

Schultze Asset Management, LLC

Part 2A of Form ADV

Firm Brochure

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This brochure provides information about the qualifications and business practices of Schultze Asset Management, LLC (“SAM”, “Company” or “Firm”). If you have any questions about the contents of this brochure, please contact us at (914) 701-5260. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about SAM is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Item 2 - Material Changes

SAM's most recent update to Part 2 was made in March 2014. This annual update does not contain any material changes to SAM's business since its last update.

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Item 4 - Advisory Business

SAM, a Delaware limited liability company organized on February 2, 1998 and primarily owned by George Schultze, provides investment advisory services to clients on a discretionary basis. As of December 31, 2014, SAM managed \$224 million on a discretionary basis.

SAM serves as an investment manager to several related collective investment vehicles, including private investment partnerships and foreign investment companies, organized to invest in securities and other financial instruments (collectively “Private Funds” or “Funds”). SAM also manages separate accounts for institutional and individual clients (“SMAs”, together with Private Funds, “Clients”). When managing Client assets, SAM generally has complete discretion and authority to manage and direct the investment of capital for clients.

SAM seeks to exploit market inefficiencies and security mis-pricings due to issuer distress across a range of corporate securities, in any part of the capital structure, at any point in the bankruptcy process or distress cycle. Through a highly disciplined investment process, SAM seeks to identify undervalued distressed securities that are inefficiently priced and buy them when one or more "catalyst events" are likely to drive values substantially higher. Among other things, catalyst events may include the filing of a bankruptcy reorganization plan, litigation resolution, and negotiation of an out-of-court bankruptcy plan or asset disposition. In certain cases, catalyst events may result from SAM's active involvement in the restructuring process.

Conversely, SAM's investment process also seeks to identify attractive short selling opportunities that may arise from undue optimism that a distressed company will somehow resolve or ‘muddle through’ its problems without the need to restructure or seek bankruptcy protection. Short positions are almost always un-hedged and are generally introduced to the portfolios when the SAM's research indicates a near-term catalyst, such as a bankruptcy filing or liquidity event, will likely drive the value of the security lower. Finally, SAM will sometimes invest in a range of relative value trades.

SAM believes its investment approach is differentiated from other distressed hedge fund managers in several ways:

- 1) SAM invests both long and short;
- 2) SAM invests in a range of issuer securities across the capital structure. Each class of security offers unique opportunities during various stages of the bankruptcy process in reaction to issuer distress;
- 3) SAM pursues investment opportunities in all phases of the bankruptcy cycle pre- through post-reorganization;
- 4) SAM focuses on mid-cap and large-cap companies in bankruptcy for long investments. Because of their size, mid-cap deals may be overlooked by larger managers and therefore may trade at attractive valuation discounts;
- 5) SAM invests in both passive trading, and in more active positions; and

- 6) SAM's deep fundamental investment research process benefits from a review of legal issues by in-house SAM attorney, as well as outside counsel review, at SAM's sole discretion.

SAM also offers other investment strategies, separate from its primary distressed securities investing strategy, through SMAs. These SMA's can be designed by SAM to be specialized in order to attempt to match the particular needs or circumstances of different types of clients. For example, a retired individual may seek to have more income, as opposed to capital appreciation, as one of his primary investment goals. Under this example, SAM can set up the managed account to increase exposure to less risky securities and also provide more or less diversification than typically employed by the pooled investment vehicles which focus on distressed securities investing. Alternatively, Clients in SMA's can opt out of certain parts of SAM's typical distressed securities investment strategy (such as shorting, using leverage, level three securities, fixed income securities, etc.) or achieve enhanced liquidity (such as monthly or daily liquidity) and/or achieve enhanced transparency directly down to the positions being managed by SAM. Currently, certain SMAs that do not focus on distressed securities investing offer a value investment approach that combines fundamental due diligence with macroeconomic forecasting to select securities. Importantly, Clients are urged to set forth in as much advance detail as possible their goals and expectations for the managed account being formed at the time of opening the account with SAM. In managing these accounts, SAM generally uses major third party broker dealers so that the Client can get their monthly or quarterly statements directly from said broker.

Item 5 - Fees and Compensation

For advisory services provided to SMAs, SAM charges an investment management fee based on a percentage of the market value of the assets under management and performance based fees. The maximum annual fee for advisory services is 2.0% of the account's assets. However, SAM may, from time to time, negotiate its fee. Generally, management fees are billed quarterly, in advance, and are prorated for the Clients' investments if made at times other than the start of a calendar quarter. SAM also receives a performance fee of up to 25% based on the net increase of the account's value (please see Item 6 for more information regarding performance fees). If for any reason a SMA wishes to terminate an investment advisory contract, the SMA must provide prior written notice in accordance with the terms of their contract and any fees paid in advance will be returned. Unless SAM has permission from the Client to debit automatically the SMA's custodial, banking or brokerage account(s), as the case may be, SAM will invoice each SMA for services rendered. In addition to SAM's investment management fees, SMAs bear trading costs, custodial fees and other expenses that may be charged by other third parties. Clients should review all fees charged by SAM and its affiliates, custodians and brokers and others to fully understand the total amount of fees to be paid.

For advisory services provided to Private Funds, compensation received by SAM is generally comprised of fees based on a percentage of assets under management and performance-based amounts. SAM's asset based fees range up to 2.00% (per annum). However, SAM may, from time to time, negotiate its fee. Asset based fees are billed quarterly at the commencement of the calendar quarter during which the Company will perform the services to which the fees relate. SAM also receives a performance fee up to 25%. The Company may waive all or any portion of the performance fee with respect to any investor. Fees are charged to each investor's capital account.

Investors generally will be permitted to make complete or partial redemptions in accordance with the terms of the Private Fund's governing documents. Each Private Fund sets forth its specific fee structure (including how it charges fees) along with the additional operational expenses in a confidential explanatory memorandum or similar offering document provided to prospective investors. In addition to SAM's fees, investors will bear indirectly other fees and expenses charged to the Private Fund.

Item 6 - Performance Based Fees and Side-By-Side Management

Performance based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. An adviser charging performance fees to some accounts faces a variety of conflicts because the adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (*e.g.*, an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee. SAM will enter into performance-based fee arrangements. However some Clients are not charged a performance based fee. Although SAM has an incentive to favor Clients for which it receives a performance-based fee, in no instance will SAM favor Clients paying performance-based fees over Clients not paying performance-based fees. As a fiduciary, SAM recognizes its duties to act in good faith and with fairness in all of its dealings with all Clients.

Such fees will be structured and charged in a manner consistent with the requirements of applicable law, including the Investment Advisers Act of 1940 ("Advisers Act") and ERISA. To qualify for a performance based fee arrangement, a Client must have at least \$1,000,000 under SAM's management or a net worth of more than \$2,000,000. The fact that SAM is compensated based on trading profits may create an incentive for SAM to make investments on behalf of Clients that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance based fee received by SAM is based primarily on realized and unrealized gains and losses. As a result, the performance based fee earned could be based on unrealized gains that Clients may never realize.

Item 7 - Types of Clients

SAM provides advisory services to various Private Funds and SMAs. The private investment funds operate as pooled investment vehicles and are generally organized in a "master-feeder" structure, where certain "feeder funds" (for example, an onshore private investment Delaware partnership and an offshore Cayman Islands exempted company) invest substantially all of their assets into a related "master fund," although the feeder funds may make direct investments for tax, legal or regulatory reasons.

Subject to the discretion of SAM to accept less, the minimum investment threshold for the Private Funds ranges from \$500,000 to \$1,000,000. Although the Company has the authority to accept a lesser amount, the minimum investment for a SMA is generally \$1,000,000; but SAM may agree to manage smaller SMAs in its sole discretion.

SAM may from time to time enter into agreements (collectively, “Side Letters”) with one or more investors of a Private Fund which provide such investor with additional and/or different rights (including, without limitation, with respect to management fees, the performance allocations, withdrawals, access to information, minimum investment amounts and liquidity terms).

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

SAM has developed a highly disciplined investment process. This process relies on a combination of deep fundamental business and credit analysis, capital structure and liquidation analysis, review of all legal documentation surrounding an issuer’s securities and identification of an investment catalyst.

The investment objective is to achieve exceptional risk-adjusted capital appreciation through investments in various securities of companies in financial and/or legal distress or which have recently emerged from financial reorganizations or lawsuits. No assurance can be given, however, that Clients will achieve their objective, and investment results may vary substantially over time and from period to period.

SAM expects to primarily target investments in the securities of fundamentally sound companies which are financially troubled. Typically, these difficulties are the result of events specific to each company or the industry in which the company operates, such as over-leveraging, poor industry conditions, a failure by management to execute a business plan, litigation, or macro-economic effects such as currency devaluation. In these situations, SAM will generally seek opportunities to purchase securities at depressed prices and capitalize on an increase in value based upon a financial restructuring. These purchases are typically evolutionary within a company's capital structure as initial positions may be increased, often times in different classes of securities.

SAM expects that a significant percentage of investments will be in classes of publicly traded and privately placed distressed securities in situations where SAM believes that the operating business is sound and an increase in value is likely to result from a restructuring, liquidation or arbitrage between classes of securities. Investments may be undertaken prior to, during or after a restructuring or bankruptcy.

SAM also offers other investment strategies, separate from its primary distressed securities investing strategy as described above in *Advisory Business* in Item 4.

The description provided above is a brief overview of the investment strategy and is not intended to be complete. All investing involves a risk of loss and the investment strategy offered by SAM could lose money over short or even long periods. Performance could be hurt by a number of different market risks including but not limited to:

- SAM’s investment activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by SAM. Such factors include a wide range of economic, political, competitive and other conditions (including acts of terrorism and war) that may affect investments in general or specific industries or companies. In recent years, the securities markets have become increasingly volatile, which may adversely affect the ability of SAM to realize profits.

- The identification of securities and other assets believed to be undervalued is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While such investments offer the opportunities for above-average capital appreciation, they also involve a high degree of financial risk and can result in substantial losses. Furthermore, Clients may be forced to hold such investments for a substantial period of time before realizing their anticipated value.
- SAM may make investments in restructurings which involve companies that are experiencing or are expected to experience severe financial difficulties. These severe financial difficulties may never be overcome and may cause such companies to become subject to bankruptcy proceedings.
- When deemed appropriate by SAM, it will sell securities short on behalf of client accounts. Short selling involves the sale of a security that the client account does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery to its purchaser, the client account must borrow securities from a third party lender. The client account subsequently returns the borrowed securities to the lender by delivering to the lender the securities it receives in the transaction or by purchasing securities in the open market. The client account must generally pledge cash with the lender equal to the market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains its right to receive interest and dividends accruing to the securities.
- When deemed appropriate by SAM and subject to applicable regulations, SAM may use leverage in its investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. The securities industry and the varied strategies and techniques to be engaged in by SAM are extremely competitive and each involves a degree of risk. SAM will compete with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.
- SAM may invest a portion of its assets in bank loans and participations. The special risks associated with these obligations include (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) environmental liabilities that may arise with respect to collateral securing the obligations, (iii) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality, and (iv) limitations on the ability of SAM to directly enforce its rights with respect to participations. SAM will balance the magnitude of these risks against the potential investment gain prior to entering into each such investment.
- In some cases, the success of the SAM's investment strategy will depend, in part, on the ability to restructure and effect improvements in the operations of a company. The activity of

identifying and implementing potential operating improvements at a company entails a high degree of uncertainty. There can be no assurance that SAM will be able to successfully identify and implement such improvements.

- SAM may invest in “high yield” bonds that are rated in the investment grade and sub-investment rating categories by various credit rating agencies. High yield securities and/or comparable non-rated securities are subject to greater risk of loss of principal and interest than higher rated securities and are generally considered to be more speculative with respect to the issuer’s capacity to pay interest and repay principal.
- SAM’s investment strategy may be exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.
- By reason of their responsibilities in connection with other activities of SAM and/or its affiliates, certain principals or employees of SAM and/or its affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. SAM will not be free to act upon any such information. Due to these restrictions, SAM may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

Investors should review the Private Funds’ Confidential Private Placement Memorandum and other governing documents to understand the risks and potential conflicts of interest. However, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operation of the Private Fund.

Item 9 - Disciplinary Information

Below are the legal and disciplinary events in which the Firm or any supervised persons have been involved that are material to a Client’s or prospective client’s evaluation of the Firm’s advisory business or management.

(A) A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which Firm or a management person:

1. Was convicted of, or pled guilty or nolo contendere (“no contest”) to: (a) any felony; (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses.

Not applicable.

2. Is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking

of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses.

Not applicable.

3. Was found to have been involved in a violation of an investment-related statute or regulation.

Not applicable.

4. Was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, your firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.

Not applicable.

- (B) An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which Firm or a management person:

1. Was found to have caused an investment-related business to lose its authorization to do business.

Not applicable.

2. Was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority:

- (a) Denying, suspending, or revoking the authorization of Firm or a management person to act in an investment-related business.

Not applicable.

- (b) Barring or suspending Firm's or a management person's association with an investment-related business.

Not applicable.

- (c) Otherwise significantly limiting Firm's or a management person's investment-related activities.

Not applicable.

- (d) Imposing a civil money penalty of more than \$2,500 on Firm or a management person.

In August 2007, without admitting or denying the allegations, both SAM and George J. Schultze, consented to the entry of an order issued by the SEC imposing a one-time payment and ordering SAM and George J. Schultze to cease and desist from future violations of certain provisions of the Advisers Act. The order's allegations related to the firm's soft dollar activity prior to June 2005 for one of its managed account clients, as well as related record keeping and document production issues. The economic terms of the settlement were immaterial to its operations. In addition, the economic terms of the settlement had no financial impact on SAM's Clients.

SAM maintains a compliance program, as detailed in its Registered Investment Adviser Compliance Manual, which contains policies and procedures reasonably designed to address material risks and detect and prevent violations of the Advisers Act. In addition, the firm has retained an independent compliance consulting firm for many years to assist SAM in achieving best practices with compliance policies and procedures. The compliance consulting firm comes onsite annually to conduct a compliance audit and assist with compliance training. Its latest compliance report was dated July 25, 2014 and it found SAM's compliance program to be reasonably designed to prevent violations of federal securities law and also customized to address the size and nature of its advisory services. The report also found that SAM's compliance policies and procedures appear to address compliance and operational risks and the potential for conflicts of interest.

(C) A self-regulatory organization (SRO) proceeding in which Firm or a management person:

1. Was found to have caused an investment-related business to lose its authorization to do business.

Not applicable.

2. Was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.

Not applicable.

Pending Lawsuit Against SAM

SAM was named as a defendant in the fifth amended complaint in the action *Marc S. Kirschner, as Litigation Trustee for the Tribune Litigation Trust v. FitzSimons*, 12-cv-2652 (S.D.N.Y.) (the "Committee Action"). Plaintiff in this action seeks, on behalf of creditors of Tribune Co. ("Tribune"), to avoid all transfers of assets made by Tribune in the course of its 2007 leveraged buyout (the "LBO") to beneficial holders of Tribune stock and/or to entities that received such transfers on behalf of beneficial holders, on the grounds that those transfers rendered Tribune insolvent, were actually fraudulent, and constituted breaches of fiduciary duty.

SAM was also named as a defendant in several related matters, *Deutsche Bank Trust Company Americas v. Adaly Investment Management Co.*, Case No. 11-cv-4784 (S.D.N.Y.) and *Niese v. Alliance Bernstein L.P.*, Case No. 11-cv-4538 (S.D.N.Y.) (the “State Law Actions”), which were dismissed on September 23, 2013. Plaintiffs in those actions seek to recover payments made to Tribune shareholders in the LBO as state law constructive fraudulent conveyances. Dismissal of these actions is currently on appeal before the United States Court of Appeals for the Second Circuit.

The Private Funds and separately managed accounts managed by SAM during the LBO timeline received \$35,529,524 as a result of tendering Tribune shares in the LBO, and Plaintiffs in the Committee Action and State Law Actions are seeking to recoup this amount, plus prejudgment interest, attorney’s fees, and costs.

SAM considers the suits without merit and intends to vigorously contest the claims asserted in these actions. Additional information is available upon request.

Item 10 - Other Financial Industry Activities and Affiliations

SAM and its employees do not have any relationship or arrangements with other financial services companies that pose material conflicts of interest.

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

SAM has adopted a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act and is predicated on the principle that SAM owes a fiduciary duty to its clients. Accordingly, employees of SAM must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interest of Clients. The Code of Ethics requires all personnel to: (1) comply with all applicable laws and regulations; (2) observe all fiduciary duties and put Client interests ahead of those of Firm; (3) observe Firm's personal trading policies so as to avoid “front-running” and other conflicts of interests between Firm and its Clients; (4) ensure that all personnel have read the Code of Ethics, agreed to adhere to the Code of Ethics, and are aware that a record of all violations of the Code of Ethics will be maintained by the Chief Compliance Officer (“CCO”) and that personnel who violate the Code of Ethics are subject to sanctions by Firm, up to and including termination.

SAM endeavors to maintain current and accurate records of all personal securities accounts of its employees in an effort to monitor all such activity. Generally, knowledgeable employees can invest in the Private Funds but may not purchase or sell securities that are also recommended to Clients except for exchange traded funds (“ETFs”) or closed and open ended mutual funds. In addition, SAM requires pre-clearance for certain transactions. SAM’s Code of Ethics is available for review and will be provided to any Client or prospective client upon request.

SAM, its employees or a related entity will generally have an investment in the Private Funds it manages. Due to the relationship between SAM and the Private Funds, SAM may appear to have recommended an investment in the Private Funds because of its interest. But the truth of the matter is that SAM does not recommend an investment to its Clients unless it is in the best interests of the Client.

Item 12 - Brokerage Practices

There are no restrictions as to the type or amount of securities to be bought or sold on behalf of Clients. SAM is responsible for the placement of orders and the negotiation of any commissions paid on such orders. Purchases of securities through brokers involve a commission to the broker, or for dealers serving as market makers a spread between the bid and the asked price.

Securities transactions will be executed through brokers selected by SAM in its sole discretion and will seek to obtain the best execution for Clients, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the broker's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying SAM's other selection criteria.

Soft Dollar Arrangements.

The term "soft dollars" refers to a means of paying brokerage firms for products and services through commission revenue, based on the volume of brokerage commission revenues generated from securities transactions executed through brokers by an investment manager on behalf of advisory clients. Section 28(e) of the Securities Exchange Act of 1934, as amended, allows SAM to pay broker-dealers more than the lowest commission available in order to obtain research and brokerage services without breaching its fiduciary duties to clients. In addition, Section 28(e) does not require SAM to obtain the lowest commission if certain conditions are met and SAM makes a good faith determination that the commissions paid are reasonable in relation to the value of the brokerage or research services on behalf of its advisory Clients. In determining if something is research, thus falling within the safe harbor provisions, the controlling principle is whether it provides lawful and appropriate assistance to the money manager in the performance of its investment decision-making responsibilities. In relation to SAM's total assets under management, the total annual budget of brokerage or research services paid for using "soft dollars" would not be considered material.

Certain brokerage and research products and services utilized by SAM are categorized as mixed-use items that are partially paid for with soft dollars. Pursuant to the guidance set forth in the July 18th, 2006 SEC Interpretive Release regarding permissible client commission practices, SAM partially pays for mixed-use items with soft dollars after reasonably allocating between eligible and ineligible uses and making a good faith determination that the commissions being paid are reasonable in light of each of the brokerage and research services that are provided.

Research services received from broker-dealers are supplemental to SAM's own research effort and, when utilized, are subject to internal analysis before being incorporated by SAM into its investment process. As a practical matter, it would not be possible for SAM to generate all of the information presently provided by broker-dealers. SAM may pay for certain research services received from external sources with cash and also allocate brokerage for research services, which are available for cash. While the receipt of research services from brokerage firms has not reduced SAM's normal research activities, the expenses of SAM could be materially increased if it attempted to generate such additional information through its own staff. To the extent that broker-dealers provide research services of value, SAM is relieved of expenses, which it may otherwise bear. In addition, SAM has an

incentive to select a broker-dealer based on its interest in receiving research or other products or services, rather than Client's interests in receiving lower transaction costs.

Certain broker-dealers who provide quality brokerage and execution services also furnish research services to SAM. In selecting a broker-dealer, SAM may consider, among other things, the broker-dealer's best execution capabilities, reputation, and access to the markets for the securities being traded. SAM uses a comprehensive "best execution" system to rate each of its various counterparties on a scale of 1-10 in numerous different rating categories. The rating categories encompass a range of items including everything from timeliness of response to actual execution performance. The results of SAM's best execution system are then compiled quarterly by the CCO and help guide SAM in making future allocation of trading commissions decisions.

SAM will generally seek competitive commissions for transactions for advisory client's accounts. Consistent with obtaining best execution, transactions for advisory clients may be directed to brokers in return for research services furnished by them to SAM. Such research generally will be used to service all of SAM's Clients, but brokerage commissions paid may be used to pay for research that is not used in managing a specific account. Therefore, research may not necessarily benefit all accounts paying commissions to such brokers. Accordingly, SAM cannot readily determine the extent to which commission rates charged by broker-dealers reflect the value of their research services. SAM generally assesses the reasonableness of commissions in light of the total brokerage and research services provided by each particular broker-dealer. SAM receives a wide range of services from broker-dealers. These services include: information on the economy, industries, groups of securities, individual companies, statistical analysis, performance analysis, and analysis of corporate responsibility issues. These services provide both domestic and international perspective. Research services are received primarily in the form of written reports, computer generated services, telephone contacts, and personal meetings with security analysts. In addition, such services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academics and government representatives. In some cases, research services are generated by third parties but are provided to SAM by or through broker-dealers.

See *Investment Discretion* in Item 16 below for additional information on placing trades with broker-dealers.

Aggregation of Orders.

SAM may aggregate purchase and sale orders of investments held by Client accounts managed by SAM with similar orders being made simultaneously for other accounts or entities if, in SAM's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to Clients based on an evaluation that they will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of investments for Clients will be affected simultaneously with the purchase or sale of like investments for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such event, the average price of all securities purchased or sold in such transactions may be determined, at SAM's sole discretion, and the Client account may be charged or credited, as the case may be, with the average transaction price.

Cross Trades.

A cross trade consists of a pre-arranged transaction between two or more different funds or accounts, each of

which are managed by the same advisor. Occasionally, SAM may utilize cross trades to address account funding issues and when it specifically deems the practice to be advantageous for each participant. Prior to effecting a cross trade, SAM's trader will inform the CCO of the terms of the transaction and the CCO will make a determination of whether it is favorable to all participants.

Trade Errors.

SAM has internal controls in place to prevent trade errors from occurring. On those occasions when such an error nonetheless occurs, SAM will use reasonable efforts to correct the error as soon as possible. The goal of error correction is to make the client "whole," regardless of the cost to SAM. If SAM reallocates or corrects an error from one client's account to another, any loss from the error must be absorbed by SAM. Soft dollar arrangements cannot be used to correct errors made by SAM when placing a trade for a client's account. SAM's CCO will endeavor to maintain a record of each trade error, including information about the trade and how such error was corrected.

Item 13 - Review of Accounts

All accounts are reviewed by Mr. George J. Schultze, Managing Member of SAM. SMAs are reviewed periodically to ensure adherence with client objectives and guidelines and Private Funds are reviewed at least on a monthly basis to assure conformity with the objectives and guidelines of such fund. In addition, all accounts are reviewed in light of emerging trends and developments as well as market volatility in SAM's sole discretion. However, this in no way guarantees performance success.

Capital account statements are sent on a monthly basis to offshore private fund shareholders and domestic private fund limited partners, and it includes detailed account balances and return information (prepared by an independent third party administrator). In addition, performance estimate reports, which include brief summary information on market factors, are distributed by SAM in its sole discretion on a monthly basis to all private fund shareholders and limited partners. On a quarterly basis, SAM distributes a letter to all private fund shareholders and limited partners that includes a more detailed analysis on portfolio companies and market outlook. On an annual basis, shareholders and limited partners are sent the annual financial statements of the applicable private fund audited by KPMG, an independent certified public accounting firm. Finally, limited partners receive annual copies of such limited partner's Schedule K-1 to the Private Fund's tax returns. The nature and frequency of reports to SMAs are determined primarily by the particular needs of each SMA. Generally, SMAs receive custodial statements of all transactions no less than quarterly. In addition, clients are kept informed through telephone calls or in-person meetings.

Item 14 - Client Referrals and Other Compensation

SAM may sell interests and/or shares in the Private Funds through broker-dealers, placement agents and other persons and pay a marketing fee or commission in connection with such activities, including ongoing payments, at SAM's own expense (except in circumstances involving directed brokerage).

An affiliate of SAM may occasionally act as agent for certain lending groups, which include SAM on behalf of client accounts, in order to facilitate underwriting of certain loan facilities to companies. Such transactions are facilitated by the affiliate as an accommodation as agent only and any fees

received relating to such transactions will be credited to Client accounts as soon as practicable. These transactions may give the appearance of a conflict of interest. SAM will review all such potential conflicts of interest to ensure that such investments are in the best interest of the client.

Item 15 - Custody

All Client assets are held in custody by unaffiliated broker/dealers or banks. However a registered investment adviser who, directly or through an affiliate, acts as the general partner or managing member to a limited partnership or other comparable pooled investment vehicle is considered to have custody over client assets. In addition, if an adviser can debit accounts to collect fees, it is considered to have custody. Rule 206(4)-2 under the Advisers Act imposes a number of requirements on an SEC-registered investment adviser that is deemed to have custody of its clients' funds and securities.

To comply with Rule 206(4)-2, each Private Fund is subject to an annual financial statement audit by an independent public account registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles, and are distributed to each investor within 120 days of the Fund's fiscal year end.

In cases where we can access SMAs' funds and securities through our ability to debit advisory fees from the custodial account, the account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by SAM.

Item 16 - Investment Discretion

The Company typically manages Client accounts on a discretionary basis, subject to the restrictions (if any) that have been provided by Clients. For accounts handled on a discretionary basis, the Company typically has the authority to determine the securities to be bought and sold without obtaining Client consent to specific transactions. Moreover, in the accounts handled on a discretionary basis, the Company typically has the authority to determine the amount of the securities to be bought and sold without obtaining Client consent to specific transactions.

The Company is not obligated to acquire for any account any security that the Company or its officers, partners, members or employees may acquire for its or their own accounts or for the account of any other Client, if in the absolute discretion of the Company, it is not practical or desirable to acquire a position in such security.

Item 17 - Voting Client Securities

Proxy Voting Policy.

SAM is engaged in the voting of proxies for some of its Clients, as addressed on an account-by-account basis in SAM's Investment Management Agreements. Below is a description of the adopted and implemented written policies and procedures followed by SAM when it votes proxies on behalf of Clients:

(A) Implementation of Policies and Procedures

SAM has adopted and implemented policies and procedures for voting client proxies. The policies and procedures were reasonably designed to ensure that SAM votes client securities in the best interest of Clients, and sets forth how SAM addresses material conflicts of interest that may arise between SAM and its Clients.

(B) Voting Information for Clients

SAM's proxy voting policies and procedures are described generally in Section (C), *Summary of Proxy Policy*, discussed below. SAM has engaged Broadridge Investor Communication Solutions to monitor and track proxies voted on behalf of Clients. Investors wishing to obtain a copy of SAM's complete Proxy Voting Policy or those who would like to receive a copy of SAM's proxy voting records as it relates to their account may contact:

Scarlett W. Du
General Counsel & Chief Compliance Officer
Schultze Asset Management, LLC
3000 Westchester Avenue
Purchase, New York 10577
Telephone: 914-701-5260
Facsimile: 914-701-5269
E-Mail: sdu@samco.net

Questions regarding how proxies are voted should be directed to the Managing Member.

(C) Summary of Proxy Voting Policy

SAM will be responsible for voting client proxies. The company has developed written policies and procedures governing proxy voting on behalf of the Private Funds.

In general, the policy requires SAM to vote client proxies in the interest of maximizing shareholder value. In addition, the company maintains a record of all proxy votes cast on behalf of clients.

(D) Corporate Actions

SAM recognizes that corporate actions may have a material effect on the performance of a client's investments. Therefore, SAM takes care to monitor all notices of corporate actions received by SAM to ensure that any corporate action required is acted upon promptly. SAM is responsible for ensuring that corporate actions received are reviewed and when necessary, acted upon. SAM maintains records of voted corporate actions on behalf of all advisory clients.

(E) Class Action Voting

If SAM receives class action documents on behalf of its Clients, SAM will ensure that the Clients either participate in or opt out of the class action. SAM will determine if it is in the best interest of the clients to recover monies from a class action. The Managing Member will determine the action to be taken when receiving class action notices. In the event that SAM opts out of a class action settlement, SAM will maintain documentation of any cost/benefit analysis, if performed at SAM's sole discretion, to support its decision.

(F) Bankruptcies

With respect to bankruptcies involving issuers of securities held in advisory accounts, SAM in its sole discretion may participate in bankruptcy proceedings and/or join creditors' committees on behalf of all or some of its advisory Clients. Although SAM may in its sole discretion participate in such proceedings and join such committees on its Clients' behalf, SAM is not obligated to do so.

(G) Procedures

Votes will be cast in compliance with the policies set forth above, unless SAM determines in its sole discretion that a different vote would be in the best interests of its Clients. Commercially reasonable efforts should be made to make certain that SAM receives proxy material and votes on a timely basis.

(H) Conflicts of Interest

Circumstances may arise wherein SAM may have a conflict of interest in voting proxies on behalf of its Clients. These circumstances may include but are not limited to instances in which SAM or one or more of its affiliates (including the directors, officers or employees) has or is seeking to have the issuer of the securities being voted become a Client of SAM. SAM shall inform its employees that they are under an obligation to be aware of potential conflicts of interest (both as a result the employee's personal relationships and SAM's business), and that such conflicts of interest shall be brought to the attention of the CCO. All votes shall be cast in the best interests of SAM's clients, regardless of the effect of any such vote on SAM.

If SAM detects a material conflict of interest in connection with a proxy solicitation, SAM will abide by the following procedures:

1. The Managing Member will convene the Proxy Voting Committee (the "Committee"), which is comprised of the Managing Member and the CCO. The Managing Member serves as the Committee's chairperson.
2. The Managing Member will describe the proxy vote under consideration and identify the perceived conflict of interest. The Managing Member will also propose the course of action that he believes is in SAM's Clients' best interests. The Managing Member will tell the Committee why he believes that this course of action is most appropriate.
3. The Committee members will review any documentation associated with the proxy vote and evaluate the Managing Member's proposal. The Committee members may wish to consider, among other things:

- (a) A vote's likely short-term and long-term impact on the issuer;
 - (b) Whether the issuer has responded to the subject of the proxy vote in some other manner;
 - (c) Whether the issues raised by the proxy vote would be better handled by some other action by the government or the issuer;
 - (d) Whether implementation of the proxy proposal appears likely to achieve the proposal's stated objectives; and
 - (e) Whether the Managing Member's proposal appears consistent with Clients' best interests.
4. After taking a reasonable amount of time to consider the Managing Member's proposal, each of the Committee members will make a recommendation regarding the proxy vote. The CCO will record each member's recommendation, and the Managing Member will then vote the proxy according to the unanimous decision of the Committee's members. If the Committee is unable to reach a unanimous decision regarding the proxy vote, SAM will, at its own expense, engage an outside proxy voting service or consultant to make a recommendation. The CCO will retain documentation of the proxy voting service or consultant's recommendation and will vote Clients' proxies in accordance with that recommendation.

Other Potential Conflicts of Interest

SAM is accountable to the Private Funds as a fiduciary and, consequently, must exercise good faith and integrity in handling the business of the Private Funds. Nevertheless, in the conduct of such business, conflicts may arise between the interests of SAM and those of investors, and Clients should be aware of these conflicts of interest.

From time to time, the Managing Member and/or other employees of SAM, may be elected or nominated for a company whose securities SAM has purchased for the benefit of advisory clients to serve: (i) on an official or unofficial ("Ad Hoc") creditor committee; or (ii) in another advisory role or capacity with such company.

In general, the Managing Member and employees of SAM do not receive personal compensation for service on creditor committees, although the underlying company may reimburse their direct documented expenses for such service. However, when an employee of SAM is elected to a board of directors position with a company the securities of which were purchased for the benefit of SAM's advisory clients, he and/or she may receive personal compensation that is customary for the type and nature of the position for which elected.

Although receiving personal compensation as a director for a company whose securities were purchased for the benefit of the advisory clients creates a conflict of interest, the Managing Member and/or other employees of SAM will only serve in such capacity to the extent SAM believes that doing so will directly maximize, or preserve, the value of the advisory client's investment in such companies. For each paid directorship for which the Managing Member and/or other employee of

SAM is successfully appointed and expects to receive personal compensation in any form whatsoever, such person will promptly notify SAM's CCO to ensure that conflicts of interest are adequately monitored, managed, and properly disclosed.

The governing documents for the Private Funds provide SAM and an affiliate with discretion and authority in managing and controlling the business and affairs of the Private Funds, subject only to specific and express limitations. Separate managed accounts may direct SAM to vote a particular proxy any time.

Item 18 - Financial Information

SAM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.