

**Item 1 Cover Page**

**Castlelake, L.P.**

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**Part 2A of Form ADV: Firm Brochure**

March 19, 2015

This brochure provides information about the qualifications and business practices of Castlelake, L.P. which does business under the name “Castlelake”. If you have any questions about the contents of this brochure, please contact us at (612) 851-3031. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Castlelake is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of Castlelake provide you with information about which you determine to hire or retain Castlelake.

## **Item 2 Material Changes**

This Item of the Brochure will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. The last update of our brochure was November 19, 2014. This annual amendment filing to our Brochure, dated March 19, 2015, reflects changes to the following items within this document:

- Item 4: Non-material changes to the wording of services.
- Item 8: Clarification of the material risks faced by Castlelake in its investment program
- Item 10: Revised disclosure with respect to situations which create conflicts of interest.

In addition, a number of other items have been slightly reworded, but these are non-material changes.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Our Brochure may also be requested by contacting Kevin Hiniker, Castlelake's General Counsel and Chief Compliance Officer, at (612) 851-3031.

Additional information about Castlelake is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4 - Advisory Business**

Castlelake, L.P., which does business under the name “Castlelake” (“Castlelake”) was established in 2005 and serves primarily as (1) the investment adviser to private investment funds (the “Funds”) that focus on investments in alternative assets, sub-performing loans, corporate special situations and dislocated industries, and (2) the servicer of a securitization trust (the “Vehicle”) for which Castlelake manages aircraft leases, maintenance and disposition proceeds.

Castlelake is managed by Rory O’Neill, Julie K. Braun, Evan Carruthers, Jonathan Fragodt, Luke Beltnick, Kevin Hackler, Peter Glerum and Kevin Hiniker. Mr. O’Neill, Ms. Braun and Mr. Carruthers (collectively, the “Principals”) own 100% of Castlelake. The Funds are categorized as either “lock-up funds” or “open-end funds”. Information about the Funds is located in their respective private placement memorandums and governing documents (the “Fund Documents”). Castlelake recycles capital in the lock-up funds during the respective commitment periods. The open-end funds do not have defined commitment periods but are currently proceeding with an orderly liquidation and distribution to investors.

Castlelake manages approximately \$5.528 billion in assets on a discretionary basis.

#### **Item 5 - Fees and Compensation**

Castlelake receives management or servicing fees Castlelake (calculated and payable either monthly or quarterly) which are described in the respective Fund or Vehicle Documents. Castlelake reserves the right to waive any Fund management fees at its sole discretion.

Each Fund pays or reimburses Castlelake for expenses which may include: certain organizational expenses; expenses relating to each Fund’s operations (including third party fees related to the operation and administration of special purpose vehicles established for Fund investments); expenses relating to discovery, development, structuring, monitoring, valuation and disposition of investments (whether or not consummated); expenses of service companies, custodians, outside counsel, accountants and other experts; expenses for audit, legal and compliance services on behalf of a Fund; fees or profit sharing arrangements (that are not payable to a Fund’s general partner or its affiliates) with third parties and/or operating partners in connection with a Fund investment; travel expenses; data production and maintenance costs and services, communication expenses and other third-party research expenses; any insurance, indemnification or litigation expense, taxes, fees or other governmental charges levied against the Fund. The Funds pay no interest or carrying charges associated with expense payments made on their behalf by Castlelake. The Vehicle pays or reimburses Castlelake for certain specified expenses.

*Valuation.* Castlelake is responsible for valuing the securities and other investments comprising the assets of the Funds. Typically the valuations would be “marked to market” by reference to the last generally available price quotation. The Funds hold positions in non-marketable or other investments and assets for which reliable market quotations are not readily available will be valued in a manner as Castlelake may determine on a consistent basis, so long as such methodology is consistent with U.S. generally accepted accounting principles (“U.S. GAAP”). Castlelake will obtain and may rely on information provided by any source or sources reasonably believed to be accurate in determining the value of the investments or assets. This causes the potential for a conflict of interest due to the fact that

a higher fair value assigned to such security will result in greater management fees paid, and possibly in higher performance allocations credited to, the general partner or managing member of the Fund. Valuations assigned to securities and other investments are not necessarily equivalent to the value that can be realized by the Funds on the sale of those securities and other investments. In addition, there is a risk that the valuations of an investment made pursuant to U.S. GAAP may differ from the price at which the security may actually be sold. For the Vehicle, Castllake is responsible for arranging for relevant third party appraisals in accordance with the Vehicle Documents

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

The Funds may pay performance compensation to their respective general partners or managing members, each of which are affiliated entities of Castllake. The calculation of this performance compensation is described more fully in the respective Fund Documents and in each case is based upon the value and performance of investments in the Funds. Performance compensation is payable after a Fund has achieved a preferred rate of return. Allocation of profits is not proportionate to capital contribution by the respective general partners and may create a conflict of interest by incentivizing Castllake to make more speculative investments with the aim to increase fees paid. This conflict is mitigated not only by provisions requiring affiliates of Castllake to invest a certain minimum amount in each Fund , but also by restrictions in the Funds on the distribution of performance compensation until after achievement of a preferred rate of return. In addition, Castllake's investment allocation process described in Item 10 of this brochure further mitigates the risk of investments being allocated for the primary purpose of increasing performance compensation.

Castllake manages multiple Funds at any given time. This side-by-side management creates a conflict of interest that Castllake could provide more favorable investment opportunities to a Fund. Castllake mitigates this risk by allocating investment opportunities amongst the Funds on a *pro rata* basis unless otherwise equitably determined by Castllake pursuant to factors (described in Item 10 of this brochure) within Castllake's investment allocation policies and procedures.

#### **Item 7 - Types of Clients**

Castllake's only clients are the Funds and the Vehicle. The Fund and Vehicle investors generally consist of pension and profit sharing plans, trusts, estates, charitable organizations, endowments, corporations, business entities, private fund-of-funds, and foreign sovereign wealth funds and high net worth individuals. Employees of Castllake who qualify as "knowledgeable employees" under Rule 3c-5 of the Investment Company Act of 1940 are also permitted to invest (directly or indirectly) in the Funds.

Each Fund and the Vehicle impose minimum investment limits upon investors in the Fund that can be waived in certain circumstances, as set forth in the respective Fund Documents.

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

### **Investment Strategies**

Castlelake's investment strategies involve investments across the credit spectrum, including the areas of distressed opportunities as described below. More detailed information regarding Castlelake's investment strategies and activities is set forth in the Fund Documents.

*Distressed Assets and Special Situations.* Castlelake's asset strategies are centered on: (i) global aircraft assets and aviation finance; (ii) European non-performing loans and distressed assets; (iii) U.S. non-performing loans and distressed assets; and (iv) dislocated industries and corporate special situations. Consistent with Castlelake's overall investment approach, there is an emphasis on smaller asset opportunities. A key tenet is to provide liquidity to industries experiencing dislocation in either asset values, capital availability or both. With most investments in non-aircraft distressed assets and non-performing loan assets, Castlelake utilizes a series of joint-venture asset operating partnerships under which the operating partners provide a focus on managing the daily details of the investments regarding payments and administration. Castlelake maintains control over economic and strategic decisions, working in collaboration with the specific operating partners.

*Corporate Distressed Debt and Securities.* Castlelake's corporate distressed investments include senior secured bonds, bank loans and trade claims with a focus on asset rich, middle market companies in the U.S. and Europe. A focus is maintained on deep value middle market opportunities where control can be established or an active role can be taken in a restructuring.

### **Methods of Analysis**

The methods of analysis are conducted at varying levels depending upon the markets and participants involved. Castlelake performs extensive quantitative and qualitative fundamental research to determine the suitability of a particular investment itself and in the context of the relevant industry as well as overall market. Investment professionals develop a financial model to perform an analysis of comparable valuations in the public and private markets, a discounted cash flow analysis, a reorganization analysis and liquidation analysis, and an analysis of potential returns for the investment and many other types of financial analysis as warranted. At the completion of a favorable due diligence process, Castlelake determines the price range at which to pursue the investment opportunity.

### **General Risks**

The transactions in which Castlelake will engage involve substantial risks. Growing competition may limit the Castlelake ability to take advantage of investment opportunities in rapidly changing markets or to access investment opportunities believed to be attractive. Investing involves risk of loss that an investor should be prepared to bear.

Due to the nature of the Castlelake's trading and investment activities, results may fluctuate from month to month and from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results in future periods. The material risks presented by Castlelake's strategies and investments are set forth below. Additional information is contained in the respective Fund Documents. This brochure does not purport to contain a complete disclosure of all risks that may be relevant to a prospective investor.

## Material Risks

*Concentration of Investments.* Castlelake is generally not limited in the amount of the Funds' capital that it may commit to any one investment or one industry. Although Castlelake will follow a general policy of seeking to spread the Funds' capital among a number of investments and industries, Castlelake may depart from such policy from time to time and the Funds may hold one or more positions that are relatively large in relation to a Fund's capital or are concentrated in a single issuer or a group of related issuers or in a single industry. The result of such concentration of investments is that a loss in any such position could materially reduce the Fund's capital.

*Competition for Investments.* The activity of identifying, completing and realizing attractive investments can from time to time be highly competitive and involves a high degree of uncertainty. Funds may be unable to find a sufficient number of attractive opportunities in all market environments in order to meet their investment objectives or invest their capital fully.

*Increases in Assets under Management.* Castlelake has not presently agreed to limit the amount of additional assets it may manage and new investment strategies of Funds it may raise, and will continue to seek new investment capital. There can be no assurance that appropriate investment opportunities will be available to accommodate future increases in assets under management, which may require Castlelake to modify its investment decisions for the Funds because it cannot deploy all the assets in the manner it desires.

*Counterparty and Settlement Risks.* Some of the markets in which Castlelake affects transactions on behalf of the Funds are "over-the-counter" or "interdealer" markets or through private transactions. The participants in these types of markets and the counterparties in such private transactions are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. There is a risk that a counterparty will not settle a transaction because of a credit or liquidity problem. In addition, there may be practical or time problems associated with enforcing a Fund's rights to its assets in the case of an insolvency of any such party.

Many non-U.S. countries have different clearance and settlement procedures from developed countries. There may be no central clearing mechanism of settling trades and no central depository or custodian for the safe keeping of securities. The registration, recordkeeping and transfer of instruments may be carried out manually, which may cause delays in the recording of ownership. Certain markets have experienced periods when settlement dates are extended, and during the interim, the market value of an instrument may change. Moreover, certain markets have experienced periods when settlements did not keep pace with the volume of transactions resulting in settlement difficulties. Because of the lack of standardized settlement procedures, settlement risk is more prominent.

*Co-Investment Risks.* Castlelake, when appropriate, may permit third party investors to co-invest with the Funds in certain of the Funds' investments. Such co-investments may have the effect of reducing the size of the Funds' investment in such opportunities.

*Third Party Involvement.* The Funds may co-invest with third parties through limited liability companies, joint ventures or other entities. These investments may involve risks not present if a third party were not involved, including the possibility that the third party may be in a position to take action contrary to the investment objectives of the Fund. In addition, a Fund may in certain circumstances be liable for actions of its third party co-investor. Also, the ability to exercise control or significant influence in

connection with the joint venture may be limited and will depend on the nature of the governing documentation.

*Prime Broker and Custody.* Funds may rank as an unsecured creditor to its prime brokers in relation to assets that a prime broker borrows, lends or otherwise uses and, in the event of the insolvency of the prime broker, Funds might not be able to recover equivalent assets in full. In addition, if applicable law permits, cash or assets that a prime broker holds or receives on the Funds' behalf may not be treated by a prime broker as "client assets," may not be segregated from the Prime Broker's own assets and may be used by a prime broker in the course of its investment business. In such event, the Funds will rank as one of a prime broker's unsecured creditors. The Funds' custodian may not be responsible for cash or assets that are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by the Funds as a result of the bankruptcy or insolvency of any such sub-custodian. Custody services in certain non-U.S. jurisdictions remain undeveloped and accordingly there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions.

*Asset Managers and Service Companies.* The Funds invest in assets that may be subject to fees or profit-sharing arrangements payable to asset managers or service companies (the "Asset Managers") based on the performance of specific assets serviced by them which are owned by the Funds. Services are typically provided pursuant to service or management agreements between a Fund (or other special purpose vehicle in which such Fund owns an interest) and Asset Managers. These services are typically provided pursuant to management or service agreements between the Funds (or other special purpose vehicle in which such Funds own an interest) and the Asset Managers. These agreements typically provide for the payment of servicing or other fees (which are in addition to management fees and performance based fees and are not subject to an offset, except as provided below with respect to affiliated servicers). It is possible that certain Asset Managers may receive incentive compensation even though a Fund, as a whole, does not have net capital appreciation. If an Asset Manager breaches its servicing agreement or otherwise fails to perform its responsibilities adequately, the Funds may be adversely affected. In addition, given the specialized nature of these service providers, they may be difficult to replace if needed and transfers of servicing may cause a disruption of cash flow on the related investment.

Castlelake or its affiliates act as servicer and receive compensation from the Vehicle and may do so for other Fund investments or entities, provided that fees to affiliated servicers will typically be structured (via offset to management fees or otherwise) so that a Fund does not effectively bear the fees with respect to its allocable portion of investment in the Vehicle or other entity. This can be accomplished through special allocation of the relevant fees to parties other than the Funds, or if any Fund is subject to such fees payable to Castlelake or its affiliates, any such amounts (net of related expenses) are applied to offset the Fund's management fees.

*Execution Risks.* The execution of the investment and trading strategies employed by Castlelake can involve complex transactions, use of negotiated terms with counterparties and difficult to execute trades. In each case, Castlelake seeks best execution and has trained execution and operations professionals devoted to executing, settling and clearing such trades. However, in light of the complexity and global diversity involved, some slippage, errors and miscommunications with brokers and counterparties are inevitable and may result in losses to the Funds. Castlelake may choose to forego pursuing claims against brokers and counterparties on behalf of the Funds for any reason including, but not limited to, the cost of pursuing claims relative to the likely amount of any recovery



and the maintenance of its business relationships with brokers and counterparties. Castllake is not liable to the Funds for losses caused by brokers or counterparties.

*Tax Considerations.* The Funds may take positions with respect to certain tax issues that depend on legal conclusions not yet addressed by the courts. Should any such positions be successfully challenged by governing tax authorities, there could be a material adverse effect on the Funds. For tax-exempt U.S. investors, Castllake structures investments to address the risks of earning income that would be considered unrelated business taxable income (“UBTI”). For foreign investors, Castllake structures investments to address the risks from certain investments which may generate effectively connected income (“ECI”).

*Litigation.* Litigation can and does occur in the ordinary course of the management of an investment Fund or vehicle. The Funds may be engaged in litigation both as a plaintiff and as a defendant. Such litigation can arise as a result of issuer defaults, issuer bankruptcies or other reasons. Castllake and others are indemnified by the Funds and, in certain circumstances, other Funds in connection with such litigation, subject to certain conditions. The expense of defending against third-party claims made against the Funds or persons indemnified by the Funds and paying any amounts pursuant to settlements or judgments generally would be borne by the Funds and reduce net assets to the extent that the Funds have not been able to protect itself through indemnification or other rights against the relevant portfolio company, is not entitled to such protections, or is entitled to such protections but the portfolio company is not solvent.

*Limitations on Actions and Indemnification.* There will be limited circumstances under which Castllake and respective general partners can be held liable to the Funds. The Funds indemnify Castllake, certain affiliated persons and entities of Castllake and members of the Advisory Committee for liabilities incurred in connection with the affairs of the Funds, absent (among other things) bad faith, gross negligence or willful misconduct. The application of the foregoing standards can result in the Funds bearing significant financial losses even where such losses were caused by the negligence (even if heightened) of such covered persons.

*Cyber Security Breaches and Identity Theft.* Castllake’s information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by its professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although Castllake has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, Castllake and/or the Funds may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm Castllake’s reputation and subject it to legal claims and otherwise affect their business and financial performance.

## **Investment Risks**

*Aircraft and Aircraft Operating Leases.* The Funds may acquire direct or indirect ownership interests in aircraft and related engines which are leased to airline or other operators. The aircraft leasing market is affected by various cyclical factors that are not within the control of Castllake such as: interest rates;

the availability of credit; fuel costs and general economic conditions affecting lessee operations; manufacturer production level; passenger demand; retirement and obsolescence of aircraft models; manufacturers merging or exiting the industry or ceasing to produce aircraft types; re-introduction into service of aircraft previously in storage; governmental regulation; and air traffic control infrastructure constraints. The availability of commercial aircraft for lease or sale has periodically experienced cycles of oversupply and undersupply, producing sharp decreases and increases in aircraft values and lease rates.

*Investments in Undervalued and Distressed Assets.* The Funds invest in undervalued and distressed assets, including financial assets such as mortgage servicing rights, transportation assets such as those in aviation, and shipping, consumer debt as well as assets in other industries. While investments in undervalued or distressed assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Such assets may be required to be held for a substantial period of time before realizing their anticipated value. In addition, these assets will often require additional ongoing maintenance capital from the Funds. Indebtedness may be incurred in connection with such asset acquisitions, which debt would typically be secured by the assets so acquired and nonrecourse to the Funds. The industries in which the Funds invest may be subject to extensive rules and regulations limiting rights or otherwise impacting the risk profile. The Funds in some instances enter into arrangements with industry specialized management or servicing teams to acquire, manage and dispose of these assets, which are expected to include fixed payments and/or profit-sharing arrangements with such persons. The failure on the part of Castlake to select the right management or advisory team for an asset class and/or to establish a governance and compensation structure that provides for the appropriate balance of economic incentives to the team and oversight by Castlake, or to provide servicing with respect to certain securitized vehicles and assets on its own, would have a material adverse effect on the Fund's investment in such asset class.

*Illiquidity of Investments.* The Funds may invest in assets, loans or securities for which no (or only a limited) liquid market exists or that are subject to legal or other restrictions on transfer. The market prices, if any, for such assets tend to be volatile, and may fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, and the financing condition of the obligors on the Funds' assets. The Funds may not be able to sell assets when it desires to do so or to realize what it perceives to be their fair value in the event of a sale.

A portion of the Funds' investments may consist of securities that are subject to restrictions on resale by the Funds because they were acquired in a "private placement" transaction or for other reasons. Generally, the Funds will be able to sell such securities without restriction to other large institutional investors, but may be restrained in its ability to sell them to other investors and may be subject to liability as such under the Securities Act. In addition, the Funds may hold securities subject to contractual restrictions on transfer. The sale of illiquid assets and restricted securities often requires more time and results in higher brokerage charges and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets.

*Investments in Real Estate.* The Funds may, from time to time, invest in a variety of real estate and related transactions, either as a direct investment or through investment in other entities, including affiliates of the Funds. Investing in real estate entails certain risks including: the burdens of ownership of real property; local, national and international economic conditions; the supply and demand for properties; the financial condition of tenants, buyers and sellers of properties; changes in interest rates

and the availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable; changes in environmental laws and regulations, planning laws and other governmental rules and fiscal and monetary policies; environmental claims arising in respect of properties acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established; changes in real property tax rates; changes in energy prices; negative developments in the economy; uninsured casualties; force majeure acts, terrorist events, under-insured or uninsurable losses; and other factors which are beyond the reasonable control of the Funds and Castlelake. In addition, as recent experience has demonstrated, real estate assets are subject to long-term cyclical trends that give rise to significant volatility in values.

Many of these factors could cause fluctuations in occupancy rates, rent schedules or operating expenses, causing the value of the investments to decline and negatively affect Funds' returns. The returns available from investments depend on the amount of income earned and capital appreciation generated by the relevant underlying properties, as well as expenses incurred in connection therewith. If properties do not generate income sufficient to meet operating expenses, including amounts owed under any third-party borrowings and capital expenditures, the Funds' returns will be adversely affected. In addition, the cost of complying with governmental laws and regulations and the cost and availability of third-party borrowings may also affect the market value of and returns from the investments. Real estate related investments can entail the following risks:

- *Relocation Risks.* Funds may seek to redevelop or reposition certain real estate properties. Such redevelopment or repositioning carries a number of attendant risks, including the possibility that costs incurred in connection with the initial development may not be recovered. In addition, it may be that suitable tenants will not be found for repositioned properties, which could lead to the Funds owning vacant properties producing insufficient income to meet expenses or provide a suitable return to the Funds. Similarly, there may be planning risks arising from difficulties in obtaining planning consents and licenses which delay the construction timetable of a redevelopment or repositioning timetable.
- *Risks of Acquiring Real Estate Loans.* Real estate loans may become non-performing for a wide variety of reasons, whether at acquisition or after acquisition. Such non-performing real estate loans will require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. It is possible that Castlelake may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased. The foreclosure process can be lengthy and expensive. At any time during the foreclosure proceedings, the borrower may file for protection under bankruptcy or other similar law, which would have the effect of staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation may also create a negative public image of the collateral property and may disrupt ongoing leasing and management of the property.
- *Investments in New Development.* The Funds may acquire direct or indirect interests in undeveloped land or underdeveloped real property, which are often non-income producing. Risks associated with such assets include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals and entitlements, the cost and timely completion of construction (including risks beyond the control of Castlelake, such as weather or 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 Funds. Properties under development or properties acquired to be developed may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion.

- *Availability of Insurance against Certain Catastrophic Losses.* Certain losses of a catastrophic nature, such as wars, earthquakes, floods, environmental contamination, terrorist attacks or other similar events, may be either uninsurable or insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments. In general, losses related to terrorism are becoming more difficult and more expensive to insure against. If a major uninsured loss occurs, the Funds could lose both invested capital in and anticipated profits from the affected investments.
- *Environmental Liabilities.* The Funds may be exposed to substantial risk of loss from environmental claims arising in respect of direct investments made in real estate with undisclosed or unknown environmental problems or as to which inadequate reserves had been established, including being liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Environmental claims with respect to a specific investment may exceed the value of such investment, and under certain circumstances, subject the other assets of the Funds to such liabilities. The presence of such hazardous or toxic substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral and may have a significant adverse effect on the value and returns from such property.
- *Regulatory Risks.* Real estate properties are subject to various forms of regulation including the Americans with Disabilities Act, building codes, regulations pertaining to fire safety and handicapped access, and other regulations which may from time to time be enacted. The Funds may be required to incur significant costs to comply with any existing regulations and future changes in such regulations. However, noncompliance with existing or future regulations to which real estate properties are subject could result in substantial capital expenditures to bring the properties into compliance, as well as the imposition of fines or an award of damages to private litigants.

*Exit Risk.* There is risk that the Funds are unable to realize investment objectives through the sale or disposition of properties at an attractive price, within any given period of time, or will otherwise be unable to complete any exit strategy. In particular, these risks could arise from the absence of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions and changes in laws, regulations or fiscal policies of jurisdictions in which a property is located.

*Investment in Loans.* The Funds may invest in loans which may entail the following risks:

- *General Credit Risks* - The Funds may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although the Funds may invest in subordinate or second priority liens). In the event of a foreclosure, the Funds or an affiliate of

the Funds may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Funds.

- *Lower Credit Quality Loans* - Because there are no restrictions on the credit quality of the Funds' loans, loans purchased by the Funds may be deemed to have substantial vulnerability to default in payment of interest and/or principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.
- *Second Lien Loans* - The Funds may invest in loans that are secured by a second lien on assets. Second lien loans are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy which can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products.
- *Direct Loans* - On occasion, the Funds may provide financing to borrowers that have difficulty obtaining financing from other sources. Deterioration in a borrower's financial condition and prospects may be accompanied by a decrease in the value of any collateral and a reduced likelihood of the borrower's repayment and of the Funds capitalizing on any guarantees it may have obtained from the borrower's management or other parties. Although the Funds may sometimes seek to be the senior, secured lender to a borrower, some of the Funds' direct loans may be subordinated to a senior lender, and the Funds' interest in any collateral would, accordingly, likely be subordinate to another lender's security interest.
- *Equitable Subordination* - Loans to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities which may exceed the amount of the loan. For example, under certain circumstances, lenders who 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.
- *Non-Performing Loans ("NPLs")* - Investments in non-performing and sub-performing loans may involve workout negotiations, restructuring and the possibility of foreclosure. These processes can be lengthy and expensive. In addition, these investments can include securities and debt obligations of financially distressed issuers, including companies involved in bankruptcy or other reorganization and liquidation proceedings. As a result, such investments may be subject to additional bankruptcy related risks, and returns on such investments may not be realized for a considerable period of time.
- *Modification and Refinancing* – Investments in loans may involve making modifications which may include permanently or temporarily reducing or otherwise changing the interest rate, forgiving payments of principal or interest, extending the final maturity date, capitalizing or deferring delinquent interest and other amounts owed under the loans, deferring principal payments with or without interest or any combination of these or other modifications. These modifications may reduce the value of the loans. Castlake may seek to refinance a loan to

realize the greater value from such loan. However, there may be impediments to executing a refinancing strategy to the extent other lenders have adjusted their loan programs and underwriting standards to be more conservative. The effect of the above would likely serve to make refinancing of NPLs potentially more difficult and less profitable.

*Shipping and Tanker Assets.* The Funds may invest in shipping and tanker vessels or assets. The shipping and tanker industries are both cyclical and volatile in terms of market values of vessels and profitability. Fluctuations in vessel values result from changes in supply and demand and, specifically with respect to tanker capacity (and therefore, tankers), changes in the supply and demand for oil, oil products and chemicals. The factors affecting the supply and demand for vessels are outside of Castllake's control, and the nature, timing and degree of changes in industry conditions is unpredictable. Profitability of these investments will depend on Castllake's projections with respect to future supply/demand and pricing that may not prove to be accurate. The market value of any vessels is also expected to fluctuate depending on general economic and market conditions affecting the shipping industry, as well as other modes of transportation, types, sizes and ages of vessels, applicable government regulations and the cost of new builds.

*Non-Controlling Investments.* The Funds may make non-controlling investments and, therefore, may have a limited ability to protect its investments although Castllake may seek to have control rights with respect to the investments.

*Leverage.* Castllake may use leverage for certain purposes in managing the Funds. Although the use of leverage increases returns to the Funds' investments if it earns a greater return on the incremental investments purchased with the borrowed funds than it pays for such funds, the use of leverage decreases returns to the Funds' investments if it fails to earn as much on such incremental investments as it pays for such funds. The lenders that provide financing to the Funds' investments may apply discretionary covenants or repayment obligations which, if not met, may result in loss of financing and forced liquidations of investments at disadvantageous prices.

Because the Funds' investments may include securities of companies with leveraged capital structures or because non-recourse leverage can be used in connection with acquisition of investments, such investments will be subject to increased exposure to adverse economic factors such as an increase in interest rates, a downturn in the economy or further deterioration in the economic conditions of such company or its industry. Similarly, the Funds may enter into investments that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of the Funds' investment in such an entity could be significantly reduced or even eliminated due to further credit deterioration.

*Risks Associated with Bankruptcy Cases.* The Funds' investment and lending activities, particularly involving companies in distressed situations, may result in them becoming involved as a creditor in bankruptcy cases. In addition, the Funds may purchase securities or assets of, or claims against, companies in bankruptcy. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. Generally, the duration of a bankruptcy case can only be roughly estimated. This process can involve substantial legal, professional and administrative costs to the Funds; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to reorganize and may be required to liquidate assets.

The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during the reorganization and may be adversely affected by an erosion of the issuer's fundamental values. There exists a significant risk that the Funds' influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by over the claims of certain creditors (for example, claims for taxes) may be quite high.

*Debt Securities.* Debt securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). With bonds and other fixed income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. The ability of these companies to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise.

*Distressed Securities.* The Funds may purchase, directly or indirectly, securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such purchases may involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these securities and investments ordinarily remain unpaid unless and until the company reorganizes and/or emerges from bankruptcy proceedings. There is no assurance that Castlake will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to the company in which the Funds invest, the Funds may lose its entire investment or may be required to accept cash or securities with a value less than the Funds' original investment.

*Defaulted Securities.* The Funds may invest in the securities of, and trade claims against, companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject the Funds to litigation risks or prevent the Funds from disposing of securities. In a bankruptcy or other proceeding, the Funds as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors.

*Trade and Other General Unsecured Claims.* The Funds may acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor ("trade claims"). Trade claims generally include, but are not limited to, claims of suppliers for goods delivered and not paid, claims for unpaid services rendered, claims for contract rejections and claims related to litigation. Trade claims are typically unsecured and may, in unusual circumstances, be subordinated to other unsecured obligations of the debtor. The repayment of trade claims is subject to significant uncertainties, including potential set-off by the debtor as well as the other uncertainties described herein with respect to other distressed securities. A Fund's investments in trade claims and high risk receivables may also entail special risks including, but not limited to, fraud on the part of the assignor of the trade claim as well as logistical and mechanical issues which may affect the ability to collect the claim in whole or in part.

*High Yield Securities.* The Funds may invest in "high-yield" bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities.) Securities in the lower categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be greater risk with respect to the issuer's capacity to pay interest and repay principal. Further, the yields and prices of such securities may tend to fluctuate



more than those of higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which they can be sold.

*Private Equity Securities.* While private equity investments are not part of the Funds' principal investment strategies, the Funds may make private equity investments from time to time, including investments in companies undergoing debt restructurings and recapitalized companies, which involve a high degree of business and financial risk. Such companies may have highly leveraged capital structures, require substantial additional capital to support expansion or to achieve or maintain a competitive position, produce substantial variations in operating results from period to period or operate at a loss. Although Castlelake may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent the Funds take minority positions in companies in which it invests, Castlelake may not be in a position to exercise control over the management of such companies. Private equity investments may have extended holding periods of several years and there can be no assurance that a viable exit mechanism will be available at the end of the anticipated holding period.

*Derivative Instruments.* The Funds may use various derivative instruments which may be volatile and which may be subject to wide and sudden fluctuations in market value. The Funds may enter into interest rate swaps and similar transactions primarily as a means of hedging its own borrowing against fluctuations in interest rates or preserving or enhancing a return or spread on a particular investment or portion of its portfolio. The Funds may enter into interest rate swaps on either an asset-based or liability-based basis, depending on whether it is hedging its assets or its liabilities. The Funds may also enter into credit default swaps and may either buy protection or sell protection from losses caused by the occurrence of a negotiated default event (a "credit event").

*Mortgage-Backed and Asset-Backed Securities.* The Funds may invest in any tranche, including unrated tranches, of a variety of types of asset-backed securities, including residential and commercial mortgage-backed securities and other asset-backed securities. These types of securities are primarily exposed to the performance and credit risk of the underlying collateral. They are also substantially dependent on the servicing of the underlying asset pools and therefore subject to risks associated with the negligence of, or misappropriation by, their servicers.

*Non-U.S. Investments and Currencies.* The Funds take positions on a global basis and may invest a significant portion of their assets in non-U.S. positions. This requires consideration of certain risks typically not associated with investing in U.S. assets or securities. These risks include, among other things, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by the United States or foreign governments, U.S. and foreign withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, political difficulties and economic or political instability in foreign nations. Laws and regulations of foreign countries may impose restrictions that would not exist in the United States and may require financing and structuring alternatives that differ significantly from those customarily used in the United States.

Because the Funds' investments in other countries will likely be denominated in the currencies of such countries, a change in the value of these currencies against the U.S. dollar may well result in a corresponding change in the U.S. dollar value of the Funds' assets denominated in those currencies. The value of such assets may be affected favorably or unfavorably by fluctuations in currency rates.



Castlelake may seek to hedge the foreign currency exposure, but such hedging strategies may not necessarily be available or effective and may not always be employed. Accordingly, the Funds may at times be, directly or indirectly, subject to foreign exchange risks.

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding certain legal or disciplinary events that would be material to an evaluation of Castlelake or the integrity of Castlelake's management. Castlelake has no legal or disciplinary event responsive to this Item to report.

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

Castlelake is the investment manager for each of the Funds and the Vehicle. The general partner of Castlelake is Castlelake Holdings, LLC, a Delaware limited liability company. Castlelake is a related person to the general partners or managing members to the Funds. Please see Item 6 of this brochure regarding performance-based fees that may be paid by a Fund to its general partner or managing member.

Castlelake (UK), LLP ("Castlelake (UK)"), a United Kingdom limited liability partnership, is an investment adviser authorized and regulated by the Financial Conduct Authority. Castlelake (UK) provides sub-advisory investment management and research services to Castlelake. Castlelake (UK)'s managing member is Castlelake Holdings (UK) Ltd., which is wholly owned by Castlelake.

## **Conflicts of Interest**

Investors should be aware that there will be occasions where the General Partner and its affiliates may encounter potential conflicts of interest in connection with the Funds' activities. The following discussion enumerates certain of those potential conflicts of interest. For example, investors in the Funds may have conflicting investment, tax and other interests with respect to their investments in the Funds. The conflicting interests of investors may relate to or arise from, among other things, the nature of investments made by the Funds, the structuring or acquisition of investments and the timing of disposition of investments.

*Coordination Amongst Funds.* While Castlelake is required to devote substantially all of its time and attention to the affairs of the Funds and the Vehicle, it can't devote all of its time and attention to any single Fund or the Vehicle. Castlelake will engage in investment activities for multiple Funds and, to the extent permitted by Castlelake's compliance policies act for its own account. This can result in certain conflict of interest situations, including the following:

- *Co-Investments.* Where appropriated based on the size of the opportunity and other factors, co-investment opportunities may be offered to other Funds or to third parties, whether through collectively owned SPVs and otherwise. When co-investment opportunities are available, they will be allocated by Castlelake based on a variety of factors that may include: prior expression of interest by a third party; legal, regulatory and tax considerations affecting co-investment participation; and the size of the commitment by a third party or other Fund. Third party co-investors may be required to pay management and performance fees, but Castlelake Fund

assets invested in such SPVs are not assessed any management or performance fees. In addition, assets of each co-investing Funds may become exposed to the risk of claims involving one or more other co-investing Funds, *e.g.*, a third party to a transaction may require the co-investing Funds to agree to joint and several liability, or certain types of trades may be pooled together in a common SPV without segregation of liabilities arising from different trades even though not all participating Funds participate in all trades entered into by the SPV. Castlelake intends to mitigate such risks as it deems appropriate from time to time, such as through cross-indemnification arrangements among Castlelake Funds, but there can be no guarantee that such risks can be mitigated in full.

- *Allocation of Investment Opportunities.* When a limited opportunity to acquire or dispose of an investment which is either suitable for, or already held by, more than one Fund with similar investment objectives, Castlelake seeks to allocate investment opportunities in such a manner that, to the extent feasible, no Fund receives more or less favorable treatment than any other Fund. Investment opportunities suitable for more than one Fund will be allocated on a *pro rata* basis amongst the Funds based on capital under management of each Fund. However, such investment opportunities may be allocated other than on a *pro rata* basis where Castlelake determines another equitable allocation is appropriate in light of one or more relevant factors affecting each Fund, including available capital, capital constraints, portfolio diversification, status of investment as a follow-on investment with respect to any Fund, duration of investment and timing of the Fund's commitment period and term, investment horizon (*i.e.*, capital obligations, funding or distribution requirements), tax and other structural considerations, provisions in the operating agreements.
- *Investments at Different Levels of Capital Structure.* The Funds may invest in securities or other instruments of the same issuer (or affiliated group of issuers) having a different seniority in the issuer's capital structure. If the issuer becomes insolvent or suffers financial distress, there may be a conflict between the interests of the Funds insofar as the issuer may be unable to satisfy the claims of all classes of its creditors and security holders. Under these circumstances it may not be feasible for Castlelake to reconcile the conflicting interests of the Funds in a way that protects all of the Funds' interests.

*Interfund Cross Transactions.* From time to time Castlelake may determine that a sale or lease of an investment from one or more of the Funds or the Vehicle to another is in their respective best interests. For example, one Fund may acquire an investment from an unrelated seller in anticipation of offering it to another Fund at a future date if the latter Fund does not have available capital to make the investment when it is being marketed by the unrelated seller. This may also arise, for example, if one Fund is being wholly or partially liquidated, while another account has cash available for investment. Further, a Fund may acquire or lease investments from, or sell or lease investments to, another Fund, the Vehicle, or an affiliate of Castlelake that is in the business of originating and syndicating loans or other assets. In particular, the Funds can exit or partially exit an investment or a series of related investments through contribution of such assets to an affiliated securitization or similar vehicle established by Castlelake or its affiliates in which the Funds would typically hold junior tranches on a non-recourse basis while the senior tranches would typically be offered to third parties, including banks. These transactions are conducted on an arms-length basis, including documentation/rationale to support fair market value of the purchase or lease.

While these transactions with related parties are expected to expand the universe of opportunities that are available to the Funds, the Funds will not necessarily derive a benefit from each such transaction, and the Funds and the other party to a particular transaction may have divergent interests. Moreover, there may be uncertainties regarding the valuation of investments that are subject to these transactions. These transactions are conducted on an arms-length basis, including documentation/rationale to support fair market value of the purchase or lease, and the advice of the advisory committees for the Fund for material transactions.

*Transactions with Affiliates.* Castlelake or its affiliates may act as servicer and receive compensation from the Vehicle and may do so for other Fund investments or entities, provided that fees to affiliated servicers will typically be structured (via offset to management fees or otherwise) so that a Fund does not effectively bear the fees them with respect to its allocable portion of investment in the Vehicle or other entity. This can be accomplished through special allocation of the relevant fees to parties other than the Funds, or if any Fund is subject to such fees payable to Castlelake or its affiliates, any such amounts (net of related expenses) are applied to offset the Fund's management fees. For example, Castlelake is entitled to collect and retain servicing and disposition fees with respect to the Vehicle and similar warehouse facilities, with the offset of such fees against a Fund's management fee; provided that there is not an offset with respect to investments that are not attributable to, or activities that are not on behalf of, such Fund.

*Access to Non-Public Information.* From time to time, the Funds, through the principals, employees or agents of Castlelake, may have access to nonpublic information or be otherwise restricted from initiating transactions in certain securities that are existing investments or potential investments of the Funds. The Funds will not be free to act upon any such information. Due to these restrictions, the Funds 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.

*Board Participation.* The Funds' investment programs may from time to time enable the Funds to place its representatives on creditors' committees and/or boards of certain companies in which the Funds have invested. While such representation may enable the Funds to enhance the sale value of its investments, it may also prevent it from freely disposing of its investments and may subject the Funds to additional liability. The Funds will indemnify the General Partner, Castlelake, its affiliates, or any other person designated by any of them for claims arising from such creditors' committee and/or board representation. Castlelake will attempt to balance the advantages and disadvantages of such representation when deciding whether and how to exercise its rights with respect to such companies, but the exercise of such rights could produce adverse consequences in particular situations.

*Third Party Involvement.* The Funds may co-invest with third parties through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of the Funds, or may be in a position to take (or block) action in a manner contrary to the Funds' investment objectives. In addition, the Funds may in certain circumstances be liable for the actions of its third-party co-venturers. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements, regardless of the investment results of the Funds as a whole.

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

*Code of Ethics.* Castlelake has adopted a Code of Ethics for all employees of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics requires that all of Castlelake's employees and partners act in a professional and ethical manner. Persons subject to Castlelake's Code of Ethics are subject to, among other things, various restrictions relating to their purchase or sale of securities. These restrictions include pre-clearance and disclosure requirements, and general prohibitions on transactions in securities in certain circumstances, including when in possession of material non-public information; transactions in securities of issuers on Castlelake's restricted list; and acquisition of securities in initial public offerings. There are also restrictions on the acquisition by persons subject to Castlelake's Code of Ethics in private placements, which acquisitions require the prior approval of Adviser's chief compliance officer and the satisfaction of certain conditions.

The Code of Ethics also addresses the fiduciary duties expected of the persons subject to the Code, including confidentiality obligations, gift and policies, and restrictions on outside business activities. A copy of the Code of Ethics is available upon request from Castlelake.

Castlelake employees may trade for their own accounts in securities which are recommended to and/or purchased for the Funds. Because Castlelake permits such personal trading, this creates the conflict that employees could use their knowledge of pending client transactions in an attempt to benefit their own personal transactions. For example, if an employee owns a security the employee knows Castlelake will be selling out of client accounts, the employee could sell the personal holding ahead of time in an effort to obtain a higher price than might exist when Fund holdings are sold. To address certain conflicts related to personal trading, the Code of Ethics requires pre-approval of many types of personal securities transactions. Because Castlelake does not prohibit employees from investing in the same securities in which Funds invest, Castlelake's Chief Compliance Officer monitors the periodic personal securities transactions and holdings reports in an effort to ensure that employees do not personally benefit from, or try to take advantage of, their knowledge of upcoming buys and sells by Funds. In general, given the nature of Funds' investments and the limited personal securities activities of our employees, Castlelake does not believe as a practical matter that employees will be able to benefit personally from such knowledge.

*Gifts.* Castlelake personnel may receive or give certain gifts and gratuities from or to broker-dealers or other persons with whom Castlelake, its affiliates or the Funds do business (including Funds portfolio brokers). Receipt of such gifts and gratuities might be viewed as causing a conflict of interest for Castlelake in selecting brokers and dealers and other service providers. It is a violation of Castlelake's Code of Ethics for employees to offer or accept inappropriate gifts, favors, entertainment, special accommodations, or other things that could be viewed as overly generous and could influence their decision-making. To address certain conflicts related to receipt or giving of gifts, the Code of Ethics requires pre-approval of gifts of more than a *de minimis* (\$250) value.

## **Item 12 - Brokerage Practices**

*Selection of Brokers.* Securities transactions are executed by brokers selected by Castlelake in its sole discretion. Castlelake will take into account certain factors, including: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the level of trading expertise for the particular type of investment at hand; 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. Castlelake is not required to weigh any of these factors equally. Castlelake does not recommend, request or require that a Fund direct Castlelake to executed transactions through a specified broker-dealer.

*Soft Dollars.* As a practical matter, the receipt of research from the broker-dealers that execute Castlelake's transactions is not a material factor in the selection of such brokers. Castlelake does not "pay up" for third party research. Rather, to the extent consistent with Castlelake's obligation to seek best execution, and all other considerations being equal, Castlelake will place trades with broker-dealers who provide Castlelake with their own research ("proprietary research"). This determination is informal and is subject to the discretion of Castlelake's head trader. There are no formal or informal commission targets for the broker-dealers that provide Castlelake with research. Castlelake receives the following types of proprietary research: reports and commentary on companies, industries and the economy; and access to broker-dealer research analysts to discuss companies. Castlelake believes this research benefits all of the Funds' accounts and does not seek to allocate the research proportionately to the specific accounts whose trades are with the broker-dealer that provides the research. Obtaining this research benefits Castlelake because it does not have to produce or pay for the research itself. As a result, Castlelake theoretically may have an incentive to select or recommend a broker-dealer based on Castlelake's interest in receiving the research, rather than on the Funds' interest in receiving most favorable execution. However, as noted above, Castlelake's receipt of proprietary research is a very minor consideration in its selection of broker-dealers to execute transactions, Castlelake does not "pay up" and it always seeks best execution.

*Best Execution.* Castlelake seeks best execution of transactions for Funds in such a manner that the total cost or proceeds in each transaction is the most favorable under the circumstances. Although Castlelake generally seeks competitive commission rates, it will not necessarily pay the lowest commission. Given the differences in market structures or the characteristics of financial instruments, it is not possible to identify and apply a uniform standard of, and procedure for, best execution that would be valid and effective for all types of instruments. With the understanding that certain other circumstances, such as liquidity and complexity of the instrument, Funds have given the discretionary mandate that the best possible price available may not always represent best execution. Furthermore, in some circumstances there will only be a very limited number of venues through which the transaction can be executed. In such cases best execution is demonstrated through achieving the desired transaction at a price deemed appropriate by Castlelake.

*Aggregations and Partial Fills.* As applicable, Castlelake will place orders for all of the Funds on a combined basis. If all such orders are not filled at the same price, they will be filled for each Fund at the average price. If it is not possible under prevailing market conditions to fill the entire order for all Funds at the same price that would be obtainable if an order were placed for only one of the Funds, Castlelake will usually allocate the trade amongst the Funds with transaction costs being shared pro rata, or otherwise on a basis that it considers in good faith to be equitable.

*Cross Trades.* Transactions between Funds with or without the involvement of a broker may be permitted provided they are conducted on an arms-length basis and Castlelake does not receive any brokerage or other compensation in connection with the transaction which is settled at then existing market prices. Castlelake may cause a Fund to buy positions from or to sell positions to another Fund in re-balancing transactions resulting from circumstances where such transactions are considered advisable for both parties. All such transactions will be effected at prevailing market prices.

*Trade Errors.* The execution of the trading and investment strategies employed by Castllake can involve complex trades, difficult to execute trades and use of negotiated terms with counterparties. In light of the complexity and global diversity involved, some slippage, errors and miscommunications with brokers and counterparties are inevitable and may result in losses to Funds. Castllake will evaluate the merits of potential claims for damage against brokers and counterparties who are at fault, and to the extent practicable may seek to recover losses from those parties. Castllake may choose to forego pursuing claims against brokers and counterparties on behalf of Funds for any reason including, but not limited to, the cost of pursuing claims relative to the likely amount of any recovery and the maintenance of its business relationships with brokers and counterparties and overall market. In addition, Castllake's own investment and operations professionals may be solely or partly responsible for errors in placing, processing, and settling trades. Losses resulting from such errors will be borne by the Funds.

### **Item 13 - Review of Accounts**

Publicly traded investments are reviewed daily by Castllake's investment professionals and operations team. Private investments are reviewed monthly by Castllake's investment professionals and operations team. In addition, each Fund is reviewed regularly by Castllake's Chief Operating Officer, Compliance, and the Principals. Compliance also reviews and tests the Funds regularly providing oversight and review of the trading activity. An independent auditor annually audits each Fund's financial statements.

Statements are prepared and sent to Fund investors on either a monthly basis or quarterly basis. These statements include an investor's beginning account balance, contributions, distributions, periodic net income and ending balance. Additionally, investors receive monthly or quarterly written updates of the activity in and performance of their Fund.

On an annual basis, investors in Funds received audited financial statements. Also, investors in Funds have their income reported to them on Schedule K-1s, Schedule 1042s or a combination of the two.

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

The general partner of Castllake IV, L.P., entered into an agreement with a broker-dealer (Credit Suisse Securities (USA) LLC) pursuant to which the broker-dealer is acting as the exclusive placement agent for that Fund. For this service, Credit Suisse is being paid fees that are being offset against management fees that Castllake does or will earn for that new Fund. This broker-dealer agreement also provides for Castllake to pay a percentage of the management fees received from certain advisory clients referred by Credit Suisse that enter into direct advisory relationships with Castllake.

### **Item 15 - Custody**

Castllake does not maintain physical custody of any securities or cash owned by the Funds and does not serve as the qualified custodian of any of the assets owned by the Funds. However, Castllake is deemed by the applicable regulatory rules to have constructive custody of the assets of each Fund. Castllake satisfies the applicable regulatory requirements related to custody by, among other things,

ensuring that each Fund is subject to an annual audit by an independent accounting firm that is registered and examined by the Public Company Accounting Oversight Board, and that audited financial statements for each Fund are provided to its investors within 120 days of the applicable Fund's fiscal year-end.

#### **Item 16 - Investment Discretion**

Castlelake exercises broad investment discretion over all of the Funds it sponsors and manages. This discretion is established in and subject to the terms of the Fund Documents. Investors in the Funds endorse Castlelake's discretionary authority by executing the subscription documents related to their investment in a Fund and accepting the terms outlined in the respective Fund Documents.

#### **Item 17 - Voting Client Securities**

Castlelake has the authority to vote the securities held by the Funds. Castlelake's operations team is responsible for reviewing all proxies and voting them consistent with the policies and procedures. Castlelake will endeavor to avoid material conflicts of interest in the voting of proxies. However, where material conflicts of interest arise, Castlelake is committed to resolving the conflict in the Fund's best interest. In situations where Castlelake perceives a material conflict of interest, Castlelake may defer to the voting recommendation of an independent third party provider of proxy services, or take such other action in good faith that would protect the interest of advisory clients.

Under certain circumstances, Castlelake may not be able to vote proxies or may find that the expected economic costs from voting outweigh the benefits associated with voting. For example, Castlelake may not vote proxies on certain foreign securities due to local restrictions or customs.

A copy of Castlelake's written proxy voting policies and procedures as well as information on how proxies were voted for the Fund in which they have invested is available to any investor upon request.

#### **Item 18 - Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. Castlelake has no financial condition that impairs its ability to meet contractual commitments to the Funds, and has never been the subject of a bankruptcy proceeding.