicable after discovery. In this regard, we attempt to place Clients in the position that was intended at the time a decision to trade was made. Where trading errors result in gains for the Client account, the account is credited with such gains. On the other hand, if a trading error caused by us results in a loss, we make Clients whole by reversing out the trade at our own expense in the form of a reimbursement paid by the Registrant (or, as applicable, the Relying Adviser). To the extent that a Fund is regulated under a different regulatory regime, we will follow that regime’s different policies and procedures regarding error correction.

Transactions with Fund Investors and Clients. We and our affiliates sometimes enter into transactions with certain Fund investors or other Clients. The terms of these transactions are negotiated on an arm’s-length basis. However, we and our affiliates are subject to a conflict of

interest when determining such terms because we may ultimately benefit from retaining the investor or Client account.

Allocation of Our Time and Resources. Generally, we are not subject to specific obligations or requirements concerning the allocation of our time, efforts, resources, or investment opportunities to any particular Client. Our personnel devote time to the affairs of our Clients as they, in their discretion, determine to be necessary for the conduct of our business.

Material Non-Public Information. As part of our investment advisory activities, we and our affiliates sometimes come into possession of material non-public or price sensitive information regarding other issuers, including both public and private companies. We are generally prohibited from using this information for the benefit of any Client. As an example, we may obtain material non-public or price sensitive information if we are contemplating a transaction and, as part of that process, we are required to sign a non-disclosure agreement. If any Client has an existing holding that is impacted by “wall crossing” and/or the terms of the non-disclosure agreement, the Clients will not be able to sell or dispose of that position during the effectiveness of the agreement or duration of the restriction and as a result, the Client may experience a loss in value, which may include a total loss, of the position during this confidentiality period. Furthermore, we will be unable to enter into new positions (or increase existing positions) in such affected securities during the confidentiality period. Our activities for a Client’s account may be affected by these restrictions even where we obtained the material non-public information with the intention of trading for a different Client’s account.

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

In addition, we may invest Client accounts in debt and equity securities of broker-dealers (or their affiliates) through which Client brokerage is executed. We make these investments in the exercise of our investment discretion and only when we believe the investment to be beneficial to our Clients. We do not have any pre-arrangement or understanding with any broker-dealer that an investment in the broker-dealer’s (or its affiliate’s) publicly-traded stock is in recompense for business or other services such broker-dealer provides to us and our Clients.

Complex Institutional Relationships. Throughout Item 12, and elsewhere in the brochure, we disclose conflicts of interest arising out of our and our affiliates’ relationships with prime brokers and other counterparties and service providers. For example, some counterparties have established platforms to allow some of their own clients and customers to invest in our Funds through feeder funds. These conflicts may be exacerbated to the extent that we and our affiliates have multiple such relationships, involving a variety of transactional work with the same or related entities. Our relationships with counterparties and other service providers are dynamic

and evolve over time. Because of the number and nature of these relationships, conflicts of interest that arise in connection with any one transaction or relationship can be compounded when many different transactions and relationships develop at the same time.

### **Item 13 – Review of Accounts**

Generally, Client accounts and portfolios are reviewed daily, with the exception of real estate Fund accounts and portfolios which are reviewed on a quarterly basis. This review is carried out by our analysts and portfolio managers. We also review daily the transactions entered into for Clients to ensure that correct entries have been made for all Client records.

When requested, we may provide our separately managed account Clients with reporting of their accounts. We typically provide Fund investors with monthly transparency reports and statements indicating the current market value of their interests. We also provide monthly and quarterly letters to investors as well as month-to-date performance data in respect of most of our Funds, which is provided on a weekly basis. For our real estate Funds, we provide investors with quarterly investment reports on each portfolio investment in such Fund.

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

We may execute Client transactions with prime brokers that sponsor events, meetings or other communications between potential investors and us or our affiliates. These capital introduction services are provided incidental to other brokerage services. We and our affiliates are not compelled to engage broker-dealers that sponsor these capital introduction programs in order to be included at these events. However, these capital introduction events are typically sponsored by prime brokers that provide necessary services to the Funds, and they may create the appearance of using the execution services of these broker-dealers in order to be invited to their capital introduction programs.

We do not cause Clients to execute transactions or pay higher commissions or other transaction costs in connection with these programs or services (although Clients will not necessarily pay the lowest possible commission when executing transactions through these broker-dealers—please see Item 12 above for additional information). However, we do pay to attend certain conferences, seminars and other events that are attended by prospective investors, but are not specifically designed as capital introduction events. Furthermore, broker-dealers or their affiliates may introduce us to prospective investors and will continue to have business relationships with, and execute brokerage transactions on behalf of, our Clients.

In addition, certain counterparties, including affiliates of broker-dealers, have established platforms to allow their clients and customers to invest in our Funds through feeder funds. These platforms are described in greater detail in Item 6 and in Item 12 above. We pay a portion of the management fee to platform sponsors out of the fees we receive from Funds with respect to the assets invested through each respective platform.

## **Item 15 – Custody**

All separately managed account Clients should receive, at least quarterly, account statements from the broker-dealer, bank, or other custodian that maintains the Client's assets. Separately managed account Clients should compare these statements to the statements received from us.

We generally provide Fund investors with the Fund's annual audited financial statements prepared by an independent public accounting firm.

## **Item 16 – Investment Discretion**

We generally receive and exercise discretionary authority to manage investments on behalf of Clients, although we also provide advice to Clients on a non-discretionary basis as well. As noted in Item 4 above, separately managed account Clients may impose limitations on this discretion with respect to: (1) the specific types of investments or asset classes that we will or will not purchase for their account; (2) the nature of the issuers of investments that we will or will not purchase for their account; (3) the risk profile of instruments we will or will not purchase for their account; or (4) the risk profile of the account as a whole. In limited cases, certain advisory clients retain consent rights over their investments. Clients may also direct us to use a particular broker-dealer or broker-dealers. Separately managed accounts will be opened solely in our discretion and will generally be subject to minimum investment amounts.

We typically assume this authority through a power of attorney or contract provision granted or entered into by a Client, or through the constituent documents of a Fund.

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

We have adopted proxy voting policies and procedures (the "Proxy Policies"). Under our Proxy Policies, our general policy is to vote proxy proposals, amendments, consents or resolutions relating to Client securities, including interests in private investment funds, if any (collectively, "proxies"), in a manner that serves the best interests of Client accounts. In determining how to vote proxies, we consider the following factors: (1) the impact on the value of the securities; (2) the costs and benefits associated with the proposal; (3) the effect on liquidity; (4) the customary industry and business practices; and (5) any other factors we deem relevant.

We may decide to vote consistent with management recommendations or the recommendation of a proxy voting service if we do not otherwise have a view with respect to a particular proxy. Under certain circumstances, we may abstain from voting specific proxies if we believe that doing so is in the best interests of our Clients. Furthermore, under our Proxy Policies, we may not have the ability to vote proxies issued by companies if our Clients no longer have any economic exposure to the issuer of the proxy. If we (or one of our partners or principals) have a conflict with respect to a proxy, the Proxy Policies require that we refer the determination of how to vote the proxy to our internal Conflicts Committee (described in Item 11 above) for review and resolution.

We do not permit Clients to direct how we will vote on specific proxies. You may request a copy of our Proxy Policies and the proxy voting record relating to your account by contacting us at the email address or telephone number listed on the first page of this document.

## **Item 18 – Financial Information**

Form ADV Part 2 requires investment advisers such as Och-Ziff to disclose any financial condition reasonably likely to impair our ability to meet contractual commitments to clients. We have no information to report that is applicable to this item.