

**ITEM 1
COVER PAGE**

PART 2A OF FORM ADV: FIRM BROCHURE

CERBERUS CAPITAL MANAGEMENT, L.P.

March 31, 2015

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THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF CERBERUS CAPITAL MANAGEMENT, L.P. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US BY PHONE AT (212) 909-1432 OR BY EMAIL AT GGORDON@CERBERUSCAPITAL.COM. 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 CERBERUS CAPITAL MANAGEMENT, L.P. ALSO IS AVAILABLE ON THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION'S WEBSITE AT WWW.ADVISERINFO.SEC.GOV.

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ITEM 2
MATERIAL CHANGES

Since Cerberus Capital Management, L.P. (the “Adviser”) filed its most recent Part 2A of Form ADV: Firm Brochure on March 31, 2014 (the “Adviser’s Brochure”), there have been no material changes to the Adviser’s Brochure. The Adviser and its Affiliates (as defined in Item 4) continued to provide investment management and administrative services to new Private Funds (as defined in Item 4) during calendar year 2014 and into calendar year 2015 and expect to continue to do so for the remainder of calendar year 2015.

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ITEM 4

ADVISORY BUSINESS

A. General Description of Advisory Firm.

The Adviser is a Delaware limited partnership founded in 1992. The Adviser is headquartered in New York City and has nine affiliated advisory offices located in the United States, Europe and Asia. The principal owner is Stephen A. Feinberg, who owns his interests in the Adviser indirectly through one or more intermediate entities.

The Adviser and its affiliates (the “Affiliates”) (the Adviser and the Affiliates are sometimes collectively referred to as the “Advisers”) provide investment management and administrative services to privately placed pooled investment vehicles (collectively, the “Private Funds”), single investment special purpose investment vehicles and managed accounts (collectively, with the Private Funds, the “Clients”) based on their respective investment objectives. An Affiliate of the Adviser, Cerberus Sub-Advisory I, LLC, became a United States Securities and Exchange Commission (the “SEC”) registered investment adviser on June 19, 2013. Cerberus Sub-Advisory I, LLC serves as the sub-adviser to (i) two funds registered as investment companies with the SEC under the Investment Company Act of 1940, as amended (the “1940 Act”) and (ii) a fund authorized by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011, as amended. Although separately registered as an investment adviser with the SEC, Cerberus Sub-Advisory I, LLC is effectively part of the single advisory business of the Advisers. The Advisers tailor their advisory services as described in the investment program of the relevant Client’s private placement memorandum, as set forth in such Client’s organizational documents and/or as set forth in the investment management agreement with such Client. Please refer to Item 8 for a more detailed description of Advisers’ investment strategies as well as the securities and other instruments purchased by Clients under the management of the Advisers.

Three affiliates of the Adviser, Partridge Hill Overseas Management, LLC (“Partridge Hill”), Cerberus Capital Management II, L.P. (“CCM II”) and Cerberus Institutional Management II, LLC (“CIM II” and, collectively with Partridge Hill and CCM II, the “CPO Managers”), have registered as Commodity Pool Operators (“CPOs”) with the Commodity Futures Trading Commission (“CFTC”) and have become members of the National Futures Association (“NFA”). Certain management persons of the Adviser are registered as principals and/or associated persons of such entities.

Since the filing of the Adviser’s last Brochure through January 1, 2015, seven new Private Funds have been launched:

- 1) Cerberus ICQ Levered Loan Opportunities Fund, L.P., a Delaware limited partnership;
- 2) Cerberus AN Fund, Ltd., a Cayman Islands exempted company, and Cerberus AN Master Fund, L.P., a Delaware limited partnership;

- 3) Cerberus SWC Levered Loan Opportunities Fund, Ltd., a Cayman Islands exempted company, and Cerberus SWC Levered Loan Opportunities Master Fund, L.P., a Cayman Islands exempted limited partnership;
- 4) Cerberus KRS Levered Loan Opportunities Fund, L.P., a Delaware limited partnership;
- 5) Cerberus AD Partners, L.P., a Cayman Islands exempted limited partnership;
- 6) Cerberus PW Partners, L.P., a Delaware limited partnership; and
- 7) Cerberus GSI Europe Partners, L.P., a Cayman Islands exempted limited partnership.

For a complete list of all Private Funds that the Advisers provide administrative and/or investment management services, see Section 7.B. of Schedule D to the Advisers' Form ADV Part 1.

The Advisers provide investment management services to the Clients on a discretionary basis.

B. Description of Advisory Services.

Advisory Services

The Adviser is a private investment firm. The Adviser has been dedicated to distressed investing since its inception. The Adviser primarily invests in the following four strategies:

- Distressed securities and assets, including residential and commercial mortgage securities and assets, corporate debt, non-performing loans ("NPLs") and structured loans;
- Private equity, including acquisitions of operationally troubled companies, non-core/non-performing divisions or subsidiaries and legacy businesses in wind down;
- Corporate middle-market lending; and
- Real estate-related investments.

Headquartered in New York City with affiliated advisory offices located in the United States, Europe and Asia, the Advisers are global investors with a long-term investment horizon and focus on value creation. The Advisers' investment and operations professionals are integrated across all four of the Advisers' primary investment strategies, bringing considerable expertise in assessing and managing all of the Advisers' investments.

Philosophy

The Advisers' investment philosophy is centered on integrity, patience and a unique business model that applies significant financial and operational resources across the Advisers' investment strategies. The Advisers focus on opportunities that offer the potential for superior

risk-adjusted returns. The Advisers also focus on growing business, recruiting and retaining top executives, proactively managing risks and ensuring the highest standards of corporate governance. The Advisers require disciplined due diligence, strict compliance, a team approach between investment and operations professionals and the use of efficient, creative and customized solutions.

Please see Item 8 for additional information related to methods of analysis, investment strategies and risk of loss.

C. Availability of Customized Services for Individual Clients.

The Advisers tailor their advisory services as described in the investment program of the relevant Client's private placement memorandum or as set forth in such Client's organizational documents and/or as set forth in the investment management agreement with such Client.

In addition, the Advisers have the right to enter and have entered into agreements, such as side letters, with certain investors in the Private Funds that may in each case provide for terms of investment that are more favorable to the terms provided to other investors in the Private Funds. Such terms may include the waiver or reduction of management and/or incentive fees/allocations, the provision of additional information or reports, rights related to specific regulatory requests or requirements of certain clients, more favorable transfer rights, and more favorable liquidity rights. Certain Clients (and/or underlying investors) also negotiate for investment exposure (or investment limitations) with respect to specific industries, sectors, geographic regions or investments.

Persons reviewing this Form ADV Part 2A should not construe this as an offering of any of the Private Funds described herein, which will only be made pursuant to the delivery of a private placement memorandum, subscription agreement and/or similar documentation to prospective investors.

D. Wrap Fee Programs.

The Adviser does not participate in wrap fee programs.

E. Assets Under Management.

The Adviser manages approximately \$28.1 billion as of January 1, 2015 on a discretionary basis. In addition, Cerberus Sub-Advisory I, LLC manages a net asset value of approximately \$153.6 million as of January 1, 2015 on a discretionary basis. Assets under management ("AUM") for Private Funds structured as hedge or liquid funds represents net asset value plus deferred compensation. AUM for Private Funds structured as private equity or commitment funds represents, during such Private Funds' investment period, total committed capital, and, after such Private Funds' investment period (including any liquidation period), remaining called capital invested, at cost. For Private Funds that are loan funds, AUM includes outstanding debt.

ITEM 5 FEES AND COMPENSATION

A. **Advisory Fees.**

Management Fees

With respect to Clients that are structured as hedge or liquid funds, the Adviser or one of its Affiliates is generally paid a quarterly management fee of 1% to 2% per annum of the aggregate net asset value of each investor's capital account or series of shares, as applicable. With respect to Clients that are structured as private equity or commitment funds, the Adviser or one of its Affiliates is generally paid a quarterly management fee of 1% to 1.5% per annum of total committed capital, called capital invested (at cost) or total assets under management. Management fees are generally paid quarterly in advance, but may be paid quarterly in arrears.

Performance-Based Allocations or Fees

With respect to Clients that are structured as hedge or liquid funds, an Affiliate of the Adviser is generally allocated or paid an annual performance-based allocation or fee of 15% to 20% of the net gain earned by each investor subject to a high water mark. Certain Clients structured as hedge or liquid funds subject this performance based allocation or fee to a preferred return to investors and a catch up allocation to the Affiliate. With respect to Clients that are structured as private equity or commitment funds, an Affiliate of the Adviser is generally allocated or paid a performance-based allocation or fee of 15% to 20% of the proceeds realized upon the disposition of the assets of such private fund; subject to the return of capital contributions to investors and, often, subject to a preferred return to investors (often 6% to 8%), catch-up distributions to the Affiliate and/or other performance hurdles.

Collateralized Loan Obligations

With respect to Clients structured as collateralized loan obligations ("CLOs"), an Affiliate of the Adviser is generally paid a quarterly management fee of 1% per annum. For any Private Fund investing directly or indirectly in one or more Clients structured as CLOs, each such Private Fund's total management fees payable do not exceed the management fee set forth in such Private Fund's offering documents, organizational documents and/or investment management agreement.

Compensation Waivers or Reductions

Compensation to the Advisers is negotiable, and is set forth and described in each Client's offering documents, organizational documents and/or investment management agreement. Certain investors in the Private Funds have negotiated for and pay reduced performance-based allocations or fees and/or reduced management fees.

Certain Clients in liquidation may pay either (i) no fees or compensation or (ii) pay, in advance, a quarterly management fee at a reduced rate.

B. Payment of Fees.

Management fees, incentive allocations, incentive fees and carried interests are generally deducted directly from Client accounts. With respect to one Client, fees are billed to, and then paid by, the Client. If an advisory contract is terminated before the end of a billing period, unearned, pre-paid fees (prorated for the remaining portion of the billing period) will be refunded directly to the Client or underlying investor in accordance with the terms of the Client's offering documents, organizational documents and/or investment management agreement.

C. Additional Expenses and Fees.

As more particularly set forth or described in the offering documents, organizational documents and/or investment management agreement of a particular Client, a Client may bear some or all of the following costs and expenses:

- (i) organizational and offering costs and expenses of Private Funds (including, without limitation, all, or a portion, of the costs and expenses incurred in connection with a Private Fund's formation and qualification and the offering and sale of interests in the Private Fund, including, but not limited to, legal and accounting fees and expenses, registration fees, filing fees, printing costs and all costs and expenses incurred in connection with the preparation of offering documents, marketing materials, organizational documents, operating documents and similar materials and the costs of qualifying, reproducing, amending, supplementing, mailing and distributing offering materials, including telephone and other communications and transmittal costs);
- (ii) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Clients, including, but not limited to, expenses associated with the sourcing, negotiating, investigating, researching, financing and structuring of investments and potential investments, whether or not consummated (including third-party research, data, analytics, modeling, structuring, pricing, execution and other third-party information systems, software and service fees (including data feeds, subscriptions, reports and similar items));
- (iii) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing all investments of the Clients and all transaction and other costs associated therewith;
- (iv) travel and related expenses associated with investments and potential investments;
- (v) professional fees associated with investments and potential investments, including, but not limited to, consulting, investment banking, legal and other advisory fees and expenses;
- (vi) transaction fees, brokerage commissions, clearing and settlement charges and similar fees and expenses associated with the acquisition, disposition and settling of investments;

- (vii) administrative, custodial, appraisal, valuation, legal, consulting, advisory and similar fees and expenses associated with the operations, investments and transactions of the Clients, including fees and expenses of any administrator;
- (viii) management fees;
- (ix) fees and expenses of any Affiliates engaged to provide services by or on behalf of the Clients as described in Item 10, “Material Relationships or Arrangements with Industry Participants and Affiliated Advisers – Affiliated Service Providers”, including, but not limited to, all fees and expenses of each of (a) Cerberus U.S. Operations (as defined in Item 10) (b) Cerberus Asia Operations (as defined in Item 10), (c) Cerberus U.K. Operations (as defined in Item 10), (d) the European Portfolio Company Servicers (as defined in Item 10), (e) Cerberus European Servicing (as defined in Item 10), (f) Yamato (as defined in Item 10), (g) FirstKey (as defined in Item 10) and (h) certain other Affiliates;
- (x) the Dutch Company Related Expenses (as defined in Item 10);
- (xi) broken-deal, failed transaction, break-up and similar fees, costs and expenses;
- (xii) costs and expenses of leverage of the Clients, including interest charges and fees;
- (xiii) auditing and accounting expenses of the Clients, including expenses associated with the preparation of the Clients’ financial statements, tax returns and Schedules K-1;
- (xiv) costs and expenses associated with investor communications and reports and the delivery thereof to investors;
- (xv) costs and expenses associated with special investor meetings and meetings of the Clients’ advisory boards and the meetings of any other committees of the Clients, including any committees formed for the purpose of approving principal transactions as described in Item 11, “Securities That the Adviser or a Related Person Has a Material Financial Interest”;
- (xvi) costs and expenses related to the Clients’ boards of directors and their meetings and certain Clients’ offshore investment committee members and their meetings;
- (xvii) insurance expenses, including, but not limited to, directors’ and officers’ liability insurance, errors and omissions insurance and other policies;
- (xviii) costs and expenses (including entity-level taxes, fees or other governmental charges) associated with the formation, organization and operation of any subsidiary, special purpose vehicle, alternative investment vehicle, holding company or similar entity formed with respect to investments, credit facilities or other transactions entered into for the benefit of the Clients;
- (xix) wind-up, liquidation, termination and dissolution expenses;

- (xx) costs, fees and expenses related to registration, qualification and/or exemption under any applicable federal, state, local or foreign laws, rules or regulations, including blue sky fees and other securities and/or investment related filing expenses;
- (xxi) costs related to any transfers of interests in the Private Funds, unless otherwise charged to or borne by the applicable transferor and/or transferee;
- (xxii) any extraordinary expenses (including litigation-related, indemnification and contribution expenses, including the amount of any judgment or settlement paid in connection therewith); and
- (xxiii) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Clients.

The Private Funds will reimburse the Advisers for any expenses paid by the Advisers that are properly borne by the Private Funds.

The Advisers will provide office space for themselves and on behalf of the Private Funds, and will pay for all rent, utilities, HVAC, water, cleaning, office furniture, fixtures and equipment, computer equipment (excluding any third-party data, analytics or other information systems as described above which are expenses of the Private Funds), office supplies and all other reasonable and customary occupancy costs, as well as reception, secretarial, clerical and other administrative personnel and the salaries, bonuses and benefits paid to investment professionals and support personnel of the Advisers (excluding the costs of any services provided by Cerberus Operations as described in Item 8 below, the Dutch Company Related Expenses and certain costs and expenses of Cerberus affiliates as described above, which are expenses of the Private Funds).

Because certain expenses are shared by more than one Client, the Adviser has adopted policies and procedures for the allocation of such fees and expenses among the Clients, although the policies and procedures may change from time to time and may differ materially from those described below. Subject to the policies and procedures described below with respect to co-investment opportunities, any investment-related or strategy-related expenses shared by more than one Client will generally be allocated *pro rata* based on each such Client's participation or anticipated participation in such investment or strategy. Participation may be determined by reference to actual or anticipated allocations of investments, by reference to the Client's investments in the applicable strategy or another methodology determined to be fair and equitable by the Adviser, in its sole discretion. The Adviser will seek to allocate non-investment-related expenses shared by more than one Client to such Clients in a manner that is fair and equitable taking into consideration all relevant factors, including, without limitation, the relevant benefit to each such Client derived from such expenses.

The Adviser also seeks to fairly allocate expenses by and among the Clients and co-investors. The Adviser generally will seek to have co-investors share in expenses related to the applicable investment that are borne by the Clients that own the same portfolio investment as the relevant co-investor. However, it is not always possible or reasonable to allocate all expenses to a co-

investor depending upon the circumstances surrounding the co-investment and the financial and other terms (including the timing of the investment) governing the relationship of the co-investor to the Clients with respect to the applicable portfolio investment, and, as a result, there may be occasions where co-investors do not bear a proportionate share of such expenses. In addition, where a co-investment was contemplated but ultimately not consummated, including with respect to proposed transactions that are not consummated by the Clients, the potential co-investor generally does not share in the expenses borne by the Clients with respect to such potential co-investment or proposed transaction opportunity.

With respect to expenses attributable to one or more of the Clients and one or more of the Advisers, the Adviser seeks to allocate such expenses fairly, taking into consideration (i) the extent of the Clients' and/or the Advisers' utilization of the services associated with the expense, (ii) the relative benefit to each Client and/or the Advisers that is derived from the expense and (iii) the association of the expense with a legal, contractual or other obligation of one or more of the Clients and/or the Advisers.

Further, new Clients (or Clients with increased capital commitments) may be required to bear broken deal expenses related to potential investments that are not consummated to the extent that (i) such Clients would have been allocated a portion of such investments (or an additional portion of such investments as a result of an increase in capital commitments) and (ii) such potential investments become broken deals during the 45 day period prior to the initial closing of such Client (or increase in capital commitments), even if such expenses were borne by other Clients prior to the time such Clients were formed and/or had their initial closing. Accordingly, new Clients (or Clients with increased capital commitments) may bear some of such broken deal expenses.

D. Prepayment of Fees.

Please see responses to Item 5A. above.

E. Additional Compensation and Conflicts of Interest.

Neither the Adviser, its Affiliates nor any of their supervised persons accept compensation for the sale of securities or other investment products.

ITEM 6
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

The Adviser's Affiliates receive performance-based compensation in the form of an incentive allocation, an incentive fee and/or performance distributions with respect to most Clients. Certain Clients that are in liquidation and/or are not making new investments (other than follow-on investments) are either charged no compensation or only a management fee.

Many of the Clients have investment programs that are similar to or overlap with each other, and may, therefore, participate with each other in investments. In the allocation of investment opportunities, performance-based fee/allocation arrangements may create an incentive to favor Clients that have greater performance fee/allocation arrangements over other Clients that have lesser or no performance fee/allocation arrangements. Investment decisions and allocations are made in accordance with the Advisers' Investment Allocation Policy and Procedures (the "Allocation Policy"), as such Allocation Policy is in effect at the time of such decision or allocation. The Allocation Policy is designed to ensure that all Clients are treated fairly and equitably to prevent this form of conflict from influencing the allocation of investment opportunities among them.

ITEM 7

TYPES OF CLIENTS

The Adviser and its Affiliates provide investment management services and advice to the Private Funds (including CLOs), single investment special purpose investment vehicles and managed accounts. Underlying investors in Clients include high net-worth individuals, financial institutions, corporations, sovereign wealth funds, endowment funds, charitable organizations, public and private pension funds and other investment funds. Generally, each underlying investor in a Client must be an “accredited investor” as defined in Regulation D under the Securities Act of 1933, as amended, and a “qualified purchaser” as defined in the 1940 Act. Certain employees of the Adviser who qualify as “knowledgeable employees” under Rule 3c-5 of the 1940 Act may be permitted to invest directly or indirectly in the Private Funds. The offering documents of each Private Fund may set minimum amounts for investment by prospective investors in such Private Funds. These minimum amounts may be waived by the Adviser or an Affiliate. One Affiliate, Cerberus Sub-Advisory I, LLC, serves as the sub-adviser to (i) two funds registered as investment companies with the SEC under the 1940 Act and (ii) a fund authorized by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities Regulations), 2011, as amended.

ITEM 8

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis and Investment Strategies.

Set forth below are summaries of the different asset categories and strategies primarily employed by the Advisers. Each Client's investment portfolio may participate in one or more of such asset categories and strategies as described in such Client's offering documents, organizational documents and/or investment management agreement. Clients' investment portfolios may differ based on whether they concentrate their investments in a single one of the strategies, all of the strategies or less than all of the strategies. Clients' investment portfolios may also differ based on geographical focus, liquidity needs and other considerations. The Adviser generally pursues, or has pursued, on behalf of its Clients, investments in the following four categories: (i) distressed securities and assets, including residential and commercial mortgage securities and assets, corporate debt, NPLs and structured loans; (ii) private equity, including acquisitions of operationally troubled companies, non-core/non-performing divisions or subsidiaries and legacy businesses in wind down; (iii) corporate middle-market lending; and (iv) real estate-related investments. Investments within these categories may involve any part of the capital structure of an issuer. Investments may be passive or active (including control) investments in a wide range of industries and countries.

The Advisers generally focus on investments relating to operationally challenged, financially troubled, underperforming and/or undervalued companies and impaired assets.

At present, no new investments, other than follow-on investments, are being made by certain Private Funds as the Adviser or its Affiliates liquidate the existing investment portfolio of each of these Private Funds.

Distressed Securities and Assets. The Advisers make investments on behalf of Clients in debt of distressed companies, including debt with varying terms with respect to collateral, relative seniority or subordination, purchase price, convertibility, interest requirements and maturity (*e.g.*, bonds, debentures and notes, trust certificates, commercial paper and trade claims) and publicly-traded equity and equity-related securities of distressed companies, including preferred stock, convertible preferred stock, common stock and warrants.

The Advisers also make investments on behalf of Clients in NPLs and pools of NPLs that have varying terms with respect to collateral, relative seniority or subordination, purchase price, convertibility, interest requirements and maturity. NPLs and pools of NPLs may consist of a large and diverse spectrum of loans, including, but not limited to (i) small to medium enterprise and other corporate loans, (ii) real estate secured loans (including residential, commercial and multi-family loans), (iii) unsecured loans and (iv) consumer loans.

In addition, the Advisers make investments on behalf of Clients in debt and equity securities of mortgage-backed securities ("MBS") (including, without limitation, MBS backed by prime, Alt-A, Alt-B, subprime mortgages and commercial mortgages), MBS pass throughs,

mortgage derivatives (*e.g.*, interest only securities), agency debentures, agency structured notes, servicing rights, wraps and guarantees (from Fannie Mae, Freddie Mac and other entities), asset-backed securities (“ABS”), collateralized debt obligations (“CDOs”), CLOs, other forms of ABS, mortgage servicing rights (“MSRs”) and other pools of distressed assets and whole loans. The Advisers may also invest on behalf of Clients in pools of performing, reperforming and non-performing residential and commercial loans backed by a variety of properties.

Private Equity. The Advisers make investments on behalf of Clients in debt and equity and equity-related securities of distressed or undervalued companies, including companies with operational issues that may not be considered to be distressed by the markets. Distressed companies typically include (i) those facing operating difficulties or those that the Advisers believe would benefit from operational improvements, (ii) those undergoing, or considered likely to undergo, reorganization under U.S. bankruptcy law or similar laws in other countries, (iii) those which are or have been engaged in other extraordinary transactions, such as debt restructuring, reorganization and liquidation outside of bankruptcy and (iv) those facing a broad range of liquidity issues.

Private equity investments may include the purchase of (i) a distressed subsidiary or division from a healthy parent, (ii) a distressed subsidiary or division from a distressed parent, (iii) a healthy subsidiary or division from a distressed parent, (iv) an entire distressed corporation, (v) a company, or a subsidiary or division thereof, that the Advisers believe can benefit from the Advisers’ operational expertise to create value, even when the market generally does not view such company as operationally challenged or distressed or (vi) a control or minority position in a company with operational improvement upside.

Corporate Middle-Market Lending. The Advisers, on behalf of their Clients, may originate loans to, or purchase the assignment of or participations in loans made to, distressed borrowers. Such investments may include senior secured debt instruments, including secured loans (both asset-based and cash flow loans) for working capital, refinancing, acquisitions, bridge capital, restructuring, recapitalization, exit financings and debtor-in-possession financing. The Advisers may seek to make investments that provide acquisition financing to private equity funds and other companies seeking acquisition financing and will also lend to, or purchase secured and unsecured debt obligations of, companies that (i) are likely to become subject to U.S. or foreign bankruptcy proceedings, (ii) are seeking to avoid restructuring, (iii) are not distressed, but have lost the support of their financial lenders, (iv) do not have sufficient capital to manage their operations and/or (v) are seeking terms for their debt that are more flexible or appropriate for their current circumstances. The types of investments in this strategy include, but are not limited to, investments in loans, debt instruments issued in connection with acquisition financing and refinancing of existing company debt, publicly traded bonds, high yield bonds, bank debt, bridge loans, debtor-in-possession and exit loans, mortgages and other fixed-income securities.

Real Estate-Related Investments. The Advisers may invest on behalf of their Clients in real and personal property, including, without limitation, office, retail, industrial, hotel, residential, recreational, health care or mixed-use assets or land (either directly or through the purchase of an operating company whose primary assets are real estate). Real estate-related

investments may be executed in the following forms/using instruments such as (i) mezzanine debt and preferred equity, (ii) special situations, including public or private real estate investment trusts (“REITs”), secondary limited partnership interests, real estate operating companies constrained by management inefficiencies or lack of liquidity and other operating companies with material real estate interests, (iii) direct equity in real property, including corporate real estate holdings and select development opportunities, (iv) mortgage loans and bridge financing and (v) distressed debt.

Leverage and Hedging.

The Advisers may use leverage for liquidity and investment purposes, subject to the Client’s offering documents, organizational documents and investment management agreement. The Advisers may (but need not) employ various hedging techniques to reduce actual or potential risks to which the Client’s portfolio may be exposed. The Advisers may invest in various derivative instruments both to hedge the Clients’ portfolio positions and to opportunistically seek to meet the Clients’ investment objectives, including (i) futures and forward contracts, (ii) swaps, including, without limitation, credit default swaps, baskets of credit default swaps, total return swaps, index swaps and interest rate swaps, (iii) options, warrants, caps, collars, floors and forward rate agreements and (iv) other synthetic products (including, without limitation, ABX, CMBX, CDX, CDX.HY, LCDX and iTraxx indices).

The Advisers may from time to time seek to adopt a temporary defensive investment strategy for the Clients by investing in investment grade and/or U.S. government securities, money market funds, commercial paper, certificates of deposit and other money market instruments and interest-bearing accounts.

Risks Relating to Investment Strategies.

The investment programs for each of the Clients involve a substantial degree of risk. The Adviser has listed certain risks below; however, the list of risks is not comprehensive or complete. Clients and investors are strongly encouraged to review the risks of their investment program, as contained in the Client’s private placement memorandum, the Client’s organizational documents and/or as set forth in the Client’s investment management agreement. In addition, while certain risks may be more important for certain investment strategies, certain risks may overlap and apply to multiple investment strategies.

Risks Associated with Investments in Distressed Securities and Assets

General Distressed Securities and Assets Risks. Clients typically invest in securities, debt and assets of U.S. and non-U.S. companies and other issuers that are experiencing significant financial or business difficulties, including companies and other issuers involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to such Clients, they involve a substantial degree of risk. Any one or all of the issuers of the securities or debt in which such Clients may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in entities experiencing significant business and financial difficulties is unusually high.

Furthermore, with respect to a Client's investments in secured loans and ABS, there is no assurance that the Adviser or its Affiliates will correctly evaluate the value of the assets collateralizing such Client's loans or securities, the enterprise value of the borrower or the prospects for a successful reorganization or similar action.

Investments for Clients may be made in bonds or other fixed-income securities, including, without limitation, higher yielding (and, therefore, higher risk) debt securities that are below investment grade and face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates. It is likely that a major economic recession could have a materially adverse impact on the value of such securities. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of securities rated below investment grade.

Troubled company and other investments require active monitoring and may at times require participation in business strategy or reorganization proceedings by the Adviser or its Affiliates. Involvement by the Adviser or an Affiliate in an issuer's reorganization proceedings could result in the imposition of restrictions limiting a Client's ability to increase, reduce and/or liquidate its position in the issuer.

The Investments May be Volatile. A principal risk in investing in distressed securities is the traditional volatility in the market prices of such securities. Price movements of the instruments in which Clients' assets may be invested may be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. Fluctuations or prolonged changes in the volatility of such securities, therefore, can adversely affect the value of investments held by such Client. Many non-U.S. financial markets are not as developed or as efficient as those in the United States, and as a result, price volatility may be higher for such Client's investments.

Illiquid Nature of Distressed Securities. The market for distressed securities and debt is less liquid than the market for securities and debt that are not distressed. Illiquidity may result from the absence of an established market for certain investments as well as legal or contractual restrictions on their resale by such Client. To the extent there is a market for such securities, the market will be limited to a narrow range of potential counterparties, such as institutions, investment banks and other investment funds, and, thus, a major portion of an issue of distressed securities may be held by relatively few investors. Furthermore, at times, a large portion of a Client's portfolio may be invested in investments for which there is not current liquidity. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, a Client may find it more difficult to sell such securities or debt when the Adviser or an Affiliate believes it advisable to do so or may be able to sell such securities or debt only at prices lower than if the securities or debt were more widely held. In such circumstances, it may be more difficult to determine the fair

market value of such securities or debt for purposes of computing the Client's net asset value. In some cases a Client may be prohibited by contract from selling investments for a period of time. In addition, the types of investments held by a Client may be such that they require a substantial length of time to liquidate.

The Advisers may invest on behalf of the Clients in unregistered securities. There is no assurance that there will be a ready market for resale of such investments. Illiquidity may result from the absence of an established market for certain investments as well as legal or contractual restrictions on their resale by a Client. To the extent that there is a market for such securities, the market will be limited to a narrow range of potential counterparties, such as institutions, investment banks and other investment funds, and, thus, a major portion of an issue of unregistered securities may be held by relatively few investors. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. As a consequence, the Clients' ability to participate in or liquidate such investments may be restricted and the value of such investments may be subject to wide fluctuation.

Risks Associated with Private Equity

Control Issues. A Client may have control positions in addition to advisory roles in portfolio company investments, along with certain contractual rights to protect its investments (including shareholder agreements, redemption rights and/or placement of a designee of the Adviser or an Affiliate on the boards of directors or as a board observer of portfolio companies); however, such Clients may not always have control over its portfolio companies. A Client runs the risk of refusal of management or shareholders of portfolio companies to adopt the recommendations of such Client, disagreement with existing management and any investment losses resulting from such refusal or disagreement. Although the Adviser or an Affiliate may seek protective positions, including possibly board representation, in connection with its control and non-control private equity investments, to the extent a Client takes minority positions in companies in which it invests, the Adviser or an Affiliate may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect such Client's position in such companies. Furthermore, in certain circumstances in which the Clients do not own 100% of the equity of a portfolio company, but have a controlling interest, the Adviser's or its Affiliate's actions may be limited by its fiduciary obligations to minority equity holders.

Investing in Leveraged Companies. Private investments in highly leveraged companies involve a high degree of risk. Some of a Client's investments in companies may involve leverage, which in turn will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, a Client may suffer a partial or total loss of capital invested in the company, which, depending on the size of such Client's investments, could materially adversely affect the return on the capital of such Client.

Need for Follow-on Funding. A Client may be called upon to provide follow-on funding for its portfolio companies and other investments or may have the opportunity to increase its investment in portfolio companies and other investments. There can be no assurance that a Client will wish to make such follow-on investments or have available capital to do so, and the inability to make such follow-on investments may have a substantial negative impact on a portfolio company or other issuer in need of capital or may diminish such Client's ability to influence the portfolio company's or other issuer's future development.

Risks Associated with Lending

Bank Loans and Participations. The Clients' investment programs may include investments in bank loans and participations. These obligations are subject to unique risks, including but not limited to, (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) lender-liability claims by the issuer of the obligations, (iii) environmental liabilities that may arise with respect to collateral securing the obligations, (iv) limitations on the ability of the Clients to directly enforce their rights with respect to participations, (v) difficulty in purchasing and selling loans as a publicly traded security, as historically the trading volume in the loan market has been small relative to other markets and (vi) possible claims for the return of some or all payments in a debt made within 90 days (and in some cases, within one year) of the date the issuer's/borrower's insolvency came under Title 11 of the United States Code (the "U.S. Code") and under certain state laws. The costs of claims by third parties arising from these and other risks will be borne by the Clients.

Non-Performing Nature of Debt. It is anticipated that some of the loans purchased by the Advisers for the Clients will be non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments with respect to the loans.

NPLs may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of the principal of the loan and/or the deferral of payments. Commercial and industrial loans in workout and/or restructuring modes and the bankruptcy or insolvency laws are subject to additional potential liabilities, which may exceed the value of a Client's original investment. For example, borrowers often resist foreclosure on collateral by asserting numerous claims, counterclaims and defenses against the holder of loans, including lender liability claims and defenses, in an effort to delay or prevent foreclosure. Even assuming that the collateral securing each loan provides adequate security for the loans, substantial delays could be encountered in connection with the liquidation of NPLs. In the event of a default by a borrower, these restrictions as well as the ability of the borrower to file for bankruptcy protection, among other things, may impede the ability to foreclose on or sell the collateral or to obtain net liquidation proceeds sufficient to repay all amounts due on the related loan. Under certain circumstances, payments to a Client may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment. Any loss a Client incurs on these types of investments may be significant and adversely affect such Client's performance. There are generally no limits on the percentage of sub-performing and non-performing assets a Client may hold.

General Credit Risks Related to Loan Origination or Purchaser. While loans originated or purchased by a Client are generally intended to be secured by collateral, such Client may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Advisers cannot guarantee the adequacy of the protection of a Client's interests with respect thereto. Furthermore, the Advisers cannot assure that claims may not be asserted that might interfere with enforcement of a Client's rights. In the event of a foreclosure, a Client 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 such Client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Ability to Lend on Advantageous Terms; Competition and Supply. Certain Clients will originate and/or purchase loans. A Client's success, in this area, will depend, in part, on such Client's ability to obtain or originate loans on advantageous terms. In making and purchasing loans, a Client will compete with a broad spectrum of lenders. Additionally, the market of making and purchasing loans has become heavily populated with, among others, private investment funds, some of which are willing to lend money on better terms (from a borrower's standpoint) than such Client. Increased competition for, or a diminution in the available supply of, qualifying loans may result in lower yields on such loans, which could reduce returns to investors.

Equitable Subordination. Under Title 11 of the U.S. Code a court may use its equitable powers to subordinate the claim of a lender against a borrower that is under the protections of Title 11 of the U.S. Code to some or all of the other claims against the borrower under certain circumstances. The concept of equitable subordination is that a claim may normally be subordinated to other claims only if its holder is guilty of some misconduct. The remedy is intended to be remedial, and not penal. In determining whether equitable subordination of a claim is appropriate in any given circumstance, courts generally look to whether the following conditions have been satisfied: (i) whether the claimant has engaged in some type of inequitable conduct; (ii) the misconduct must have resulted in injury to the creditors of the bankrupt company or conferred an unfair advantage on the claimant; and (iii) whether equitable subordination would be inconsistent with other applicable provisions of the bankruptcy code. While the stated test could be interpreted broadly, equitable subordination is usually confined to three general paradigms: (x) when a fiduciary of the debtor (who is also a creditor) misuses its position to the detriment of other creditors; (y) when a third party (which can include a lender) controls the debtor to the disadvantage of other creditors; and (z) when a third party actually defrauds other creditors. A Client may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by such Client should be equitably subordinated. The concept of equitable subordination (or the equivalent thereof) may vary from jurisdiction to jurisdiction.

Recharacterization. Under Title 11 of the U.S. Code, a court may use its equitable powers to "recharacterize" the claim of a lender, *i.e.*, notwithstanding the characterization by the lender and borrower of a loan advance as a "debt," to find that the advance was in fact a contribution in exchange for equity. Typically, recharacterization occurs when an equity

holder asserts a claim based on a loan made by the equity holder to the borrower at the time the borrower was in such poor financial condition so that other lenders would not make such a loan. In effect, a court that recharacterizes a claim makes a determination that the original circumstance of the contribution warrants treating the holder's advance not as debt but rather as equity. In determining whether recharacterization is warranted in any given circumstance, courts look to the following factors: (i) the names given to the instruments (if any) evidencing the indebtedness; (ii) the presence or absence of a fixed maturity or scheduled payment; (iii) the presence or absence of a fixed rate of interest and interest payments; (iv) the source of repayments; (v) the adequacy or inadequacy of capital; (vi) the identity of interest between the creditor and the equity holders; (vii) the security (if any) for the advances; (viii) the borrower's ability to obtain financing from outside lending institutions; (ix) the extent to which the advances were subordinated to the claims of outside creditors; (x) the extent to which the assets were used to acquire capital assets; and (xi) the presence or absence of a sinking fund to provide for repayment. These factors are reviewed under the circumstances of each case, and no one factor is controlling. A Client may be subject to claims from creditors of an obligor that debt obligations of such obligor held by the Client should be recharacterized.

Fraud by Borrower. Of paramount concern in lending is the possibility of material misrepresentation or omission on the part of the borrower. Inaccuracies or incompleteness of representations may adversely affect the valuation of collateral underlying loans and may adversely affect the ability of a Client to perfect or effectuate a lien on the collateral securing a loan. The Advisers will rely upon their due diligence and the accuracy and completeness of representations made by borrowers, and cannot guarantee that they will detect occurrences of fraud.

Risks Associated with Foreclosure on Real Estate and Physical Assets. Certain loans made by Clients may be secured by real estate or other physical assets. To the extent a Client needs to foreclose on such loans such Client may, directly or indirectly, own such real estate or other physical assets and may be subject to the risks incident to the ownership and operation of real estate or other physical assets, including the risks identified in "General Real Estate Risks", below. In addition, a Client may, directly or indirectly, incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon and ultimately disposing of such property. There is no assurance that there will be a ready market for resale of real estate or such other assets or that such real estate collateral will be sufficient to satisfy such defaulted loan obligation.

Risks Associated with Investments in Real Estate

General Real Estate Risks. Real estate and real estate-related investments generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate, including (i) risks associated with both the domestic and international general economic climate, (ii) local real estate conditions, (iii) risks due to dependence on cash flow, (iv) risks and operating problems arising out of the absence of certain construction materials, (v) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of

over-building), (vi) the financial condition of tenants, buyers and sellers of properties, (vii) changes in availability of debt financing, (viii) energy and supply shortages, (ix) changes in tax, real estate, environmental and zoning laws and regulations, (x) various uninsured or uninsurable risks, (xi) natural disasters and (xii) the ability of the Client or third-party borrowers to manage the real properties. With respect to investments in the form of real property owned by a Client, such Client will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon and ultimately disposing of such property. With respect to investments in equity securities, debt securities or other financial instruments, including REITs, the securities generally will be subject to the risks incident to the ownership and operation of real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate as described above. The Clients will also in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. There is no assurance that there will be a ready market for resale of investments because investments in real-estate-related assets generally are not liquid. Illiquidity may result from the absence of an established market for the investments, as well as from legal or contractual restrictions on their resale by the Clients.

Development Risks. A Client may acquire equity and/or debt interests in real estate developments and/or in businesses that engage in real estate development. To the extent that a Client invests in such development activities, it will be subject to the risks normally associated with such activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of such Client or the Advisers, 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 financial condition and results of operations of the Clients.

General Risks

Risks Associated with Bankruptcy Cases. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of a Client. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where a Client, by virtue of such action, is found to exercise “domination and control” of a debtor, such Client may lose its priority if the debtor or other creditors can demonstrate that the debtor’s business was adversely impacted or other creditors and equity holders were harmed by such Client.

Generally, the duration of a bankruptcy case can only be roughly estimated. Unless a Client’s claim in such case is secured by assets having a value in excess of such claim, no interest will be permitted to accrue and, therefore, such Client’s return on investment can be adversely affected by the passage of time during which the plan of reorganization of the debtor is being

negotiated, approved by the creditors and confirmed by the bankruptcy court. The risk of delay is particularly acute when a creditor holds unsecured debt or when the collateral value underlying secured debt does not equal the amount of the secured claim. Under most circumstances, unless the debtor is proved to be solvent, no interest or fees are permitted to accrue after the commencement of the debtor's case, as a matter of U.S. bankruptcy law. Reorganizations outside of bankruptcy are also subject to unpredictable and potentially lengthy delays.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a Client's 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 alteration of, the class. Moreover, a chapter 11 debtor has the ability under the U.S. Bankruptcy Code to propose and confirm a reorganization plan that is not supported by all classes of creditors. Using this so-called "cram-down" power, a chapter 11 debtor could confirm a reorganization plan that, among other things, provides such Client with a new financial instrument on terms that are materially different from the original investment, including a lower interest rate, a longer maturity date and/or less protective covenants.

The administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors (other than out of assets or proceeds thereof, which are subject to valid and enforceable liens and other security interests) and equity holders. In addition, certain claims that have priority by law (for example, claims for taxes) may be quite high.

The Adviser or an Affiliate, on behalf of a Client, may seek representation on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of such Client's position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Adviser or an Affiliate concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to such Client, it may resign from that committee or group, and such Client may not realize the benefits, if any, of participation on the committee or group. In addition and also as discussed above, if such Client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of its investments in such company while it continues to be represented on such committee or group.

The Adviser or an Affiliate, on behalf of a Client, may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. The concept of unfair advantage (or the equivalent thereof) may vary from jurisdiction to jurisdiction.

Investments in Undervalued Assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from a Client's investments may not adequately compensate such Client for the business and financial risks assumed. Clients should be aware that they may lose all or part of their investment in such assets.

The Adviser or an Affiliate, on behalf of a Client, may be forced to sell, at a substantial loss, assets which it believes are undervalued, if they are not in fact undervalued. In addition, such Client may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of such Client's funds would be committed to the assets purchased, thus possibly preventing such Client from investing in other opportunities. In addition, such Client may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

For reasons not necessarily attributable to any of the risks enumerated above or below (for example, supply/demand imbalances or other market forces), the prices of the securities in which a Client will invest may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even more "undervalued" levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

Risks of Litigation. Distressed investing can be a contentious and adversarial process. Different investor groups may have qualitatively different, and frequently conflicting, interests. A Client's investment activities may include activities that are hostile in nature and will subject such Client to the risks of becoming involved in litigation by third parties. This risk may be greater where such Client exercises control or significant influence over a company's direction. The expense of defending against claims against such Client by third parties and paying any amounts pursuant to settlements or judgments would be borne by such Client and would reduce net assets and could require such Client's investors to return distributed capital and earnings to such Client. The Adviser or an Affiliate will be indemnified by such Client in connection with such litigation, subject to certain conditions.

Non-U.S. Investments. The Clients may invest their assets outside of the U.S. In making such investments, appropriate consideration will be given to the factors described below, among others. Many financial markets are not as developed or efficient as others. Financial instruments related to some issuers are less liquid and more volatile than financial instruments of comparable issuers in other countries. Similarly, volume and liquidity in financial markets vary and, at times, volatility of prices can be greater in some countries than in others. The issuers of some of the financial instruments, such as non-U.S. bank obligations, may be subject to different regulations than other issuers. In addition, there may be less publicly available information about issuers in some markets as opposed to issuers in other markets, and some issuers generally are not subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to other issuers.

The Clients may be subject to additional risks, which include possible adverse political and economic developments outside the U.S., possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the financial instruments may be subject to brokerage taxes levied by non-U.S. governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income, gain and gross proceeds received by a Client from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by a Client will reduce its net income or return from such investments. While the Advisers will take these factors into consideration in making investment decisions for the Clients, no assurance can be given that the Clients will be able to fully avoid these risks.

Many of the laws that govern private and non-U.S. investment, securities transactions, creditors' rights and other contractual relationships in developing countries are new and largely untested. As a result, the Clients may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on a Client and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in a court outside of the United States. Regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. Anti-fraud and anti-insider trading legislation is often rudimentary. The concept of fiduciary duty is also limited when compared to such concepts in Western markets. In certain instances, management may take significant actions without the consent of investors.

Sovereign Debt. The Clients may invest in debt issued by a national government in a foreign currency. Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"), (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt. Certain Clients may hold short positions or credit default swaps in Sovereign Debt.

Currency Exchange Rate Exposure. The Clients may invest in securities and other financial instruments denominated or quoted in various currencies other than the U.S. dollar and in other financial instruments, the price of which is determined with reference to such currencies. The Clients, however, will generally value their investments and other assets in U.S. dollars. To the extent unhedged, the value of a Client's assets denominated in currencies

other than U.S. dollars will fluctuate with U.S. dollar exchange rates as well as with price changes of investments in the various local markets and currencies. Forward currency contracts and options may be utilized by a Client to hedge against currency fluctuations, but such Client is not required to hedge and there can be no assurance that such hedging transactions, even if undertaken, will be effective.

It is possible that some European Sovereign Debt issuers may seek to exit the European Union (the “EU”) and the Euro, and reintroduce a national currency. It is possible, therefore, that a dispute may arise regarding the currency in which an underlying obligation, sovereign or private, must be repaid. There is a possibility that an issuer/obligor might ultimately be permitted to repay its debt in a different, less valuable, security depending upon the governing law of the contract and the provisions, if any, therein regarding the risk of redenomination. The legal analysis of this issue is not straightforward. There are multiple variables and any legal outcome will be fact and contract specific. It is difficult to predict the value of the currency that might be received by the holder of a debt instrument in such a circumstance, and any such exchange could have an adverse effect on a Client’s investments.

Furthermore, in connection with the disposition of certain investments, a Client may be required to make representations about the business and financial affairs of the underlying company or investment, and to indemnify the purchasers of such company or investment if those representations ultimately prove to be inaccurate.

Equity Securities. Clients may invest in equity and equity-related securities. Equity securities in general fluctuate in value in response to many factors, including the activities, results of operations and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments and movements in the equity markets in general. As a result, a Client may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Adviser’s and its Affiliates’ expectations or if equity markets generally move in a single direction and such Client has not hedged against such a general move.

Hedging Transactions. Certain Clients may use a variety of financial instruments, such as derivatives, options, total return swaps, caps, floors, futures, forward contracts and indices, both for investment and risk management purposes. Certain Clients may utilize such instruments to (i) protect against possible changes in the market value of such Client’s investment portfolios resulting from fluctuations in the markets and changes in interest rates, (ii) protect such Client’s unrealized gains in the value of its investment portfolio, (iii) facilitate the sale of any such investments, (iv) enhance or preserve returns, spreads or gains on any investment in such Client’s portfolios, (v) hedge against a directional trade, (vi) hedge the interest rate, credit or currency exchange rate on any of such Client’s financial instruments, (vii) protect against any increase in the price of any financial instruments such Client anticipates purchasing at a later date or (viii) act for any other reason that the Adviser and its Affiliates deem appropriate. Although certain Clients may enter into hedging transactions to seek to reduce risk, such transactions may not be fully effective in mitigating the risks in all market environments or against all types of risk (including unidentified or unanticipated risks), thereby incurring losses to such Client. In addition, such hedging transactions may result in a poorer overall performance for such Client than if it had not

engaged in any such hedging transactions. Moreover, the Adviser and its Affiliates may determine not to hedge against, or may not anticipate, certain risks and the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties).

Call Options. The Clients may purchase and sell call options and there are risks associated with the sale and purchase of call options. The seller (writer) of a call option that is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing securities to cover the exercise of an uncovered call option can cause the price of the securities to increase, thereby exacerbating the loss.

The buyer of a call option assumes the risk of losing its entire premium investment in the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security (if the market price of the underlying security declines).

Put Options. The Clients may purchase or sell (write) put options and there are risks associated with the sale and purchase of put options. The seller (writer) of a put option that is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security if the market price falls below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is fully hedged if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option.

The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying security, the loss on the put will be offset, in whole or in part, by any gain on the underlying security.

Short Selling. A Client’s investment program may include short selling for certain purposes. Such practice can in certain circumstances substantially increase the impact of adverse price movements on such Client’s portfolio. A short sale of equity securities involves the theoretical risk of an unlimited increase in the market price of securities sold short. A short sale of a debt instrument such as a bond involves the theoretical risk of an increase in the

market price plus accrued interest. Moreover, short selling is limited to securities that can be borrowed, and it may be necessary to cover short positions at an undesirable time and at undesirable prices because securities that were shorted can no longer be borrowed. In such cases, a Client can be bought in (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Futures Contracts. Certain Clients may invest in futures contracts. The value of futures depends upon the price of the instruments, such as commodities, underlying them. Futures contracts are expected to be used primarily to manage currency and general market risk. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which such Client's positions trade or of its clearinghouses or counterparties.

Futures positions may be illiquid because certain exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day, no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent a Client from promptly liquidating unfavorable positions and subject such Client to substantial losses or prevent it from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Forward Trading. Clients may invest in forward transactions. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to record-keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which a Client has a forward contract. Although the Adviser and its Affiliates will seek to trade with reliable counterparties, failure by a counterparty to fulfill its contractual obligation could expose such Client to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or

commodities they trade, and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with unusually wide spreads between the prices at which they were prepared to buy and those at which they were prepared to sell. Disruptions can occur in forward markets due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to a lower volume than that which the Adviser and its Affiliates would otherwise recommend, to the possible detriment of the Clients. Market illiquidity or disruption could result in significant losses to the Clients.

Swap Agreements and Synthetic Assets. The Clients may acquire exposure to the risk of structured finance securities, debt securities and loans synthetically through products such as credit default swaps (including CDS and CDX contracts), total return swaps, credit linked notes, structured notes, trust certificates and other derivative instruments (each, a “Synthetic Asset”). A Synthetic Asset could take many forms, including a credit derivative transaction that references a structured finance security, debt security and loan or a credit derivative transaction that references a portfolio or index of corporate reference entities or a portfolio or index of reference obligations consisting of structured finance securities, debt securities, bonds or other financial instruments (each, a “Reference Obligation”). Exposure to such Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of the assets referenced. The Clients will have a contractual relationship only with the synthetic asset counterparty, and not with the issuer(s) (the “Reference Entity”) of the Reference Obligations unless a credit event occurs with respect to any such Reference Obligation, physical settlement applies and the synthetic asset counterparty delivers the Reference Obligation to the Clients. Other than in the event of such delivery, the Clients generally will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and the Clients will not have any rights of set-off against the Reference Entity. In addition, the Clients generally will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Clients also will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. The Clients will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity, as well as the documentation risk associated with these instruments.

In the event of the insolvency of the Synthetic Asset counterparty, the Clients will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Clients will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one Synthetic Asset counterparty will subject such Synthetic Assets to an additional degree of risk with respect to defaults by such Synthetic Asset counterparty as well as by the respective Reference Entities.

While the Adviser expects that returns on a Synthetic Asset may reflect those of each related Reference Obligation, as a result of the terms of the Synthetic Asset and the assumption of the credit risk of the Synthetic Asset counterparty, a Synthetic Asset may have a different

expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default.

Repurchase and Reverse Repurchase Agreements. A Client may enter into repurchase and reverse repurchase agreements. When a Client enters into a repurchase agreement, such Client effectively sells securities to a broker-dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. While the securities are effectively sold, the Client may not be able to vote such securities on issues that may affect the ultimate value of the investment. In a reverse repurchase transaction, a Client effectively buys securities from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by such Client, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by a Client involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such cases may involve costs to a Client. A Client may enter into repurchase and reverse repurchase agreements to, among other things, increase its leverage. The use of such leverage can, in certain circumstances, maximize the losses to such Client. Any event that adversely affects the value of an investment is magnified to the extent that asset or such Client is leveraged. The cumulative effect of the use of leverage by a Client in a market that moves adversely to such Client's investments could result in a substantial loss to such Client, which loss would be greater than if the asset or Client was not leveraged.

Risks Associated with CDO Investments. Clients may invest in CDOs. The value of the CDOs generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets (the "CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished.

CDO Collateral may consist of high-yield debt securities, loans, ABS and other instruments (which often are rated below investment grade or of equivalent credit quality). High-yield debt securities and loans may be unsecured and subordinated to other obligations of the issuer. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer and/or economic conditions may impair the ability of the issuer or obligor to make payments of principal or interest.

The lack of an established, liquid secondary market for some CDOs (and CDO equity in particular) may have an adverse effect on the market value of those CDOs and will in most cases make it difficult to dispose of such CDOs at market or near market prices. Additionally, the public markets for high-yield corporate debt securities have experienced periods of volatility and periods of reduced liquidity, and CDOs will be subject to certain

other transfer restrictions that may contribute to illiquidity. Therefore, if the Client decides to dispose of any particular CDO, no assurance can be given that it will be able to dispose of such CDO at the prevailing market price, if at all. Such illiquidity may adversely affect the price and timing of liquidations of CDO securities by the Clients.

Subordination of CDO Debt and CDO Equity. A Client's portfolio may consist of CDO equity and subordinate CDO debt. Subordinate CDO debt generally is fully subordinated to the CDO's senior tranches. CDO equity generally is fully subordinated to any CDO debt tranches. To the extent that any losses are incurred by a CDO in respect of its CDO collateral, such losses will be borne first by the holders of the CDO equity, next by the holders of any subordinated CDO debt and finally by the holders of the CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment while any CDO senior tranches are outstanding the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any subordinated CDO debt and/or the holders of the CDO equity, as applicable.

Risks Associated with Commercial Mortgage Loans. The Clients may invest in commercial mortgage loans. The value of the Clients' commercial mortgage loans will be influenced by the rate of delinquencies and defaults experienced on the commercial mortgage loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults and loss severity include (i) economic and real estate market conditions by industry sectors (*e.g.*, multifamily, retail, office, etc.), (ii) the terms and structure of the mortgage loans and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan.

Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning regulations and laws) rather than upon the existence of independent income or assets of the borrower. Many commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.

Commercial mortgage loans generally do not fully amortize, which can necessitate a sale of the property or refinancing of the remaining "balloon" amount at or prior to maturity of the mortgage loan. Accordingly, investors in commercial mortgage loans and commercial mortgage-backed securities ("CMBS") bear the risk that the borrower will be unable to refinance or otherwise repay the mortgage at maturity, thereby increasing the likelihood of a default on the borrower's obligation.

Exercise of foreclosure and other remedies may involve lengthy delays and additional legal and other related expenses on top of potentially declining property values. In certain

circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

The Clients may invest in small balance commercial (“SBC”) loans. SBC loans are generally viewed as having a greater risk of loss through delinquency and foreclosure than lending on the security of single family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (*i.e.*, the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses and comply with applicable zoning and laws) rather than upon the existence of independent income or assets of the borrower. Many SBC loans provide recourse only to specific assets, such as the property, and not against the borrower’s other assets or personal guarantees.

Risks Associated with CMBS. The Clients may invest in CMBS and other MBS, including subordinated tranches of such securities. The value of CMBS will be influenced by factors affecting the value of the underlying real estate portfolio, and by the terms and payment histories of such CMBS.

Some or all of the CMBS contemplated to be acquired by the Clients may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated CMBS, so-called “B-pieces,” in which the Clients may invest have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than “B” by rating organizations may be regarded as having extremely poor prospects of attaining any real investment standing and may be in default. Existing credit support and the owner’s equity in the property may be insufficient to protect the Clients from loss.

The Clients may also acquire subordinated tranches of CMBS issuances. In general, subordinated tranches of CMBS are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of nonpayment than senior tranches of CMBS or CMBS backed by third-party credit enhancement. As an investor in subordinated CMBS, a Client will be first among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral. In addition, an active secondary market for such subordinated securities is not as well developed as the market for other MBS. Accordingly, such subordinated CMBS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

The value of CMBS and other MBS in which the Clients may invest generally have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities will decline. In addition, to the extent that the mortgage loans which underlie specific MBS are prepayable, the value of such mortgage securities may be negatively

affected by increasing prepayments, which generally occur when interest rates decline. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments while most residential mortgage loans may be prepaid at any time without penalty.

Risks Associated with Residential Mortgage Loans. The Clients may invest in residential mortgage loans, including subprime mortgages. Subprime mortgage loans are generally made to borrowers with lower credit scores. Accordingly, such mortgage loans backing residential mortgaged-backed securities are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities. The residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance of the Clients. A decline or an extended flattening of real estate values may result in increases in delinquencies and losses on residential mortgage loans, particularly with respect to second homes and investor properties and with respect to any residential mortgage loan where the aggregate loan amount (including any subordinate liens) is close to or greater than the related property value.

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable-rate mortgage loans (“ARMs”) and/or pay option ARMs, each of which present special default and prepayment risks. Borrowers with adjustable payment mortgage loans are exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may not be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans.

Certain residential mortgage loans may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the required minimum monthly payments are less than the interest accrued on the loan, the interest shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. Because the related mortgagors may be required to make a larger single payment upon maturity, the default risk associated with such mortgage loans may be greater than that associated with fully amortizing mortgage loans.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims.

When a Client purchases loans, its counterparty may make representations and warranties about such loans to the Client. The Client's residential mortgage loan purchase agreements may entitle the Client to seek indemnity or demand repurchase or substitution of the loans in the event a counterparty breaches a representation or warranty given to the Client. However, there is no assurance that the Client's mortgage loan purchase agreements will contain appropriate representations and warranties, that it will be able to enforce its contractual right to repurchase or substitution, or that a counterparty will remain solvent or otherwise be able to honor its obligations under its mortgage loan purchase agreements. The Client's inability to obtain indemnity or require repurchase of a significant number of loans could harm the Client's business, financial condition, liquidity, results of operations and ability to make distributions to its investors. Further, as the market for mortgage loan purchase agreements becomes more competitive, the representations and warranties about such loans to the Clients may become more limited as the counterparties have increased leverage during the negotiations for purchase of such loans.

Investments in MSRs. The Clients may invest in MSRs. MSRs arise from contractual agreements between the Clients and the investors (or their agents) in mortgage securities and mortgage loans. Excess MSRs are interests in mortgage servicing rights, representing a portion of the fee paid to mortgage servicers. The fee that a mortgage servicer is entitled to receive for servicing a pool of mortgages generally exceeds the reasonable compensation that would be charged in an arm's-length transaction. The Clients may acquire MSRs from the sale of mortgage loans where the Clients assume the obligation to service the loan in connection with the sale transaction or the Clients may purchase MSRs and excess MSRs. Any MSRs and excess MSRs that the Clients acquire will be recorded at fair value on the Clients' balance sheets. The determination of fair value of MSRs and excess MSRs will require the Advisers to make numerous estimates and assumptions. Such estimates and assumption include, without limitation, estimates of future cash flows associated with MSRs based upon assumptions involving interest rates as well as the prepayment rates, delinquencies and foreclosure rates of the underlying serviced mortgage loans.

The ultimate realization of the value of MSRs and excess MSRs may be materially different than the fair values of such assets as may be reflected in the Clients' balance sheets as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values of such assets, which could have a material adverse effect on the Clients' business, financial condition, results of operations and cash flows. Accordingly, there may be material uncertainty about the fair value of any MSRs or excess MSRs the Clients acquire.

To the extent the Clients invest in MSRs, deterioration of the housing market could increase delinquencies and defaults on the mortgage loans underlying the MSRs the Clients acquire and increase the cost of servicing mortgage loans, which, in turn, could adversely affect the Clients' results of operations as revenues otherwise derived from the MSRs that would produce income may be diverted to pay servicers additional servicing fees or reimburse servicers for additional expenses from servicing. In addition, as default rates are a component of pricing MSRs, the market value of the Clients' MSRs may decrease, thereby decreasing the value the Clients could obtain if the Clients sold the MSRs.

Changes in interest rates are a key driver of the performance of MSR and excess MSR since the values of such assets are highly sensitive to changes in interest rates. The Advisers may pursue various hedging strategies to seek to reduce the Clients' exposure to adverse changes in interest rates. Hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect the Clients. To the extent the Advisers do not utilize derivatives to hedge against changes in fair value of MSR or excess MSR, the Clients' balance sheets, financial condition and results of operations would be susceptible to volatility due to changes in the fair value of, or cash flows from, MSR and excess MSR as interest rates change.

Prepayment speeds significantly affect MSR and excess MSR. The Advisers' expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds are significantly greater than expected, the fair value of the MSR and excess MSR could decline and the Clients may be required to record a non-cash charge, which would have a negative impact on the Clients' financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows the Clients receive from MSR and excess MSR, and the Clients could ultimately receive substantially less than what the Clients paid for such assets.

Delinquency rates have a significant impact on the valuation of any MSR and excess MSR. An increase in delinquencies generally results in lower revenue because the Clients may only collect servicing fees for performing loans (such fees collected from a U.S. Government-sponsored entity, such as Fannie Mae or Freddie Mac ("GSEs") or mortgage owners). The Advisers' expectation of delinquencies is a significant assumption underlying those cash flow projections. When the estimated fair value of MSR and excess MSR is reduced, the Clients could suffer a loss, which could have a negative impact on the Clients' financial results.

MSR, excess MSR and the related servicing activities are subject to numerous U.S. federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on a Client's business. A Client's failure to comply, or the failure of the servicer to comply, with applicable laws, rules or regulations, could expose such Client to fines, penalties or potential litigation liabilities, including costs, settlements and judgments, any of which could have a material adverse effect on such Client's business, financial condition and results of operations.

In the event that certain Clients and/or their Affiliates do not obtain approval to own MSR for GSE (or such approval is delayed), the opportunities to purchase MSR will be limited and such Clients may not be able to achieve their investment objective. Such Clients and/or their Affiliates are also subject to licensing requirements as owners of MSR. If the number of states that require the licensing of owners of MSR increases, or the states that require licensing impose additional obligations on the owners of MSR, such Clients' costs could increase. Any of these outcomes may adversely affect such Clients' operations or financial conditions and could result in loss to such Clients.

Interest-Only Mortgage Loans. The Clients may invest in interest-only mortgage loans. Interest-only mortgage loans permit the borrowers to make monthly payments of only accrued interest generally for an initial period following origination. After such interest-only period, the borrower's monthly payment will be recalculated to cover both interest and principal so that the mortgage loan will amortize fully prior to its final payment date. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers to qualify for a mortgage loan who would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

Higher Risk of Loss on Loans Secured by Non-Owner Occupied Properties. The Clients may invest in mortgage loans that are secured by multifamily or mixed use properties, or by properties, including improved and unimproved land, held by borrowers for investment, or as second homes. These mortgage loans may present a greater risk of loss, and the unimproved land may present a significantly greater risk of loss, if a borrower experiences financial difficulties, because these borrowers may be more likely to default on a mortgage loan secured by non-owner occupied property than a mortgage loan secured by a primary residence of a borrower.

Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans. The Advisers may rely on credit scores as part of their due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generated by models developed by a third party that analyzed data on consumers in order to establish patterns that are believed to be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (*i.e.*, a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans.

Risks Associated with Residential Mortgage-Backed Securities. The Clients may invest in residential mortgage-backed securities (“RMBS”). Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower’s equity in the mortgaged property and the financial circumstances of the borrower. Certain mortgage loans may be of subprime credit quality (*i.e.*, do not meet the customary credit standards of Fannie Mae and Freddie Mac). Delinquencies and liquidation proceedings are more likely with subprime mortgage loans than with mortgage loans that satisfy customary credit standards. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Residential mortgage loans in an issue of RMBS may be subject to various federal and state laws, public policies and principles of equity that protect consumers which, among other things, may regulate interest rates and other fees, require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate debt collection practices. In addition, a number of legislative proposals have been introduced at both the federal, state and municipal level that are designed to discourage predatory lending practices. Furthermore, the laws of non-U.S. jurisdictions may have different, and, in some cases, more onerous obligations. Violation of such laws, public policies and principles may limit the servicer’s ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer to damages and administrative enforcement. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

It is not expected that RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on RMBS will depend solely upon the

amount and timing of payments and other collections on the related underlying mortgage loans.

Geographic Concentration of Mortgage Loans. The mortgage loans in which the Clients may invest may be concentrated in a specific state or region. Weak economic conditions in these locations or any other location (which may or may not affect real property values), may affect the ability of borrowers to repay their mortgage loans on time. Properties in certain jurisdictions may be more susceptible than homes located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, as well as floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans.

Asset-Backed Securities. ABS use trusts and special purpose corporations to securitize various types of assets, primarily automobile and credit card receivables. The Clients may invest, either directly or indirectly, through CDOs, in these and other types of ABS that may be developed in the future.

ABS present certain risks that are not presented by MBS. Primarily, these financial instruments do not have the benefit of security interest in the collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of entities involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

Leverage and Borrowing Risks. Certain Clients have the power to borrow funds and may do so when deemed appropriate by the Adviser or its Affiliates, including to enhance the Clients' returns and satisfy withdrawal requests that would otherwise result in the premature liquidation of investments. These Clients may borrow funds from brokers, banks and other lenders to finance its investment operations, which borrowings may be secured by assets of the Clients. The use of such leverage can, in certain circumstances, maximize the losses to which the Clients' investment portfolios may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that asset or such Client is leveraged. The cumulative effect of the use of leverage by the Clients in a market that moves adversely to the Clients' investments could result in a substantial loss to the Clients, which would be greater than if the Clients were not leveraged. Leverage may be achieved through, among other methods, direct borrowing, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements and swaps. Access to capital could be impaired by many factors, including market forces or regulatory changes. The Clients generally have unrestricted borrowing powers.

The use of margin and short-term borrowings creates several risks for the Clients. If the value of the Clients' securities falls below the margin level required by a prime broker, additional margin deposits would be required. If the Clients are unable to satisfy any margin call by a prime broker, then the prime broker could liquidate the Clients' position in some or all of the financial instruments that are in the Clients' accounts at the prime broker and cause the Clients to incur significant losses. Furthermore, secured counterparties and lenders may have the right to sell, pledge, re-hypothecate, assign, use or otherwise dispose of collateral posted by the Clients. This could increase exposure to the risk of a counterparty default since, under such circumstances, the Clients may be unable to recover the posted collateral promptly or may be unable to recover all of the posted collateral. The occurrence of defaults may trigger cross-defaults under the Clients' agreements with other brokers, lenders, clearing firms or other counterparties, creating or increasing a material adverse effect on the performance of the Clients.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements and equity swaps generally involves little or no margin deposit and, therefore, provide substantial leverage opportunities for the Clients. Relatively small price movements in these financial instruments may result in immediate and substantial losses to the Clients. Leverage will increase the exposure of the Clients to adverse economic factors such as rising interest rates, economic downturns or a deterioration in the condition of the Clients' investments or their corresponding markets. The use of such leverage can maximize the losses to which the Clients' investment portfolios may be subject. Any event that adversely affects the value of an investment would be magnified to the extent that asset or such Client is leveraged. The cumulative effect of the use of leverage by a Client in a market that moves adversely to such Client's investments cCertain Clients have the power to borrow funds and may do so when deemed appropriate by the Adviser or its Affiliates, including to enhance the Clients' returns and satisfy withdrawal requests that would otherwise result in the premature liquidation of investments. These Clients may borrow funds from brokers, banks and other lenders to finance its investment operations, which borrowings may be secured by assets of the Clients. The use of such leverage can, in certain circumstances, maximize the losses to which the Clients' investment portfolios may be subject. Any event

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Systemic Risk. Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Clients interact on a daily basis. A systemic failure could have material adverse consequences on the Clients and on the markets for securities in which the Clients seek to invest.

Currency and Exchange Rate Risks. A Client may invest in securities denominated or quoted in currencies other than the U.S. Dollar. Changes in currency exchange rates may affect the value of such Client's portfolio and the unrealized appreciation or depreciation of investments. Such Client may seek to protect the value of some or all of its portfolio holdings against currency risks by engaging in hedging transactions, if available, cost-effective and practicable. Such Client may enter into forward contracts and futures contracts on currencies, as well as purchase put and call options on currencies. There is no certainty that instruments suitable for hedging currency values will be available at the time when such Client wishes to use them or that, even if available, such Client will elect to utilize a hedging strategy.

Investment in Secondary Private Fund Interests. A Client may invest generally in minority positions in existing private funds. Investments in private funds whose interests are not quoted can involve a greater risk than investments in quoted companies. The ability of a minority investor in such funds to influence such funds' affairs or to protect such investor's position is generally limited. As a result, a Client may not be permitted to participate in the management and operations of such funds. Instead, the managers of such funds will have the sole authority to manage and operate such funds. The success of each investment will depend on the ability and success of the management of the funds, in addition to economic and market factors. Moreover, the marketability of interests in such funds is restricted. Managers of the funds in which a Client holds secondary interests generally will receive compensation based on the performance of their portfolios.

Uninsured Losses. The Advisers, on behalf of the Clients, will attempt to maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. Insurance against certain risks, such as earthquakes or floods, may be unavailable, available in amounts that are less than the full-market value or replacement cost of underlying properties or subject to a large deductible. In addition, there can be no assurance the particular risks which are currently insurable will continue to be insurable on an economically affordable basis.

Risks of Environmental Liabilities. Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under or in its property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances. The presence of hazardous substances, or the failure to remediate hazardous substances properly, may adversely affect the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral. In addition, some environmental laws create a lien on contaminated property in favor of the government for costs it incurs in connection with the contamination. In addition, to clean up actions brought by federal, state and local agencies and private parties, the presence of hazardous substances on a property may lead to claims of personal injury, property damage or other claims by private plaintiffs.

Financing Among Clients. Applicable tax and regulatory considerations may sometimes lead to certain investments being structured in a manner such that a Client (or the entity through which such Client makes an investment) obtains debt financing from (or enters into a

similar transaction with) other Clients. In such cases, the equity interest of such Client is subordinate to such loans and, accordingly, there may be circumstances in which the loans made by the other Clients is repaid in full while such Client is not able to recoup its equity investment or earn an adequate return. These transactions, however, are structured so that the projected return to the equity investment of such Client, after taking into account such borrowings, if obtained, would exceed the return to the other Clients with respect to its loans. The Adviser or an Affiliate will act in the best interests of all Clients in determining the amount of each such investment opportunity to structure as debt, the amount to structure as equity and the terms of any debt instruments. Additionally, the equity and debt holders with respect to an investment may have conflicting interests during the term of a particular investment, especially if the investment is not performing well.

Third-Party Involvement. A Client may co-invest with third parties through partnerships, joint ventures or other entities. Such investments may involve risks in connection with such third party involvement resulting in a negative impact on such investment, including the possibility that a third party co-venturer may have financial difficulties, may have economic or business interests or goals that are inconsistent with those of such Client or may be in a position to take (or block) action in a manner contrary to the Client's investment objective. Third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Though the Advisers consider the effect of such compensation on the expected returns, such compensation arrangements will reduce the returns to participants in the investments and create potential conflicts of interest between such parties and the Clients participating in such investments.

Contingent Liabilities. From time to time a Client may incur contingent liabilities in connection with an investment. For example, a Client may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, such Client would be obligated to fund the amounts due.

Taxes and Derivatives. The regulatory and tax environment for derivative instruments in which a Client may participate is evolving, and changes in the regulation or taxation of such investments may materially adversely affect the ability of such Client to pursue its investment program, the value of the investments held by such Client and such Client's ability to obtain leverage. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. It is impossible to predict whether changes in regulations may occur, but any regulations that restrict the Clients' activities could have a material adverse effect on the Clients' investments. In addition, such regulatory scrutiny may increase the Clients' exposure to potential liabilities and to legal, compliance and other related costs.

European Regulation of Derivatives. In parallel with the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act and other initiatives in the U.S., steps are also being taken to regulate derivatives contracts in the EU. European Union Regulation No. 648/2012 on over-the-counter derivatives, central counterparties and trade repositories (also known as the European Market Infrastructure Regulation, or "EMIR") introduces uniform requirements with respect to derivative contracts. EMIR's requirements include (i) mandatory clearing of over-the-counter derivatives contracts by regulated central clearing counterparties, (ii) the

reporting of over-the-counter derivatives contracts and the reporting of exchange-traded derivatives contracts to regulated trade repositories and (iii) requirements for appropriate procedures and arrangements to measure, monitor and mitigate operational counterparty credit risk with respect to over-the-counter derivatives contracts which are not subject to mandatory clearing. These requirements include the posting and segregation of collateral.

Since EMIR is being implemented in phases by the adoption of delegated acts by the European Commission, not all of which had been proposed or finalized to date, it is difficult to predict the precise impact of EMIR on the Clients.

The EU regulatory framework relating to derivatives is set not only by EMIR but also by the “recast” of the existing Markets in Financial Instruments Directive (“MiFID II”) which has not yet come into effect. In particular, MiFID II will require certain derivatives to be traded on regulated trading venues.

The changes in the regulation of derivatives in Europe may in due course require a Client to revise its operational procedures, employ third-party service providers to effect the new requirements and adversely affect such Client’s ability to adhere to its investment approach and achieve its investment objective.

Necessity for Counterparty Trading Relationships; Counterparty Risk. The Adviser and its Affiliates establish, on behalf of Clients, relationships to obtain financing, derivative intermediation and prime brokerage services that permit such Client to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Adviser or such an Affiliate will be able to maintain such relationships. An inability to maintain such relationships would limit a Client’s trading activities could create losses, preclude such Client from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent such Client from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Adviser or an Affiliate establishes additional relationships could have a significant impact on a Client’s business due to such Client’s reliance on such counterparties.

Some of the markets in which a Client may effect its transactions are over-the-counter or inter-dealer markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of exchange-based markets. This exposes a Client to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing such Client to suffer a loss. In addition, in the case of a default, a Client could become subject to adverse market movements while replacement transactions are executed. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client has concentrated its transactions with a single counterparty or small group of counterparties.

Furthermore, there is a risk that any of a Client’s counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of a Client’s counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the U.S. Bankruptcy Code) or elsewhere,

there exists the risk that the recovery of such Client's securities and other assets from such Client's prime brokers or broker-dealers may be delayed or may be of a value that is less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, a Client may use counterparties located in jurisdictions outside the United States. Such counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to a Client's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on a Client and its assets.

A Client is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, a Client has a limited internal credit function which evaluates the creditworthiness of its counterparties. The ability of a Client to transact business with any one or more counterparties, the lack of complete evaluation of such counterparty's financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a Client.

Central Clearing. In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through a clearinghouse. In the United States, clearing requirements have already been implemented for certain interest rate and credit default swaps. It is expected that the CFTC and the SEC will introduce clearing requirements for other derivatives in the future. Trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, the futures commission merchants ("FCMs"), as well as possible SEC or CFTC mandated margin requirements.

This could affect the Clients in several ways, for instance, when products become more standardized in order to be cleared standardized derivatives may mean that a Client may not be able to hedge risks or express an investment view as well as such Client would using customizable derivatives available in the over-the-counter markets. Second, compared to the over-the-counter derivatives market, the Clients may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the clearinghouse and the FCM. Furthermore, clearinghouses also limit collateral that they will accept in the form of cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments. Clearinghouses may also restrict how a Client margins its positions, which may cause an increase in the costs to such Client. In addition, the clearinghouse margin model is applied across all types of counterparties and there is no analysis of individual counterparty risks. Lastly, although standardized clearing for derivatives is intended to reduce risk (for instance, by reducing counterparty risk), it does not eliminate risk. Rather, standardized clearing transfers risk of default from the over-the-counter derivatives dealer to the central clearinghouse, which may increase systemic risk, potentially more so than a failure by an over-the-counter derivatives counterparty.

Risks of Counterparty Default. The stability and liquidity of repurchase agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. If there is a default by the counterparty to such a transaction, a Client will under most circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of a Client being less than if such Client had not entered into the transaction.

Bank or Broker-Dealer Insolvency. While care is taken in selecting banks and broker-dealers that will maintain custody of certain of the assets of a Client, there is a residual risk that any of such banks or broker-dealers could become insolvent. Additionally, a large percentage of the Clients' assets are held by a limited number of banks and broker-dealers. While most securities and assets deposited with broker-dealers will be clearly identified as being assets of a Client, such Client will be an unsecured creditor with respect to cash balances held with banks and broker-dealers, and hence, such Client may be exposed to a credit risk with regard to such parties.

Risk Arbitrage Trading by a Client Entails Significant Risks. In addition to investing in distressed securities, a Client may invest in risk arbitrage transactions, which are inherently volatile. The short-term performance of a Client's investments therefore may fluctuate significantly.

The price offered for securities of a company in a tender offer, merger or other acquisition transaction will generally be at a significant premium above the market price of the securities prior to the offer. The announcement of such a transaction generally will cause the market price of the securities to begin rising. A Client may purchase such securities after the announcement of the transaction at a price that is higher than the pre-announcement market price, but that is lower than the price at which the Adviser or an Affiliate expects the transaction to be consummated. If the proposed transaction is not consummated, the value of such securities purchased by such Client may decline significantly. It also is possible that the difference between the price paid by a Client for securities and the amount anticipated to be received upon consummation of the proposed transaction may be very small. If a proposed transaction in fact is not consummated or is delayed, the market price of the securities may decline sharply. In addition, where a Client has sold short the securities it anticipates receiving in an exchange offer or merger, such Client may be forced to cover its short position in the market at a higher price than its short sale, with a resulting loss. If a Client has sold short securities which are not the subject of a proposed exchange offer, merger or tender offer and the transaction is consummated, such Client also may be forced to cover its short position at a loss.

In certain proposed takeovers, a Client may determine that the price offered for the securities is likely to be increased, either by the original bidder or by a competing offeror. In such circumstances, such Client may purchase securities at a market price that is above the offer price, incurring the additional risk that the offer price will not be increased or that the offer will be withdrawn. If no transaction ultimately is consummated, it is likely that a substantial loss will occur.

The consummation of an acquisition, merger, tender offer or exchange offer can be prevented or delayed, or the terms changed, by a variety of factors, including (i) the opposition of the management or shareholders of the target company, which may result in litigation to enjoin the proposed transaction, (ii) the intervention of a governmental regulatory agency, (iii) efforts by the target company to pursue a defensive strategy, including a merger with, or a friendly tender offer by, a company other than the offeror, (iv) in the case of an acquisition or merger, the failure to obtain the necessary shareholder (and, in some cases, regulatory) approvals, (v) market conditions resulting in material changes in securities prices, (vi) compliance with any applicable securities laws or (vii) the failure of an acquirer to obtain the necessary financing to consummate the transaction.

In addition to engaging in securities arbitrage activity, a Client may invest and trade in the securities of companies that it believes are undervalued or that may become the target of a takeover. If the anticipated transaction in fact does not occur, or if the securities do not increase in value as anticipated, such Client may sell them at no gain or at a loss.

Uncertain Exit Strategies. Due to the illiquid nature of many of the positions which a Client is expected to acquire, as well as the uncertainties of the reorganization and active management process, the Adviser and its Affiliates are unable to predict with confidence what the exit strategy will ultimately be for any given investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Contribution and Indemnity Agreements. In connection with certain investments participated in by multiple Clients, one or more Clients may be required to provide to third parties guarantees, indemnification or assume certain liabilities associated with such investments (each, a “Liability”). In instances where not every Client participating in such investment is required by such third party to bear its *pro rata* share of such Liability, the Adviser or its Affiliates will cause such other Clients to enter into contribution and indemnification agreements for the benefit of the Clients agreeing to assume such Liability equal to their *pro rata* share of such Liability based on their ownership of the related investment. Although the Clients entering into such contribution and indemnification agreements will have assets in an amount necessary to cover their share of the assumed Liability at the time of entering such contribution and indemnification agreements, such assets may depreciate in value and/or may not be sufficiently liquid to provide prompt contribution to the other Clients in the event an assumed Liability is required to be paid to such third party. If one Client defaults on an obligation under a contribution and indemnification agreement, the other Clients participating in the investment would be responsible, on the *pro rata* basis described above, for the amount of the default.

ITEM 9
DISCIPLINARY INFORMATION

There are no legal or disciplinary events that are material to a Client's (or investor's) or a prospective Client's (or prospective investor's) evaluation of the Adviser's advisory business or the integrity of the Adviser's management.

ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

The Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Advisor Registration Status.

The Adviser is not registered as, and does not have any application to register as, a futures commission merchant, CPO, Commodity Trading Advisor (“CTA”) or an associated person of the foregoing entities, but the CPO Managers have registered as CPOs with the CFTC and have become members of the NFA. Certain management persons of the Adviser are registered as principals and/or associated persons of the CPO Managers. Other Affiliates rely upon the exemption from registration provided pursuant to CFTC Rule 4.13(a)(3).

Certain of the Adviser’s management persons, Stephen Feinberg, William Richter, Andrew Kandel, Jeffrey Lomasky, Mark Neporent, Jonathan Centurino and Scott Stelzer are registered with the NFA as principals, but not associated persons, of each of the CPO Managers. Seth Plattus, another management person of the Adviser, is registered with the NFA as both a principal and an associated person of each of the CPO Managers.

Each of the CPO Managers is a member of the NFA and plans to avail itself of an exemption from certain heightened disclosure and recordkeeping requirements provided by CFTC Regulation 4.7. The CPO Managers’ activities as CPOs enable them to use futures products as part of their investment strategies and do not conflict with the investment advisory business.

C. Material Relationships or Arrangements with Industry Participants and Affiliated Advisers.

Each of the following entities is an Affiliate and serves as the general partner or managing member of a Private Fund as of January 1, 2015:

- Cerberus Asia Associates, L.L.C.
- Cerberus ASRS Credit Opportunities GP, LLC
- Cerberus Associates, L.L.C.
- Cerberus Associates II, L.L.C.
- Cerberus Associates II, Ltd.
- Cerberus AUS Levered Opportunities Master Fund GP, LLC

- Cerberus CMBS Associates, L.L.C.
- Cerberus CMBS-1GP, LLC
- Cerberus EUF 1 GP, LLC
- Cerberus Global Residential Mortgage Associates, Ltd.
- Cerberus ICQ Levered Opportunities GP, LLC
- Cerberus Institutional Associates, L.L.C.
- Cerberus Institutional Associates II, L.L.C.
- Cerberus Institutional Associates, Ltd.
- Cerberus Institutional Associates II, Ltd.
- Cerberus Institutional Associates (America), L.L.C.
- Cerberus Institutional Associates AD, L.L.C.
- Cerberus Institutional Associates AN, L.L.C.
- Cerberus Institutional Associates CDP IC, L.L.C.
- Cerberus Institutional Associates CP, L.L.C.
- Cerberus Institutional Associates CT, L.L.C.
- Cerberus Institutional Associates HH, L.L.C.
- Cerberus Institutional Associates MA, L.L.C.
- Cerberus Institutional Associates OT, L.L.C.
- Cerberus Institutional Associates PW, L.L.C.
- Cerberus Institutional Associates SC, L.L.C.
- Cerberus Institutional Associates SMRS, L.L.C.
- Cerberus Institutional International Associates, L.L.C.
- Cerberus KRS Levered Opportunities GP, LLC
- Cerberus Levered Opportunities GP, LLC

- Cerberus Levered Opportunities II GP, LLC
- Cerberus Levered Opportunities Master Fund GP, LLC
- Cerberus Levered Opportunities Master Fund II GP, LLC
- Cerberus MG GP, LLC
- Cerberus NJ Credit Opportunities GP, LLC
- Cerberus PEM GP, LLC
- Cerberus Real Estate GP, L.L.C.
- Cerberus Real Estate GP III, L.L.C.
- Cerberus RMBS Associates II, Ltd.
- Cerberus RMBS Associates III, L.L.C.
- Cerberus Siguler Guff GP, LLC
- Cerberus SWC Levered Opportunities GP, LLC
- Styx Associates LLC

One Affiliate, Cerberus Sub-Advisory I, LLC, serves as the sub-adviser to (i) two funds registered as investment companies with the SEC under the 1940 Act; and (ii) a fund authorized by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011, as amended. Although separately registered as an investment adviser with the SEC, Cerberus Sub-Advisory I, LLC is effectively part of the single advisory business of the Adviser.

Several Affiliates currently serve as management companies to the Private Funds and provide certain administrative and managerial services to the Private Funds.

In addition to the above affiliated general partners, investment managers and management companies, the Adviser retains and provides compensation to the following affiliated advisers:

- Cerberus Japan K.K., a Tokyo-based affiliate;
- Cerberus Asia Pacific Advisors Limited, a Hong Kong-based affiliate;
- Cerberus Beijing Advisors Limited, a Beijing-based affiliate;
- Cerberus Deutschland Beteiligungsberatung GmbH, a Frankfurt-based affiliate;

- Cerberus European Capital Advisors, LLP, a London-based affiliate which is registered with the U.K. Financial Conduct Authority;
- Cerberus Iberia Advisors, S.L., a Madrid-based affiliate; and
- Cerberus Global Investment Advisors, LLC, an affiliate with offices in New York and Baarn, The Netherlands.

Certain affiliated Advisers provide advice on Asian, European and other non-U.S. investment opportunities.

It is expected that, for legal, regulatory and tax reasons, most non-U.S. investments made by the Advisers, on behalf of the Clients, will be structured through investment vehicles established in the Netherlands (the “Dutch Companies”). The Dutch office in Baarn includes resident Dutch directors (the “Dutch Directors”) that make investment and disposition decisions, in conjunction with the Adviser’s New York office, with respect to a significant portion of the Clients’ non-U.S. investments. The costs and expenses of the Dutch Directors and the Dutch Companies generally are borne by the Private Funds. The expenses related to the Dutch Companies that are borne by the Private Funds (the “Dutch Company Related Expenses”) include all expenses associated with the formation, organization, structure, administration, operation, accounting and reporting with respect to the Dutch Companies and their investments, and include, among other things, the costs of all Cerberus employees working in the Netherlands who devote their time to the formation, organization, structure, administration, operation, accounting and reporting of the Dutch Companies and their investments.

With respect to U.S. investment opportunities, the Adviser retains and provides compensation to the following affiliated Advisers: (i) Cerberus California, LLC, a Los Angeles-based affiliate; and (ii) Cerberus Capital Chicago LLC, a Chicago-based affiliate.

For a complete list of all related advisers of the Adviser, see Section 7.A. of Schedule D to the Advisers’ Form ADV Part 1.

Cerberus Operations and Advisory Companies

The Adviser established (i) Cerberus Operations and Advisory Company, LLC, a New York and Chicago-based affiliate (“Cerberus U.S. Operations”), (ii) Cerberus Asia Operations and Advisory Limited, a Hong-Kong-based affiliate (“Cerberus Asia Operations”) and (iii) Cerberus UK Operations and Advisory Company, LLC, a London-based affiliate (“Cerberus U.K. Operations”, and, together with Cerberus U.S. Operations and Cerberus Asia Operations, “Cerberus Operations”) to employ a team of operating advisers for the purpose of providing services to the Private Funds as well as their portfolio companies.

Cerberus Operations employs operating executives and other personnel to (i) support the Advisers’ investment teams with respect to, among other things, diligencing proposed investments and/or transactions and (ii) support the Private Funds’ portfolio companies with respect to all aspects of their operations. The Private Funds and/or their portfolio companies

reimburse Cerberus Operations (or any other Affiliate) for the cost of providing such services as described below. The entities comprising Cerberus Operations operate substantially as payroll companies on an at-cost or near-cost basis.

To the extent that a team member of Cerberus Operations or another Affiliate is (i) primarily involved in due diligence for a proposed investment or transaction, (ii) actively working at or with one or more of the Private Funds' portfolio companies as an operating executive or consultant, (iii) providing material assistance to the management of one or more of the portfolio companies or (iv) providing material assistance to the Private Funds in connection with the surveillance and monitoring of one or more investments, the cost of such person is generally borne by the Private Funds invested in the relevant investment or transaction (or, in the case of an investment that is not consummated, by the Private Funds that would have been allocated the proposed investment or transaction, where applicable) or directly by the relevant portfolio company. To the extent that a team member of Cerberus Operations or another Affiliate performs both services payable by the Private Funds and services payable by the Advisers, such costs are allocated among the Private Funds and the Advisers in proportion to the percentage of time spent by the team member of Cerberus Operations or another Affiliate with respect to such services. Each Private Fund will provide reporting regarding the expenses of Cerberus Operations borne by such Private Fund.

Employees of the Adviser, including Cerberus Operations team members, serve as directors and/or officers of portfolio companies of one or more Clients. Accordingly, such employees and team members may have a conflict where their fiduciary duty to the portfolio company may conflict with their fiduciary duty to a Client. In such circumstances, any such employee or team member will act in accordance with his or her fiduciary duty to the portfolio company rather than any fiduciary duty such person may have to a Client.

In addition, certain directors, officers or employees of portfolio companies may (i) be co-investors with a Client, (ii) have affiliations with third parties who provide professional or other services to a Client's other portfolio companies, that Client, portfolio companies of other Clients or other Clients or (iii) have other business relationships or affiliations with the Advisers. In instances where the Advisers, on behalf of the Clients, appoint or retain (or influence the appointment or retention of) such directors, officers or employees, the Advisers will make determinations with respect to the qualifications and appropriateness of such persons in their sole discretion.

Engagement of Third-Party Consultants and Service Providers

In managing Clients' assets, businesses and operations, the Adviser may engage third-party service providers, including underwriters, investment banks and other consultants and agents, and including through Portfolio Consulting and Advisory Company, LLC, as described below. Any such third parties will be engaged based on a variety of factors as set forth the Adviser's compliance policies, including the perceived quality of service, expertise, reputation and the ability to provide future services to the Clients.

The Adviser has established Portfolio Consulting and Advisory Company, LLC ("PCAC"), a New York and London-based affiliate, to retain the services of one or more such third-party

consultants, advisors or other entities. Such consultants, advisors and other entities generally are engaged to, among other things, assist the Private Funds and their portfolio companies in sourcing investment and transaction opportunities, facilitate and structure transactions, perform due diligence and provide such other services that may from time to time be requested by the Adviser and the Private Funds (or their portfolio companies). All costs and expenses associated with such third parties will be borne by the Private Funds and/or the portfolio companies for whom such third parties were retained or engaged.

Retention of such third party consultants, advisors or other entities is made in the sole discretion of the Adviser. Such persons or entities generally do not work exclusively for the Adviser or the Clients. Such persons or entities may be subject to conflicts of interests resulting from a number of situations, including, but not limited to, conflicts resulting from affiliations with or engagements by entities unaffiliated with the Adviser and the Clients. The Adviser is not always aware of conflicts arising in connection with its consultants and advisors. In the instances where the Adviser is aware of such conflicts, however, it will use reasonable efforts to ensure that such conflicts are minimized in an appropriate manner to the extent reasonably practicable.

In addition, certain other Affiliates (whether now existing or hereafter created) may be engaged by, or on behalf of, the portfolio companies of the Private Funds, as a consultant, agent or in a similar role and may receive fees, or be reimbursed for such expenses, in connection with such services (*e.g.*, Yamato and Cerberus Operations). Except for Cerberus Operations, which is paid on an at-cost or near-cost basis, these engagements likely will be based on a variety of factors, including perceived quality of service, expertise and reputation, and generally will be priced on customary market terms, which will be at least as favorable to such portfolio company as are generally obtainable on an arm's-length basis from unrelated third parties and will provide for compensation to such Affiliate that is competitive with the compensation paid to third parties for comparable services which could reasonably be made available to such portfolio company.

Affiliated Service Providers

Certain Private Funds engage Cerberus European Servicing, Ltd. ("Cerberus European Servicing"), a U.K.-based company owned by the Adviser with offices in London, England and Belfast, Northern Ireland to oversee loan servicing activities and provide asset management advice and due diligence services in respect of European assets and loan portfolios. Cerberus European Servicing will oversee other third-party servicers and asset managers that will be servicing the European assets and loan portfolios of certain Private Funds. In addition, the Adviser has retained Haya Real Estate, S.L.U., Laformata Servicios y Gestiones, S.L.U., Gesnova Gestion Inmobiliaria, S.L., Hipoges Iberia S.L. and Reser, Subastas y Servicios Inmobiliarios, S.A. (and other servicers that may be acquired in the future, the "European Portfolio Company Servicers"), each of which are portfolio companies of several of the Private Funds, to provide loan servicing, diligence, reporting and related services in respect of the Private Funds' European assets and loan portfolios. In addition, certain Private Funds engage Yamato Servicing K.K. ("Yamato"), a Tokyo-based company owned by Affiliates, to provide loan servicing, asset management and due diligence services in respect of Japanese assets and loan portfolios.

The Adviser may also engage in similar arrangements with other affiliated entities (whether now existing or hereafter created) in order to facilitate loan servicing, management, due diligence and related businesses in one or more other geographic areas, or for one or more other purposes or services, subject to the restrictions set forth in the Client's organizational documents and/or investment management agreement.

Certain Private Funds also engage one or more of First Key Mortgage, LLC ("FirstKey Mortgage"), FirstKey Lending, LLC ("FirstKey Lending"), Towd Point Loan Servicing ("Towd Point") and/or one or more other related entities (collectively, with FirstKey Mortgage, FirstKey Lending and Towd Point, "FirstKey") to provide services to such Private Funds with respect to their mortgage businesses and assets. FirstKey is a multi-faceted real estate loan origination, servicing and operating platform consisting of mortgage origination and specialty finance businesses in the residential mortgage space and is owned by one or more of the Private Funds.

FirstKey Mortgage is a licensed residential lender and servicer that makes mortgage loans directly to homeowners and purchasers and also purchases existing residential loans from other mortgage lenders. FirstKey Lending is a licensed commercial real estate lender that (i) offers financing to investors of tenant-occupied residential properties and (ii) originates small and large balance commercial real estate loans and provides other financing on asset-backed basis. Towd Point is a licensed residential mortgage servicer. FirstKey Mortgage and Towd Point intend to acquire servicing rights to Fannie Mae, Ginnie Mae and Freddie Mac conforming loans and Federal Housing Administration-insured and U.S. Department of Veterans Affairs-guaranteed loans.

FirstKey provides sourcing services to certain Private Funds to identify mortgage-related assets and facilitate the acquisition of such assets through (i) diligencing the target assets the Private Fund is seeking to purchase or sell, (ii) negotiating the terms of purchase or sale with the Private Fund's counterparties and (iii) closing the purchase or sale. It is also anticipated that FirstKey will provide certain loan servicing and asset management services in respect of certain Private Funds' mortgage-related and asset-backed businesses and assets and will oversee other third-party mortgage servicers that will be servicing such assets. FirstKey may also sell certain Clients investor mortgage loans or other residential or commercial loan products that FirstKey originates or acquires through its investor mortgage loan conduit or through its commercial loan origination channels. In addition, one or more FirstKey affiliates may serve as a securitization conduit for the mortgage assets of certain Private Funds, whereby such Private Funds may sell FirstKey certain mortgage loans to be packaged together by FirstKey and, in connection therewith, such Private Funds may also retain a tranche of such mortgage loans. In all instances, the Adviser will seek to ensure transactions are effected at market prices and the terms of the transactions between a Private Fund and FirstKey will contain terms at least as favorable to the Private Fund as are generally obtainable on an arm's-length basis from unrelated third parties which could reasonably be made available to the Private Fund.

The FirstKey entities are owned by one or more of the Clients. The fact that FirstKey is owned by one or more of the Clients and provides services for market rate compensation to one or more of the Clients that do not own FirstKey, creates a variety of potential and actual

conflict situations. Each such conflict situation is carefully evaluated by the Cerberus Compliance and Risk Management Committee to ensure that all necessary and proper procedures are implemented so that the transactions between FirstKey and one or more of the Clients are fair and appropriate to, and in the best interests of, each of the parties thereto.

The arrangement between a Private Fund, on the one hand, and Cerberus European Servicing, a European Portfolio Company Servicer, Yamato or FirstKey, on the other, contains terms at least as favorable to the Private Fund as are generally obtainable on an arm's-length basis from unrelated third parties and provides for compensation to Cerberus European Servicing, such European Portfolio Company Servicer, Yamato or FirstKey, as applicable, that is competitive with the compensation paid to third parties for comparable services which could reasonably be made available to the Private Fund. The fees paid to Cerberus European Servicing, a European Portfolio Company Servicer, Yamato or FirstKey, as applicable, in respect of services provided to a Private Fund and its portfolio investments will be borne by the Private Fund.

Allocation of Resources

Allocation of third-party consultants and other Adviser resources, including personnel, employees and consultants of Cerberus Operations and similar resources, among Clients will be made in the sole discretion of the Adviser and its Affiliates.

As discussed above, many Cerberus Operations team members work exclusively for the Adviser, but some members may not be exclusively engaged by the Adviser and may be subject to conflicts of interest resulting from a number of situations, including, but not limited to, conflicts resulting from affiliations with or engagements by entities unaffiliated with the Adviser and the Clients. The Adviser is not always aware of conflicts arising in connection with members or employees of Cerberus Operations. Whenever the Adviser is aware of such conflicts, however, it will use reasonable efforts to ensure that such conflicts are minimized in an appropriate manner to the extent practicable in its discretion.

In addition, as discussed above, third-party consultants generally do not work exclusively for the Adviser or Clients and may be subject to conflicts of interests resulting from a number of situations, including, but not limited to, conflicts resulting from affiliations with or engagements by entities unaffiliated with the Adviser and the Clients. The Adviser is not always aware of conflicts arising in connection with such consultants and advisors. Whenever the Adviser is aware of such conflicts, however, it will use reasonable efforts to ensure that such conflicts are minimized in an appropriate manner to the extent reasonably practicable.

Additional Investment Rights Obtained in Connection with Clients' Investments and Benefits Resulting from Portfolio Company Information and/or Other Investments

The Adviser may seek to obtain future investment rights (including co-investment rights, rights of first offer, rights of first refusal, participation rights or similar rights) in connection with investments made by the Clients to provide further investment opportunities. The Adviser generally intends to allocate these opportunities in accordance with the Allocation

Policy, as opposed to allocating such opportunities in proportion to the amount invested in the investment that generated such investment rights. Accordingly, an investment that one or more Clients make, may produce future investment rights for a number of different Clients, including Clients that may not have participated in the original investment. A Client may participate in an investment that produces investment rights that do not benefit such Client (e.g., if an investment opportunity is not appropriate for such Client) or that may not benefit such Client in proportion to the amount invested in the investment that provided such investment rights. Conversely, a Client may benefit from investment rights provided by investments made by the other Clients in which such Client does not participate.

From time to time, one or more of the Clients may acquire portfolio companies, make investments or otherwise enter into transactions that provide information, knowledge and insight to the Adviser that may benefit the Clients participating therein and may, in the future, provide certain benefits to other Clients that have not participated in the acquisition, investment or transaction. For example, certain Clients may acquire an operating business that provides the Adviser with industry, sector or other information, knowledge and/or insight that the Adviser may then use in connection with its future investment activities on behalf of the Clients, including on behalf of Clients that do not have any interest in the acquired operating business that is the source of such information.

Ancillary Fees

The management fees payable by the Clients generally will be reduced, but not below zero, dollar-for-dollar by a *pro rata* portion of the amount, if any, of any transaction fees, break-up fees, commitment fees, underwriting fees, amendment fees, waiver fees, modification fees, monitoring or management fees, directors' fees, consulting fees, advisory fees, closing fees and similar fees, payments or compensation (whether in the form of cash, options, warrants, stock or otherwise) ("Transaction Fees") received and retained by the Adviser or its Affiliates from any third parties in connection with investments of the Clients (the "Fee Offset Amounts"); provided, however, that for the avoidance of any doubt, in no event will there be any reduction to the management fees payable by a Client in respect of the following:

- (i) any fees and expenses of Affiliates engaged to provide services by or on behalf of the Client as described in Item 10, "Material Relationships or Arrangements with Industry Participants and Affiliated Advisers – Affiliated Service Providers"; and
- (ii) any management fees or other asset-based or commitment-based compensation, incentive or performance allocations or distributions or fees or other performance-based compensation, or Transaction Fees or similar fees paid by or received in respect of any other Client or co-investor party or vehicle.

For purposes of the Fee Offset Amounts described above, a Client's "*pro rata* portion" of Transaction Fees will be determined with regard to each Client's participation (or, with

respect to break-up fees, anticipated participation) in the investment to which such fees relate.

Fee Offset Amounts received in any calendar quarter will reduce the management fees for the following quarter as set forth above. If the Fee Offset Amounts exceed the management fees to be paid for a given quarter, such excess amounts will be carried forward to one or more subsequent quarterly periods and applied to reduce the future payments of the management fee in such future quarters until such excess amounts have been fully offset. Generally, Fee Offset Amounts will not be applied to reduce any previously paid management fee amounts and if such fees are greater than the aggregate amount of future management fees that would otherwise be payable to the Adviser and its Affiliates, the Adviser and its Affiliates may receive more income than they otherwise would have received from Clients.

For purposes of calculating the Fee Offset Amount, any compensation received in a form other than cash will be deemed earned and paid, and will be valued in good faith by the Advisers, at one of the following dates, as set forth in the relevant Client's private placement memorandum or as set forth in such Client's organizational documents and/or as set forth in the investment management agreement with such Client: (i) the date of the disposition of such non-cash compensation, in which case the value of such non-cash fees will be equal to the net proceeds received by the Advisers in connection with such disposition; (ii) the date of the disposition of the underlying investment in connection with which such non-cash compensation was received; (iii) the date of dissolution of a Private Fund; or (iv) a specified anniversary date of the receipt of such non-cash compensation.

Management fees, incentive fees, incentive allocations and performance distributions received by the Advisers from co-investors, as well as any Transaction Fees or other fees in connection with such co-investors or their respective co-investments, generally are not shared by the Advisers with any Clients, will not be part of the Fee Offset Amounts, and typically will not reduce any management fees to be received by the Advisers from any of the Clients.

Management of Multiple Clients

As indicated above, the Adviser and its Affiliates manage a number of Clients, some of which have or are expected to have investment programs that are similar and/or overlap. The organizational documents and investment management agreements of Clients generally do not curtail the Adviser's or its Affiliates' ability to create successor funds to the Adviser's or its Affiliates' other existing platforms, as well as separate accounts or other investment funds or vehicles relating or complementary to the Adviser's or its Affiliates' other existing platforms or new investment strategies and platforms. In addition, the Adviser or its Affiliates may in the future establish, sponsor and/or otherwise become affiliated with other pooled investment vehicles, companies, investors and accounts that have investment programs that are similar to and/or overlap with the investment programs of its current Clients or that may engage in the same or similar business as such current Clients using the same or similar investment and/or business strategies. For example, the Adviser could establish a fund that focuses on investing in a single industry or geographic region or of a certain investment type, such as European NPLs or MBS, which could invest side-by-side with an existing Client in deals in that industry or geographic region or of that investment

type. The Adviser anticipates that new pooled investment vehicles (or additional classes or series of interests in its current Clients), single-investor funds and/or managed accounts, each with investment programs that are similar to and/or overlap with the investment programs of current Clients, will be created in the future.

Each of the Adviser and its Affiliates will devote so much of its time, and the Adviser and its Affiliates will allocate so much of the time and resources of the Cerberus Operations team members, to the affairs of each Client as in their judgment the conduct of each Client's business reasonably requires, and none of the Adviser or its Affiliates will be obligated to do or perform any act or thing in connection with the business of any Client not expressly set forth in such Client's governing documents. Generally, the Adviser and its Affiliates exercise investment responsibility on behalf of, or directly or indirectly purchases, sells, holds or otherwise deals with, any portfolio investment for the account of multiple Clients and multiple businesses. No Client will and no investor will, by reason of being an investor in a Client, have any right to participate in any manner in any profits or income earned or derived by or accruing to the Adviser or its Affiliates from the conduct of any business other than the business of such Client or from any transaction in investments effected by the Adviser or its Affiliates for any account other than that of such Client.

As a result of the foregoing, the Advisers and their personnel may have conflicts of interest in allocating their time and resources among Clients, in allocating investments among Clients and other entities, and in effecting transactions among Clients and other entities, including ones in which the Advisers or their personnel may have a financial interest. Accordingly, each of the Advisers will devote so much of their time and will allocate the time and resources of their operations team to their Clients as in their judgment the conduct of each Client's account reasonably requires.

Acquisitions by Portfolio Companies

Certain investment opportunities may be suitable acquisitions by a Client and by the portfolio companies of such Client or other Clients. If the Adviser believes, in its discretion, that an investment opportunity is better suited for acquisition by a portfolio company than by Clients, the Adviser may offer such investment opportunity to the portfolio company. As a result, a Client may not participate in such opportunity if such portfolio company is not a portfolio investment of such Client, or may be indirectly participating in such opportunity in a different percentage than if such investment opportunity was acquired by such Client and/or other Clients directly. The Adviser generally seeks to have portfolio companies invest in investment opportunities that provide synergies to their existing businesses and assist in the overall profitability of such portfolio companies.

Co-Investment Opportunities

The Adviser and its Affiliates may, from time to time, offer certain investors or Clients the right or opportunity to co-invest with other Clients in certain portfolio investments. The Adviser and its Affiliates are generally not obligated to arrange co-investment opportunities for all investors in a Client or all Clients, and investors and Clients generally will not be entitled or have any right to participate in such an opportunity solely by reason of being a

Client or an investor in a Client. The Adviser's decision to offer (or not offer) co-investment opportunities to any investor generally will be made in its sole discretion, and the Adviser and its Affiliates may allocate co-investment opportunities instead to investors in other Clients or to third parties. The Adviser or its Affiliates may receive fees and/or allocations from co-investors, which may differ as among co-investors and also may differ from the fees and/or allocations borne by Clients.

The Adviser and its Affiliates generally may offer such opportunities in instances in which the amount available for investment exceeds the amount the Adviser and its Affiliates believe should be invested by Clients. The Adviser and its Affiliates may also offer co-investment opportunities to other persons or entities (including Clients' portfolio companies) based on a number of factors, including, but not limited to (i) the extent by which the size of the transaction exceeds the amount the Adviser and its Affiliates believe should be invested by Clients, (ii) the ability of such persons or entities to generate future investment opportunities or provide other benefits to Clients and/or (iii) the ability of such persons or entities to provide analytical and market advice or other expertise that may be valuable to Clients. The Adviser may, from time to time, permit members of the Cerberus Operations team to co-invest in an investment involving their assistance.

Financing with Other Affiliated Funds

Applicable tax and regulatory considerations may sometimes lead to certain investments being structured in a manner such that a Client (or an entity through which a Client makes an investment) obtains debt financing from (or enters into a similar transaction with) other Clients or other entities affiliated with such Client or the Adviser. In such cases, the equity interest of such Client is subordinate to such loans and, accordingly, there may be circumstances in which the loans made by the other Clients are repaid in full while such Client is not able to recoup its equity investment or earn an adequate return. These transactions, however, are generally structured so that the projected return to the equity investment of such Client, after taking into account such borrowings, if obtained, would exceed the return to the other Clients with respect to their loans. The Advisers and their Affiliates will act in the best interests of all Clients, in their good faith discretion, in determining the amount of each such investment opportunity to structure as debt, the amount to structure as equity and the terms of any debt instruments.

The equity holders and debt holders of a particular investment may have conflicting interests during the term of such an investment, especially if the investment is underperforming. In such circumstances, the Adviser and its Affiliates will seek to ensure that all procedures that are necessary and proper, in its discretion, are implemented so that the interests of each Client are protected and that all such transactions are fair and appropriate to, and in the best interests of, each of the parties thereto.

Transactions Among Portfolio Companies

Client investments may include controlling interests in portfolio companies. To seek to enhance the value of such companies, the Adviser and its Affiliates may seek to cause a portfolio company to (i) do business with another company owned by Clients (an "Affiliate Company"), (ii) lend or borrow from an Affiliate Company, (iii) enter into joint ventures with

an Affiliate Company or (iv) buy or sell an interest (including a controlling interest) in, or to, an Affiliate Company. A Client may have no interest in the Affiliate Company with which its portfolio company is doing business or engaging in any of the transactions described above. Alternatively, a Client may have divergent interests in various portfolio companies doing business or engaging in any of the transactions described above. The Adviser and its Affiliates will seek to enter into transactions among portfolio companies owned by Clients where they believe that such transactions enhance the value of all such portfolio companies to the benefit of Clients and their investors. However, there can be no assurance that such transactions will benefit a Client's portfolio companies, and such transactions may result in benefits solely to a portfolio company in which a Client has no interest.

Transactions with Portfolio Companies

A Client may retain portfolio companies of Clients, including portfolio companies that are held by such Client and portfolio companies that are not held by such Client, to perform certain services for such Client. In addition, other Clients may retain a portfolio company held by such Client to perform certain services for such other Clients. A Client also may enter into other transactions with portfolio companies of Clients in which such Client may or may not have an interest (*e.g.*, to the extent consistent with the investment program of such Client, purchasing securities or MSRs or other assets from, selling securities or MSRs or other assets to, or entering into financing or other transactions with, such portfolio companies (both on an agency and principal basis)), subject to any limitations contained in, or approvals required by, the Client's organizational documents and investment management agreement. For example, FirstKey entities that are owned by one or more of the Clients are expected to provide a range of services to Clients with respect to their mortgage-related and asset-backed businesses and assets, and may also sell Clients investor mortgage loans or other residential or commercial loan products that FirstKey originates or acquires through its investor mortgage loan conduit, as described in Item 10, "Material Relationships or Arrangements with Industry Participants and Affiliated Advisers – Affiliated Service Providers".

To the extent that Clients utilize the services of a portfolio company or participate in any such transactions in a percentage that is different than their ownership of the portfolio company (if any), other Clients may receive a larger or smaller proportional benefit with respect to the revenue generated by the portfolio company from such transactions.

The Adviser and its Affiliates will seek to ensure that any such transactions are effected at market prices, the terms of the transactions and arrangements will contain terms at least as favorable to Clients as are generally obtainable on an arm's-length basis from unrelated third parties and will provide for compensation that is competitive with the compensation paid to third parties for comparable services which could reasonably be made available to the Client. The Adviser and its Affiliates may from time to time seek approval from a Client's advisory board for any such transaction or service arrangement, but is generally not required to do so.

Conflicts Among Clients Relating to Different Investments in the Capital Structure of Portfolio Companies, Issuers and Borrowers

Clients may invest in different layers of the capital structure of a portfolio company, issuer or borrower. For example, a Client (i) may own debt of a portfolio company, issuer or borrower while another Client owns equity in the same portfolio company, issuer or borrower, (ii) may own debt of a portfolio company, issuer or borrower while another Client owns a different tranche or other class or issue of debt of the same portfolio company, issuer or borrower and/or (iii) may own equity of a portfolio company, issuer or borrower while another Client owns a different equity security of the same portfolio company, issuer or borrower. Furthermore, a Client may participate in debt originated to finance the acquisition by other Clients of an equity or other interest in a portfolio company, issuer or borrower. To the extent a reorganization or other major corporate event occurs with respect to such portfolio company, issuer or borrower, conflicts may exist between such Client and other Clients. The Adviser will seek to resolve such conflicts of interest in a fair and equitable manner.

A Client may also invest in portfolio companies or other assets in which other Clients already have an investment. A Client may provide follow-on funding for a portfolio company, which may benefit both such Client and other Clients. Such Client will not make such an investment unless the Adviser or its Affiliates believe the investment fits within such Client's investment program. Additionally, another Client may invest in a portfolio company in which a Client has a pre-existing investment. There can be no assurance that a Client will wish to make such follow-on investment or have available capital to do so, and the inability to make such follow-on investment may result in dilution of such Client's investment in the portfolio company.

To address these potential conflicts of interests in its material relationships, the Adviser has adopted policies and procedures, including a Code of Ethics and Business Conduct and the Allocation Policy. For a more detailed discussion of the Adviser's Code of Ethics and Business Conduct and its allocations and conflicts of interest policies, please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," below.

D. Material Conflicts of Interest Relating to Other Investment Advisers.

Two of the Clients currently have legacy investments in other investment advisers. These investments represent less than 0.025% of the Adviser's assets under management.

ITEM 11
CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS
AND PERSONAL TRADING

A. Code of Ethics.

The Advisers have implemented a personal securities trading policy, which is incorporated by reference to the Advisers' Code of Ethics and Business Conduct (the "Code of Ethics"), that prohibits employees from engaging in transactions with respect to the securities of any issuer, public or private, subject to certain limited exceptions. One of the exceptions to the prohibition on personal trading of certain types of securities (generally, governmental securities, money market instruments, money market funds, open-end mutual funds, exchange-traded funds and unit investment trusts) where employees do not have any opportunity to benefit from any of the private, proprietary or confidential information of the Advisers or the Clients. In addition, employees may transact in exchange-traded funds and participate in private investments upon advance written notice to and written approval from the Securities Compliance Committee of the Advisers. Consistent with the foregoing policies, it is possible that employees of the Advisers will purchase or sell securities or other instruments of the type or kind of securities or other instruments also purchased and sold for Clients.

The Advisers are committed to the highest standards of ethical conduct. In furtherance thereof, the Advisers' Code of Ethics designates a Compliance & Risk Management Committee (the "Compliance & Risk Management Committee") charged with the implementation of the Code of Ethics. The Code of Ethics specifies and prohibits certain types of transactions deemed to create actual conflicts of interest, the potential for conflicts or the appearance of conflicts, and establishes general guidelines for the conduct of the Advisers' personnel as well as clearance and/or reporting requirements and enforcement procedures.

In recognition of the trust and confidence placed in the Advisers by the investors in the Private Funds, and by managed accounts, and to give effect to the Advisers' belief that their operations should be directed to the benefit of the Clients, the Advisers adopted the following general principles to guide the actions of their employees:

- (i) The interests of the Clients are paramount. All employees must conduct themselves and their operations to give maximum effect to this tenet by assiduously placing the interests of the Clients before their own.
- (ii) All permitted personal transactions in securities by employees must be accomplished so as to avoid the appearance of a conflict of interest on the part of such personnel with the interests of the Clients.
- (iii) All employees must avoid actions or activities that allow a person to profit or benefit from his or her position with respect to the Clients or that otherwise improperly bring into question the person's independence or judgment.

- (iv) All employees must report any violation(s) of the Code of Ethics or inappropriate conduct to the Compliance & Risk Management Committee.
- (v) All employees must comply with all applicable laws, rules and regulations, including Federal securities law.

The Advisers require that all Adviser personnel avoid any relationship or activity that might impair, or even appear to impair, such individual's ability to make objective and fair decisions when performing job functions. The Code of Ethics prohibits Adviser personnel from using Adviser property or information for personal gain or personally taking for themselves any opportunity that is discovered through their Adviser position. The Code of Ethics further requires that employees disclose any situation, including situations pertaining to the employee's family members, which reasonably could be expected to give rise to a conflict of interest. The Code of Ethics also contains general prohibitions against fraud, deceit and manipulation, as well as additional restrictions and requirements regarding gifts, entertainment and outside activities.

The Advisers have adopted a Securities Compliance Policy and have designated a Securities Compliance Committee charged with the implementation of such Policy. The Securities Compliance Policy sets forth, among other things, policies and procedures regarding material nonpublic information and proprietary Adviser information, and employee accounts and trading. The policies and procedures contained in the Securities Compliance Policy are designed to (i) provide for the proper handling of both material nonpublic information about companies or other issuers and proprietary information of the Advisers, (ii) prevent violations of laws and regulations prohibiting the misuse of material nonpublic information about companies or other issuers and/or proprietary information of the Advisers and (iii) avoid situations that might create an appearance that material nonpublic information about companies or other issuers or proprietary information of the Advisers has been misused. In furtherance thereof, the Securities Compliance Policy prohibits employees from misusing material nonpublic information and/or nonpublic proprietary information, and sets forth general and specific procedures to restrict the flow of material nonpublic information from employees performing investment, transactional, lending, finance, private research and/or private analysis activities at the Advisers to employees responsible for or involved in the securities trading activities of the Advisers.

Notwithstanding the internal screening procedures set forth in the Securities Compliance Policy, there may be certain instances where the Advisers receive material nonpublic information due to their various activities on behalf of the Clients and are restricted from purchasing or selling securities or other instruments for the Clients. The Advisers seek to minimize those cases whenever possible, consistent with applicable law and the Securities Compliance Policy, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

The Securities Compliance Policy is incorporated by reference to the Code of Ethics. The Adviser will provide a copy of the Code of Ethics to any Client or investor in a Private Fund or prospective client or investor in a Private Fund upon request.

Adviser personnel are required to certify to their compliance with the Code of Ethics, including the Securities Compliance Policy, on an annual basis.

Subject to applicable regulatory restrictions, certain employees of the Adviser and its Affiliates may be permitted to invest directly or indirectly in the Private Funds. Such investors may be in possession of information relating to the Private Funds that is not available to other investors and prospective investors. It is expected that, if such investments are made, the size and nature of these investments will change over time without notice to investors and it is possible that such employees may withdraw on the basis of information that is not available to the other investors and prospective investors. Investments by the senior management and key employees of the Adviser and its Affiliates in the Private Funds could incentivize such employees to increase or decrease the risk profile of such Private Funds.

B. Securities That the Adviser or a Related Person Has a Material Financial Interest.

A Client may (i) make a loan to, (ii) purchase a security or other instrument or asset (including participations in loans or other investments) from, (iii) sell a security, instrument or other asset (including participations in loans or other investments) to or (iv) otherwise engage in cross-trades with another Client; provided that, with respect to certain Clients and certain material transactions described in such Client's organizational documents, the Adviser receives approval to do so from such Client's advisory board or other committee.

Notwithstanding the foregoing, and subject to the Client's organizational documents, such advisory board approval is generally not required with respect to (i) any loan to, (ii) purchase of a security or other instrument or asset from or (iii) sale of a security or other instrument or asset to an Affiliate or another Client if such transaction (x) is between the Client and any special purpose vehicle or alternative investment vehicle (provided that the Adviser believes in good faith that such transaction does not present a conflict of interest), (y) is an allocation adjustment effected at cost plus a use of funds charge made in accordance with the Allocation Policy (including, for example, a final allocation of an investment made within 45 days of the date of origination or acquisition) or (z) is made for tax or regulatory purposes. For the avoidance of doubt, any transaction with a portfolio company of any Clients that is effected in compliance with law, at market prices and on terms at least as favorable to such Clients as are generally obtainable on an arm's-length basis from unrelated third parties for transactions of such nature, shall not be deemed a material transaction with another Client that requires the approval of such advisory board.

The Adviser has implemented policies and procedures to ensure that any cross trades and principal transactions must be, in the reasonable determination of the Adviser, in the best interests of each Client participating therein. Such transactions will be executed at market price (or fair value), measured in accordance with the Adviser's valuation policies and procedures, and will comply with all fiduciary requirements and any legal or other requirements established by the Adviser for the benefit of each of the Clients which participate in such transaction. The Adviser will receive no transaction-based compensation

in connection with cross trades (other than the management fees and incentive allocations/fees otherwise payable by the Clients participating in such transaction).

Clients' assets and liabilities are valued in accordance with the Adviser's valuation policy and procedures. In making valuation determinations, the Adviser and its Affiliates may be deemed subject to a conflict of interest, especially with respect to illiquid assets and securities, as the valuation of such assets and liabilities may affect the compensation of certain employees of the Adviser and its Affiliates. There is no guarantee that the value determined with respect to a particular asset or liability by the Adviser and its Affiliates will represent the value that will be realized by the Client on the eventual disposition of the related investment or that would, in fact, be realized upon an immediate disposition of the investment.

Pursuant to organizational documents of certain Clients, the Adviser is authorized, on behalf of the investors, to select one or more persons, who shall not be an Affiliate of the Adviser, to serve on a committee, the purpose of which is to consider and, on behalf of the investors, approve or disapprove, to the extent required by applicable law or deemed advisable by the Adviser, principal transactions, certain other related-party transactions and certain other transactions and matters. The person(s) so selected may be exculpated and indemnified by such Client in the same manner and to the same extent as the Adviser is so exculpated and indemnified. To the extent such person or committee is asked to approve any matter, its decision will be binding on all investors. The decision to seek consent for a transaction or other matter from the person or committee described in this paragraph will be made by the Adviser, at its sole discretion.

In no event will any cross trade or principal transaction be entered into unless it complies with applicable law.

C. Investing in Securities That the Adviser or a Related Person Recommends to Clients.

See response to Item 11(A).

D. Conflicts of Interest Created by Contemporaneous Trading.

The Adviser and its Affiliates continuously examine and modify their policies and procedures, including, without limitation, those governing investment allocations and other policies and procedures described in the Adviser's Brochure, to best achieve the Adviser's goal of fair and equitable treatment of all advisory clients (and investors therein) in light of the Adviser's and its Affiliates' then current operations and market environment.

The Adviser manages investments on behalf of a number of Clients. Certain Clients have investment programs that are similar to or overlap with each other, and, therefore, such Clients may participate with each other in investments.

Investment Allocation Policies

Investment decisions and allocations will be made in accordance with the Allocation Policy, as such policy and procedures are in effect at the time of such decision or allocation. Investment decisions and allocations are not necessarily made in parallel among all Clients. If an investment is appropriate for one or more of the Clients, the investment generally will be allocated among such Clients *pro rata* based upon the target percentage holdings of that type of investment for each such Client and available investment capital for such Clients, with available investment capital determined as follows: (i) with respect to Clients that are commitment funds (and not Lending Funds, as defined below), available investment capital is the capital commitments to each such Client, (ii) with respect to Clients that are not commitment funds, available investment capital is the net asset value of each such client and (iii) with respect to Clients that have a primary investment objective and/or primary investment strategy of originating and investing in loans to third parties (the “Lending Funds”), available investment capital means undrawn capital commitments and available cash of each such Lending Fund. In addition, for the purposes of determining the amount of an investment to be allocated to Clients that utilize dedicated leverage facilities in connection with their investment programs (*e.g.*, Lending Funds), such Clients’ available investment capital will be increased by the leverage available to such Clients.

To the extent any Client does not have sufficient capital available to fund its *pro rata* allocation of any particular investment (whether as a result of such Client’s existing investments, commitments for future investments, reserves for anticipated future cash needs, or otherwise), such Client will participate in such investment only to the extent of its capital available to do so, and any excess amount that otherwise would have been allocated to such Client for such investment will instead be allocated to other Clients, as applicable, as described above.

Notwithstanding the foregoing, hedging transactions, follow-on investments, re-securitization transactions and similar investments generally will be allocated *pro rata* in accordance with the holdings of each Client of the underlying investment to which such hedge, follow-on investment or re-securitization transaction relates, subject to certain exceptions.

The Adviser, in its sole discretion, may make non-*pro rata* allocations among Clients based upon a wide variety of factors including, among other things, tax and regulatory considerations, the overall portfolio composition of such Clients, different terms governing such Clients and the risk profile and investment restrictions (including limitations with respect to leverage) for such Clients.

In addition, the initial allocation of any investment among Clients may be subject to subsequent adjustment within the 45 day period immediately following such investment to reflect any adjustments in Clients during such period (such as the launch of one or more new Clients, increases in capital or leverage commitments with respect to applicable Clients, or similar matters) that would normally be taken into consideration at the time of such investment allocation. Any Clients that did not participate in the initial allocation of an investment that is subsequently allocated a portion of such investment (or did participate in

the initial allocation of an investment and is subsequently allocated an additional portion (e.g., due to an increase in capital commitments) of such investment) will be charged an amount representing the cost of the capital invested by the Clients that received the initial allocation of such investment, and such amount will be paid to each of the Clients that received the initial allocation of the investment and from which a portion of the investment is reallocated. The cost of capital charge will be paid with respect to the reallocated portion of each investment only, and will be at a rate determined by the Adviser in its reasonable discretion representing the prevailing market rate at which the Private Funds could reasonably borrow cash at the time of the investment reallocation. Such cost of capital charge will be calculated from the date of the initial deployment of capital with respect to such investment by the Clients that received the initial allocation of such investment through the date of payment of for such deployed capital by the Clients that received the subsequent reallocation. The reallocation and cost of funds charge will be based on the cost of the investment regardless of whether the value of the investment increases or decreases after its purchase.

Although sales of investments held by multiple Clients generally are expected to be sold by Clients on a *pari passu* basis, the Adviser, in its sole discretion may sell investments from various Clients on a non-*pro rata* basis based on a wide variety of factors including those described above in respect of allocations of investment opportunities. Accordingly, it is possible that one Client may be selling an investment, while another Client is retaining or investing more capital in the same investment.

Because the Adviser may make non-*pro rata* allocations, two or more Clients with similar or overlapping investment programs may produce results that are materially different from each other.

Allocations to a Client are subject to the terms and limitations set forth in the governance documents of such Client.

A copy of the Adviser's current investment allocation policy and procedures is available upon request.

Tax Issues Impacting Investment Allocations

Certain Clients may have tax considerations that limit the types of investments such Clients may make and that impact the method by which investments are structured. As a result, these Clients may have different allocations of investment opportunities than they might otherwise have in the absence of such tax considerations. In addition, as a result of tax considerations, certain Clients may end up investing in different levels of the capital structure of a portfolio company. For example, investments may be structured so that one Client receives loans from, or makes loans to, another Client. In structuring such investments, the Adviser will weigh the conflicting interests of the different Clients in determining the amount to allocate to debt and equity and the terms of these loans.

ITEM 12 BROKERAGE PRACTICES

A. **Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

The Adviser or one or more of its Affiliates has complete discretion, without obtaining specific client consent, to (i) buy or sell securities, (ii) determine the amount of the securities to be bought or sold, (iii) select the broker or dealer to be used in such purchase or sale and (iv) agree to the commission rates paid in connection with such purchase or sale.

The Adviser or its Affiliates will generally effect transactions with brokers that (with respect to U.S. securities) are registered with the SEC and are members of the FINRA. The Adviser or its Affiliates will select brokers on the basis of their ability to provide best execution (including both the trade price and commission and a variety of other factors).

Investors in the Clients may include funds of funds affiliated with brokers or, possibly, brokerage firms themselves. The fact that any such investor has invested in a Client will not be taken into consideration in selecting brokers (including prime brokers).

1. Research and Other Soft Dollar Benefits.

The Adviser or its Affiliates have not entered into written soft dollar arrangements. The Adviser or its Affiliates will attempt to negotiate the lowest available commission rates commensurate with the assurance of reliable, high quality brokerage services; however, the Adviser or its Affiliates may select brokers that charge a higher commission or fee than another broker would have charged for effecting the same transaction; provided, that the selection of a broker will be made on the basis of best execution, taking into consideration various factors, including commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions, the broker's facilities, and the broker's provision or payment of the costs of research and other services or property that are of benefit to the Adviser or other Clients to which the Adviser or its Affiliates provide investment services; provided, further, that the Adviser or its Affiliates may be influenced in its selection of brokers by their provision of other services, including, without limitation, capital introduction, marketing assistance, consulting with respect to technology, operations, equipment and office space, and other services or items. Such execution services, research, investment opportunities or other services may be deemed to be soft dollars. As noted above, however, the Adviser or its Affiliates have not entered into written soft dollar arrangements. The Adviser or its Affiliates do not generate soft dollar credits that may be applied to goods or services through the trading or other activities of the Clients.

The provision by a broker of research and other services and property to the Adviser creates an incentive for the Adviser or its Affiliates to select such broker since the Adviser and its Affiliates would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a Client. Any research, services or property provided by a broker may benefit any Client of the Adviser and such benefits may

not be proportionate to commission dollars related to the provision of such research, services or property.

2. Brokerage for Client Referrals.

As discussed above, subject to best execution, the Advisers may consider, among other things, capital introduction, marketing assistance, consulting with respect to technology, operations, equipment and office space, and other services or items in selecting broker-dealers for Client transactions. The Advisers do not receive Client or investor referrals in exchange for brokerage business.

3. Directed Brokerage.

The Adviser does not recommend, request or require that a Client direct the Adviser to execute transactions through a specified broker-dealer.

B. Aggregated Orders for Various Client Accounts.

If the Adviser determines that the purchase or sale of the same security is in the best interests of more than one Client, the Adviser may, but is not obligated to, aggregate orders in order to reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Client will receive the average price with transaction costs allocated *pro rata* based on the size of each Client's participation in the order as determined by the Adviser. In the event of a partial fill, allocations generally will be made on a *pro rata* basis on the initial order but may be modified on a basis the Adviser deems appropriate, including for example, in order to avoid odd lots or *de minimis* allocations.

C. Trade Errors.

The Adviser has adopted a trade error policy and related trade error procedures to facilitate the prompt and appropriate resolution of trade errors. Trade errors may occur as a result of mistakes made on the part of an executing broker, or mistakes on the part of Adviser personnel, including, but not limited to, portfolio managers, traders and/or operations staff. Trade errors may include, for example, keystroke errors that occur when entering transactions into electronic trading systems, failures of oral or other communications between and among the Adviser's and its Affiliates' investment staff, trading staff and operations staff, or between the Adviser's and its Affiliates' personnel and the third parties, such as executing brokers, with whom the Adviser conducts trading activities or typographical or drafting errors related to purchase contracts or similar agreements. In accordance with the Adviser's trade error policies and procedures, all trade errors, if any, are promptly and appropriately reviewed, evaluated and resolved, and any gains or losses resulting therefrom are allocated properly between the Adviser, the applicable Clients and, where applicable, third parties. Gains and losses from multiple trade errors, if any, generally are not netted. Rather, each trade error generally is separately resolved in accordance with the policy and procedures described herein.

The Adviser strives to correct all trade errors prior to the settlement of any transaction, and to minimize gains and losses resulting from trade errors. Trade errors caused by third parties,

such as executing brokers, are the responsibility of the third party and the Adviser endeavors to have the affected Clients reimbursed for such trade errors by such third parties. Such reimbursements generally are in accordance with the agreements in effect from time to time between the Adviser and such third parties, such third parties' customer policies and procedures and governing law. The Adviser does not absorb and is not otherwise responsible for losses resulting from trade errors caused by third parties and the Adviser does not utilize soft dollar arrangements in resolving trade errors.

To the extent that a trade error may occur on the part of the Adviser's and/or its Affiliates' personnel, it almost always would occur as part of the business of the Adviser and its Affiliates in effecting transactions for Clients in the ordinary course of their businesses. Thus, to the extent of any trade errors with respect to a Client, (i) all gains in such Client's account resulting from such trade errors will remain in such Client's account for the benefit of such Client and (ii) in accordance with the exculpation and indemnification provisions between such Client and the Adviser and its Affiliates, all losses resulting from such trade errors (that are not reimbursed by third parties, such as executing brokers) will be borne by such Client, and not the Adviser and its Affiliates, unless (a) such trade error was caused by the Adviser or its personnel acting (or failing to act) in violation of the standards of care applicable to the exculpation and indemnification protections afforded to the Adviser in any applicable governing documents or agreements with respect to Clients or (b) reimbursement by the Adviser to such Client is otherwise required by applicable law.

The Adviser generally will not notify investors in any Client that a trade error has occurred unless a determination has been made that the trade error has or will have a material adverse impact on the investors and/or the Client.

The Adviser maintains a record of trade errors which includes, among other things, the date that the trade error occurred, a description of the persons and entities involved in and the circumstances surrounding the trade error, and the means by which the trade error was addressed and/or resolved. Such record is maintained in accordance with the Adviser's recordkeeping policies.

D. Allocation Errors.

The Advisers seek to confirm that the proper allocations are made across the Clients for all investment opportunities. However, should an error be made with respect to the allocation of a particular investment opportunity, the Advisers will seek to correct such error, where possible, to put each Client involved in such allocation error in the same place as it would be if such error had not occurred.

ITEM 13

REVIEW OF ACCOUNTS

A. Frequency and Nature of Review of Client Accounts or Financial Plans.

The Adviser performs various daily, monthly, quarterly and other periodic reviews of the Private Funds' portfolios and the portfolios of the managed account. Daily reviews include account liquidity monitoring by the Adviser's risk personnel and members of the Financial Risk Management Sub-Committee, as well as trade reviews by the Adviser's Chief Compliance Officer and various personnel in Operations, Trading and Compliance. Monthly reviews include portfolio valuation, price validations and account concentration monitoring by the Adviser's Chief Financial Officer and risk personnel. Quarterly reviews include portfolio valuation reviews by the Adviser's Valuation Committee. Periodic reviews include portfolio monitoring by the Adviser's Chief Administrative Officer/Co-General Counsel.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review.

A review of a Client account may be triggered by any suspicious or unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

Investors in the Private Funds receive from the Adviser or its Affiliates, typically in an electronic format, unaudited quarterly reports providing summary financial and other information on their Private Fund. The Advisers may provide certain investors with information on a more frequent and detailed basis if agreed to by the Adviser or its Affiliates. In addition, the Adviser or its Affiliates provide to investors of the Private Funds, typically in an electronic format, audited financial statements concerning their respective Private Fund and tax information necessary for the completion of such investor's return within 120 days of the end of the Private Fund's fiscal year.

Investors are also provided with performance and other detailed information so that each investor can monitor its investment in the Clients. The Advisers welcome inquiries from investors in the event any investor desires information not contained in the Advisers' Form ADV Part 1, Form ADV Part 2 or other relevant offering material or Client reports. The Advisers will endeavor to answer all reasonable and appropriate questions in a timely fashion, while maintaining the confidentiality of sensitive non-public and proprietary information related to the operations and investments of the Advisers and the Clients. The Advisers do not publish investor questions and answers and generally do not otherwise disseminate such answers to all investors of the relevant Client.

In addition, with respect to certain Private Funds, the Adviser and its Affiliates will hold an annual or semi-annual meeting for their respective investors.

ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients.

Other than described herein, the Adviser does not receive economic benefits from non-Clients for providing investment advice and other advisory services.

B. Compensation to Non-Supervised Persons for Client Referrals.

Neither the Adviser nor any related person directly or indirectly compensates any person for Client referrals. The Adviser has engaged placement agents to solicit certain types of prospective investors for investments in the Private Funds. The Adviser may in the future enter into additional arrangements with third party placement agents, distributors or others to solicit investors in the Private Funds and such arrangements will generally provide for the compensation of such persons for their services at the Adviser's expense.

ITEM 15

CUSTODY

Rule 206(4)-2 promulgated under the Advisers Act (the “Custody Rule”) (and certain related rules and regulations under the Advisers Act) imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

The Advisers are required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which they have custody with a qualified custodian. Qualified custodians include banks, brokers, futures commission merchants and certain foreign financial institutions.

Rule 206(4)-2 imposes on advisers with custody of clients’ funds or securities certain requirements concerning reports to such clients (including underlying investors) and surprise examinations relating to such clients’ funds or securities. However, an adviser need not comply with such requirements with respect to pooled investment vehicles subject to audit and delivery if each pooled investment vehicle (i) is audited at least annually by an independent public accountant and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to their investors, all limited partners, members or other beneficial owners within 120 days (180 days in the applicable case of a fund of fund adviser) of its fiscal year-end. The Advisers rely upon this audit exception with respect to the Clients.

ITEM 16
INVESTMENT DISCRETION

The Adviser or its Affiliates have been appointed as the investment manager, management company, manager or general partner of the Clients with discretionary trading and investment authorization. The Adviser or its Affiliates have full discretionary authority with respect to investment decisions, and its advice with respect to the Clients is made in accordance with the investment objectives and guidelines as set forth in such Client's respective private placement memorandum, if any, investment management agreement or other organizational document. The Adviser or its Affiliates assume discretionary authority to manage the Clients through the execution of investment management agreements or through the organizational documents of Clients.

ITEM 17
VOTING CLIENT SECURITIES

The SEC adopted Rule 206(4)-6 under the Advisers Act, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rules, the Advisers have adopted proxy voting policies and procedures (the “Policies”). The Adviser is committed to voting proxies in a manner consistent with the best interest of the Clients. While the decision whether or not to vote a proxy must be made on a case-by-case basis, the Adviser generally does not vote a proxy if it believes the proposal is not adverse to the best interest of the Clients, or, if adverse, the outcome of the vote is not in doubt. In the situations where the Adviser does vote a proxy, the Adviser generally votes the proxy in accordance with specified guidelines. A copy of the Policies and the proxy voting record relating to a Client may be obtained by contacting the Adviser.

ITEM 18
FINANCIAL INFORMATION

The Adviser is not required to include a balance sheet for its most recent financial year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients and has not been the subject of a bankruptcy petition at any time during the past ten years.