

**ITEM 1**  
**COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**SILVER POINT CAPITAL, L.P.**

July 2015

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*This brochure (this "Brochure") provides information about the qualifications and business practices of Silver Point Capital, L.P. ("Silver Point"). If you have any questions about the contents of this Brochure, please contact us at (203) 542-4200 or [info@silverpointcapital.com](mailto:info@silverpointcapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.*

*Silver Point is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

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

## **ITEM 2**

### **MATERIAL CHANGES**

This Brochure was last amended in March 2015. Silver Point is now updating this Brochure to include disclosure with respect to Silver Point Specialty Credit Fund Management, LLC ("Specialty Credit Fund Management"), a newly formed investment adviser that serves as the investment adviser to Silver Point Specialty Credit Fund, L.P. (the "Specialty Credit Fund"). Specialty Credit Management is being added to this Brochure as a registered investment adviser pursuant to Silver Point's Form ADV in reliance on the positions expressed in American Bar Association, Business Law Section, SEC No-Action Letter (January 18, 2012) (the "No-Action Letter").

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## ITEM 4 ADVISORY BUSINESS

### Advisory Firm

Silver Point, a Delaware limited partnership, was established in 2001 and serves as the principal vehicle for the investment management activities of its principal owners, Edward A. Mulé and Robert J. O'Shea. Edward A. Mulé and Robert J. O'Shea are both limited partners of Silver Point and members of Silver Point Capital Management, LLC, a Delaware limited liability company that serves as the general partner of Silver Point. Silver Point Capital Management, LLC has ultimate responsibility for the management, operations and the investment decisions made by Silver Point.

### Advisory Services

Silver Point or an affiliate serves as the management company with discretionary trading authority to private pooled investment vehicles (each, a "Fund" and collectively, the "Funds"). The Funds include:

1. Silver Point Capital Fund, L.P. (the "Domestic Flagship Fund"), Silver Point Capital Offshore Fund, Ltd. (the "Offshore Flagship Fund") and Silver Point Capital Offshore Master Fund, L.P. (the "Master Flagship Fund" and together with the Domestic Flagship Fund and the Offshore Flagship Fund, the "Flagship Funds"). The Offshore Flagship Fund invests substantially all of its assets in a "master-feeder" structure into the Master Flagship Fund. Silver Point Capital General Partner, LLC (the "Domestic Flagship GP") serves as the general partner of the Domestic Flagship Fund and Silver Point Capital Offshore General Partner, LLC (the "Master Flagship GP" and together with the Domestic Flagship GP, the "Flagship GPs") serves as the general partner of the Master Flagship Fund.
2. Silver Point C & I Opportunity Fund II, L.P. (the "Domestic C & I Fund II"), Silver Point C & I Opportunity Fund II, Ltd. (the "Offshore C & I Fund II") and Silver Point C & I Opportunity Master Fund II, L.P. (the "Master C & I Fund II" and together with the Domestic C & I Fund II and the Offshore C & I Fund II, the "C & I Fund II"). An affiliate of Silver Point, Silver Point Capital C & I Management II, L.P. ("Silver Point C & I Management II"), provides investment advisory services to the C & I Fund II. Such affiliate is controlled by Edward A. Mulé and Robert J. O'Shea. The Offshore C & I Fund II invests substantially all of its assets in a "master-feeder" structure into the Master C & I Fund II. Silver Point C & I Opportunity GP II, LLC (the "C & I II GP") serves as the general partner of the Domestic C & I Fund II and the Master C & I Fund II.
3. Silver Point C & I Opportunity Fund III, L.P. (the "Domestic C & I Fund III"), Silver Point C & I Opportunity Fund IIIA, L.P. (the "Domestic C & I Fund IIIA") and Silver Point C & I Opportunity Master Fund IIIA, L.P. (the "C & I Master Fund IIIA" and together with the Domestic C & I Fund III and the Domestic C & I Fund IIIA, the "C & I Fund III" and together with the C & I Fund II, the "C & I Funds"). An affiliate of Silver Point, Silver Point Capital C & I Management III, L.P. ("Silver Point C & I Management III"), provides investment advisory services to the C & I Fund III. Such affiliate is controlled by Edward A. Mulé and Robert

J. O'Shea. The Domestic C & I Fund IIIA invests substantially all of its assets in a "master-feeder" structure into the C & I Master Fund IIIA, but may also make investments through other subsidiaries or master funds. Silver Point C & I Opportunity GP III, LLC (the "C & I III GP") and together with the C & I II GP, the "C & I GPs") serves as the general partner of the C & I Fund III.

4. Silver Point Specialty Credit Fund, L.P. An affiliate of Silver Point, Specialty Credit Fund Management provides investment advisory services to the Specialty Credit Fund. Such affiliate is controlled by Edward A. Mulé and Robert J. O'Shea. Silver Point Specialty Credit Fund GP, LLC (the "Specialty Credit Fund GP") serves as the general partner of the Specialty Credit Fund.

References herein to "Silver Point" shall be deemed to include Silver Point, Silver Point C & I Management II, Silver Point C & I Management III, Specialty Credit Fund Management, the Domestic Flagship GP, the Master Flagship GP, C & I II GP, C & I III GP and/or Specialty Credit Fund GP, where applicable.

The Flagship GPs, Silver Point C & I Management II, the C & I II GP, Silver Point C & I Management III, C & I III GP, Specialty Credit Fund Management and Specialty Credit Fund GP are presently registered (or treated as registered) as investment advisers under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), pursuant to Silver Point's Form ADV in reliance on the positions expressed in the No-Action Letter.

The Funds are structured as Delaware limited partnerships, Cayman Islands exempted companies or Cayman Islands exempted limited partnerships.

As used herein, the term "client" generally refers to each Fund.

*This Brochure generally includes information about Silver Point and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only. This Brochure does not contain all of the terms and conditions related to an investment in the Funds or all of the risks associated with any such investment, and certain of the information contained herein is in summary form. As a result, prior to any investment in any Fund, all prospective investors should carefully review the offering memorandum for such Fund.*

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities are generally offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended, and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Investors in the Funds generally must be both "accredited investors", as defined in Regulation D, and "qualified purchasers", as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

## **Investment Strategies and Types of Investments**

Silver Point's investment strategy with respect to the Flagship Funds focuses on making

investments in debt, equity or other securities, obligations or instruments of misvalued, mislevered, leveraged or financially distressed companies and in event-oriented and other special situations.

Silver Point's investment strategy with respect to the C & I Funds is to invest in commercial and industrial and commercial real estate loans, principally acquired from banks and other financial institutions. C & I Fund III may operate property obtained through foreclosure or otherwise and seek to capture both current cash flow and future appreciation.

Silver Point's investment strategy with respect to the Specialty Credit Fund is to originate loans to small and middle market companies domiciled in the United States and invest in specialty bridge financings, rescue financings and secondary purchases of loans and other credit-related assets. At any time during the term of the Specialty Credit Fund, Silver Point may, in its sole discretion, elect to effect a restructuring of the Specialty Credit Fund by causing the Specialty Credit Fund to (i) convert to, merge with or directly or indirectly transfer all or any portion of its assets to, an entity that has elected to be treated as a business development company ("BDC") under the 1940 Act (a "Conversion" and, after Conversion, the Specialty Credit Fund referred to herein as the "BDC Vehicle"), (ii) elect to be treated as a regulated investment company (a "RIC") for U.S. federal income tax purposes and (iii) conduct an initial public offering (including a Qualified IPO (as defined below), an "IPO").

Please see Item 8 for a more detailed description of the investment strategies pursued and types of investments made by the Funds.

*The descriptions set forth in this Brochure of specific advisory services that Silver Point offers to clients, and investment strategies pursued and investments made by Silver Point on behalf of its clients, should not be understood to limit in any way Silver Point's investment activities. Silver Point may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, Silver Point considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies Silver Point pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.*

### **Customized Services for Individual Clients**

Silver Point's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents.

### **Assets Under Management**

As of December, 31, 2014, Silver Point and its affiliates manage approximately \$8.1 billion (calculated on a net basis) attributable to its clients on a discretionary basis.

## ITEM 5 FEES AND COMPENSATION

The fees applicable to each Fund are set forth in detail in each Fund's offering documents. A brief summary of such fees is provided below.

### **Advisory Fees and Compensation - The Flagship Funds**

Management Fee: In connection with providing investment advisory services to the Flagship Funds, Silver Point receives in advance on the first day of each calendar quarter a management fee equal to 0.5% (2.0% annualized) (the "Flagship Management Fee") of the portion of the net asset value of the Domestic Flagship Fund and the Offshore Flagship Fund attributable to the interests held by each investor as of the first day of such calendar quarter (after taking into account any withdrawals or redemptions, as applicable, of interests as of the end of the immediately preceding quarter and purchases of interests as of the first day of such calendar quarter). For purposes of calculating the Flagship Management Fee, investments held in side pockets or, "Designated Investments",<sup>1</sup> are valued at fair value. The Flagship Management Fee for a period of less than a full calendar quarter will be prorated based on the actual number of days in such period. Silver Point may, in its sole discretion, waive or reduce the Management Fee with respect to any investor and has done so with respect to employees of Silver Point and certain other related persons.

### Incentive Compensation:

*The Domestic Flagship Fund.* The Domestic Flagship GP will generally be entitled to an incentive allocation as of the close of each fiscal year (and as of each other date on which the Domestic Flagship GP determines it is appropriate or necessary to make a determination of the incentive allocation with respect to an investor, including a date on which an investor withdraws all or a portion of its investment) equal to 20% of any net profits tentatively allocated to each investor in the Domestic Flagship Fund for such fiscal year (taking into account gains and losses realized or deemed realized with respect to Designated Investments) in excess of any previously unrecovered net losses charged to such investor's capital account in prior years (i.e., on a "high-water mark" basis), as such unrecovered net losses may be ratably reduced by withdrawals and distributions with respect to such capital account. The Domestic Flagship GP may, in its sole discretion, reduce or waive the incentive allocation with respect to any investor and has done so with respect to employees of Silver Point and certain other related persons. The computations required to be made for purposes of computing the incentive allocation are made separately with respect to separate contributions to or withdrawals from the Domestic Flagship Fund by a particular investor and for each separate capital account or sub-capital account (including each Designated Investment subaccount) of such investor. A separate capital account or sub-capital account is created for each separate subscription to the Domestic Flagship Fund and with respect to each Designated Investment made or designated as such by the Domestic

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<sup>1</sup> Silver Point intends not to designate any new or existing investments as "side pocket" investments or "Designated Investments." However, the Flagship Funds will continue to hold those investments that were previously designated as "side pockets" or "Designated Investments" until such Designated Investments are liquidated or otherwise realized or deemed realized in their entirety.

Flagship Fund.

*The Offshore Flagship Fund.* Generally, at the end of each fiscal year of the Offshore Flagship Fund, the Master Flagship GP will be entitled to an incentive allocation equal to 20% of the excess of any net capital appreciation (taking into account net income, and gains and losses with respect to realized or deemed realized Designated Investments) allocated to each capital account in the Master Flagship Fund corresponding to a series or sub-series of the Offshore Flagship Fund's shares for such year; provided, however, that any allocation of the incentive allocation will be subject to a "high-water mark" and thus no incentive allocation will be allocated with respect to a capital account in the Master Flagship Fund attributable to the Offshore Flagship Fund's Class B or Class H shares until any previously unrecovered net losses charged to the Master Flagship Fund capital account in prior years (as such unrecovered net losses may be ratably reduced by withdrawals and distributions) have been recovered. If the Offshore Flagship Fund's shares are redeemed at any time other than at the end of a fiscal year, any incentive allocation that has been accrued in respect of the redeemed shares by the corresponding capital account in the Master Flagship Fund will be allocated to the Master Fund GP's capital account at the time of such redemption. Silver Point or the Offshore Flagship Fund, with the consent of the Master Flagship GP, as applicable, may, in its sole discretion, waive or reduce the incentive compensation with respect to any shareholder and has done so with respect to employees of Silver Point and certain other related persons. The computations required to be made for purposes of computing the incentive compensation are made separately with respect to separate subscriptions for, issuances of, or redemptions of the shares of a particular investor (i.e., with respect to each series and sub-series of shares, including each Designated Investment). A separate series or sub-series of the Offshore Flagship Fund's shares is issued in connection with each subscription by an investor to the Offshore Flagship Fund and each Designated Investment made or designated as such by the Offshore Flagship Fund.

### **Advisory Fees and Compensation – The C & I Funds**

Management Fee: The C & I Funds will pay to Silver Point, in respect of each investor, a management fee (the "C & I Management Fee") payable quarterly in advance. The C & I Management Fee was equal to 0.5% (or 2.0% annualized) of the total commitment by each investor (i) with respect to the C & I Fund II, during the eighteen-month period following the final closing date (the "C & I Fund II Commitment Period") and (ii) with respect to the C & I Fund III, during the twelve-month period following the final closing date (the "C & I Fund III Commitment Period", and together with the C & I Fund II Commitment Period, the "Commitment Period"). After the expiration or termination of the applicable Commitment Period, the C & I Management Fee is equal to 0.5% (or 2.0% annualized) of each investor's aggregate drawn down capital used to fund investments (as adjusted as a result of investors that are admitted or increase their commitments to the C & I Funds in connection with a subsequent closing) minus proceeds from previous dispositions representing a return of capital, and, in the case of the C & I Fund III, the aggregate amount of all permanent writedowns of investments as determined by the C & I III GP, in its sole discretion. Each investor being admitted to a C & I Fund or any existing investor increasing its commitment at any closing subsequent to the initial closing will be responsible for the C & I Management Fee in the amount such investor would have borne had such investor been admitted or increased its commitment at the initial closing, plus interest thereon at a rate equal to the prime rate as published in the New York edition of The Wall Street Journal (the "Prime Rate") plus 2%. Such amounts (other than interest) paid by such



investor will constitute a capital contribution by each such investor and will decrease such investor's unfunded commitment. Silver Point may, in its sole discretion, waive or reduce the C & I Management Fee with respect to the partners and the employees of Silver Point and their respective family members, the C & I GPs and their respective affiliates (and has done so in certain circumstances). Silver Point may also, in its sole discretion, waive or reduce the C & I Management Fee with respect to other investors.

Carried Interest: With respect to each of the C & I Funds, the C & I GP for such fund will be entitled to receive a 20% carried interest pursuant to the following distribution waterfall. After provision for such reserves as shall be determined to be necessary in the sole discretion of the applicable C & I GP to pay the C & I Funds' liabilities and expenses, net proceeds from a particular investment will be allocated to all investors participating in such investment pro rata according to their respective capital contributions in respect of such investment (excluding, for the avoidance of doubt, any capital contributions by investors to pay C & I Management Fees). The pro rata share thereof attributable to a limited partner of the Domestic C & I Fund II, the Domestic C & I Fund III or the Domestic C & I Fund IIIA or a participating shareholder of the Offshore C & I Fund II will be further divided between such investor and the C & I GP for the relevant C & I Fund as follows: (a) first, 100% to such investor until such investor has received a return of its total capital contributions to such C & I Fund in respect of all realized investments plus its proportionate share of permanent writedowns of unrealized investments and the portion of the C & I Management Fee and any other C & I Fund expenses attributable to such realized investments and such permanent writedowns; (b) second, 100% to such investor until such investor has received a preferred return equal to 8% per annum, compounded annually, on the amounts included in clause (a) above; (c) third, 80% to the C & I GP and 20% to such investor until the C & I GP has received under this clause (c) 20% of the cumulative distributions made pursuant to clause (b) above and this clause (c); and (d) thereafter, 80% to such investor and 20% to the C & I GP (the distributions to the C & I GP described in clause (c) above and in this clause (d) being collectively referred to as the C & I GP's "Carried Interest"). The distribution waterfall occurs at the master fund level with respect to the Offshore C & I Fund II and the Domestic C & I Fund IIIA and thus all distributions are made from the Master C & I Fund II to the Offshore C & I Fund II in respect of each participating shareholder and from C & I Master Fund IIIA to Domestic C & I Fund IIIA in respect of each limited partner. The C & I GPs may, in their sole discretion, waive or reduce the Carried Interest on distributions in respect of the partners and the employees of Silver Point and their respective family members, the C & I GPs and their respective affiliates (and has done so in certain circumstances). Silver Point may also, in its sole discretion, waive or reduce the Carried Interest on distributions in respect of other investors.

## **Advisory Fees and Compensation – The Specialty Credit Fund**

Management Fees: Prior to an IPO, the Specialty Credit Fund will pay to Silver Point, in respect of each investor, a management fee (the "Specialty Credit Fund Management Fee"), payable quarterly in arrears, equal to (a) during the four-year period following the initial closing date (the "Specialty Credit Fund Commitment Period"), the sum of (x) 0.25% per annum of such investor's unfunded commitment and (y) 0.75% per annum of such investor's aggregate drawn commitment and (b) after the expiration or termination of the Specialty Credit Fund Commitment Period, 0.75% per annum of such investor's aggregate drawn commitment minus capital contributions returned to such investor in respect of realized investments and capital not yet applied to an investment, fund expense or other permitted purpose, calculated as of the last day of each quarter.

Following an IPO (other than a Qualified IPO), the Specialty Credit Fund Management Fee will be payable quarterly in arrears at a rate of 0.75% per annum of the average of the Specialty Credit Fund's total gross assets as of the end of each of the preceding two quarters.

Following the first public offering and sale of equity securities of the Specialty Credit Fund resulting in aggregate net proceeds to the Specialty Credit Fund and/or any selling stockholders, in combination with any previous public offerings, in excess of the lesser of \$65 million and 15% of aggregate commitments to the Specialty Credit Fund at the time of such offering (a "Qualified IPO"), the Specialty Credit Fund Management Fee will be payable quarterly in arrears at a rate of 1.5% per annum of the average of the Specialty Credit Fund's total gross assets as of the end of each of the preceding two quarters.

Each investor being admitted to the Specialty Credit Fund or any existing investor increasing its commitment at any closing subsequent to the initial closing that occurs prior to Conversion (as defined above) will be responsible for the Specialty Credit Fund Management Fee in the amount such investor would have borne had such investor been admitted or increased its commitment at the initial closing, plus interest thereon at a per annum rate equal to the Prime Rate plus 2%; provided that investors admitted or existing investors increasing their commitments at a subsequent closing that takes place during the period beginning immediately after the date that is twelve months after the initial closing and ending on the date that is eighteen months after the initial closing will instead pay interest at a per annum rate of 7%. Such amounts (other than interest) paid by such investor will constitute a capital contribution by each such investor and will decrease such investor's unfunded commitment. Prior to Conversion, Silver Point may, in its sole discretion, waive or reduce the Specialty Credit Fund Management Fee with respect to Silver Point and its affiliates, the partners and the employees of Silver Point or any of its affiliates, and their respective family members and estate planning vehicles (collectively, the "SP Persons"), and any other investor, it being understood that following Conversion any such waiver or reduction will be eliminated.

### Incentive Compensation:

"Specialty Credit Fund Incentive Compensation" will be payable by the Specialty Credit Fund to Silver Point and will consist of two parts, "Income Incentive Compensation" and "Capital Gains Incentive Compensation," as follows:

(i) *Income Incentive Compensation.* Income Incentive Compensation will be calculated and payable to Silver Point quarterly in arrears based on the pre-incentive compensation net investment income generated by the Specialty Credit Fund. For this purpose, pre-incentive compensation net investment income means interest income, dividend income and any other income accrued or earned by the Specialty Credit Fund, minus the Specialty Credit Fund's operating expenses (including the Specialty Credit Fund Management Fee, expenses payable under any administration agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding Specialty Credit Fund Incentive Compensation). Prior to a Qualified IPO, pre-incentive compensation net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with pay in kind interest and zero-coupon securities), accrued income that the Specialty Credit Fund has not yet received in cash. Pre-incentive compensation net investment income does not include any realized capital gains, realized capital losses and unrealized capital appreciation or depreciation.

#### *Prior to a Qualified IPO*

Prior to a Qualified IPO, Income Incentive Compensation will be calculated and paid quarterly in arrears in an amount equal to 100% of the pre-incentive compensation net investment income in respect of the calendar quarter during which the initial closing occurs and the eleven preceding calendar quarters (or the appropriate portion thereof in the case of the Specialty Credit Fund's first eleven calendar quarters that commence on the beginning of the calendar quarter during which the Initial Closing occurs) (in either case, the "Trailing Twelve Quarters") in excess of a "hurdle rate amount" until the "catch-up amount" is reached, and thereafter, 15% of the pre-incentive compensation net investment income in respect of the Trailing Twelve Quarters, minus the aggregate amount of any Income Incentive Compensation paid in the preceding eleven calendar quarters (or portion thereof) comprising the relevant Trailing Twelve Quarters.

The hurdle rate amount is calculated by multiplying 1.75% (7.00% annualized) by the value of the Specialty Credit Fund's net assets (i.e., total assets less indebtedness) at the beginning of each applicable calendar quarter comprising the relevant Trailing Twelve Quarters.

The 100% catch-up provision for the pre-incentive compensation net investment income in excess of the hurdle rate amount is intended to provide Silver Point with incentive compensation of 15% on all of the pre-incentive compensation net investment income in respect of the Trailing Twelve Quarters when that amount equals the product of 2.0588% multiplied by the value of the Specialty Credit Fund's net assets at the beginning of each applicable calendar quarter comprising the relevant Trailing Twelve Quarters, which product is the amount at which the catch-up is achieved. Once the hurdle rate amount is reached and the catch-up is achieved, 15% of the pre-incentive compensation net investment income in respect of the Trailing Twelve Quarters in excess of such catch-up amount is payable to Silver Point.

#### *Following a Qualified IPO*

Following a Qualified IPO, Income Incentive Compensation will be calculated at a rate of 20% (rather than at the pre-Qualified IPO rate of 15%) and will be based on pre-incentive compensation net investment income for the current calendar quarter only (without regard to the Trailing Twelve Quarters). Accordingly, following a Qualified IPO, Income

Incentive Compensation will be calculated and paid quarterly in arrears in an amount equal to 100% of the pre-incentive compensation net investment income for that calendar quarter in excess of a 1.75% quarterly "hurdle rate" (7.0% annualized) until the "catch-up" is achieved and, thereafter, 20% of the total pre-incentive compensation net investment income for that calendar quarter.

To determine whether the pre-incentive compensation net investment income exceeds the hurdle rate, the pre-incentive compensation net investment income is expressed as a percentage rate of return on the Specialty Credit Fund's net assets (total assets less indebtedness). The Income Incentive Compensation otherwise payable to Silver Point following a Qualified IPO may be reduced to reflect the write-off of certain deferred interest previously included in pre-incentive compensation net investment income.

The 100% "catch-up" provision for the pre-incentive compensation net investment income in excess of the 1.75% quarterly hurdle rate is intended to provide Silver Point with incentive compensation of 20% on all of the pre-incentive compensation net investment income when that amount equals 2.1875% in a calendar quarter, which is the rate at which the catch-up is achieved. Once the hurdle rate is reached and the catch-up is achieved, 20% of any of the pre-incentive compensation net investment income in excess of the 2.1875% in any calendar quarter is payable to Silver Point.

(ii) *Capital Gains Incentive Compensation.* Capital Gains Incentive Compensation, payable at the end of each calendar year in arrears, will equal 20% (prior to a Qualified IPO, 15%) of cumulative capital gains (as defined below) from the inception of the Specialty Credit Fund to the end of such calendar year, minus the aggregate amount of any previously paid Capital Gains Incentive Compensation for prior periods.

"Cumulative capital gains" means, on any relevant date, cumulative realized capital gains, less the sum of (a) cumulative realized capital losses and (b) cumulative unrealized capital depreciation on investments, in each case as of such date.

Prior to Conversion, Silver Point may waive its right to receive all or any portion of the Specialty Credit Fund Incentive Compensation, including in respect of the interests of SP Persons and any other investor, it being understood that following Conversion any such waiver granted in respect of the interests of SP Persons and any other investor will be eliminated.

### **Payment of Fees**

Fees and compensation paid or allocated to Silver Point or its affiliates by the Funds are generally deducted from the assets of such clients. As discussed above, management fees are generally deducted on a quarterly basis, incentive compensation is generally deducted or allocated on an annual basis (other than the Income Incentive Compensation payable in respect of the Specialty Credit Fund, which is deducted quarterly) and upon a redemption or withdrawal of an investor and Carried Interest is generally deducted or allocated on a realization basis.

### **Additional Fees and Expenses - Flagship Funds**

Expenses: The Domestic Flagship Fund and the Offshore Flagship Fund will bear their own expenses (and the Offshore Flagship Fund will bear its pro rata share of the Master Flagship

Fund's expenses), including legal, accounting, tax, auditing, consulting and other professional expenses (including, without limitation, expenses relating to establishing reputation and public relations in connection with self-sourced lending or other financial transactions), administration fees charged by Silver Point and/or third-party providers of administration services, fees payable to sub-advisors, professional liability insurance (including costs relating to directors' and officers' liability insurance and errors and omissions insurance), research and market data expenses, interest on margin loans and other indebtedness, custodial fees, bank service fees, investment-related fees and expenses (such as brokerage commissions (see Item 12), third-party sourcing fees, legal fees and fees of other professionals, expenses relating to special purpose vehicles (including without limitation, overhead expenses related thereto), due diligence expenses and travel, lodging and meal expenses) related to the analysis, purchase or sale of investments (including Designated Investments), whether or not the investments are consummated, other expenses related to the purchase, monitoring, sale, settlement, custody or transmittal of Flagship Fund assets (directly or through trading affiliates) as shall be determined by Silver Point in its sole discretion (including costs associated with systems and software used in connection with investment-related activities), expenses incurred by the Flagship Funds, the Domestic Flagship GP, the Master Flagship GP, Silver Point or their respective affiliates in connection with the provision of administration services; entity-level taxes, organizational fees and expenses, filing fees, expenses related to the offer and sale of interests (including legal fees); and other expenses associated with the operation of the Flagship Funds and their investment activities.

Administrative Fees and Expenses: Silver Point, or an affiliate, performs some of the functions of a third-party administrator in-house and charges administration costs to the Flagship Funds; provided, however, that such costs will be limited to an amount that, along with the costs of any third-party administration services it uses and Silver Point's expenses discussed below, will be the lesser of actual costs incurred or 12 basis points of the Domestic Flagship Fund's or the Offshore Flagship Fund's net asset value. The costs incurred by Silver Point in the provision of such administration services include, but are not limited to, out of pocket expenses (including travel, meals and lodging), third party software licensing, implementation, data management and recovery services, custom development costs and overhead expenses of an ordinarily recurring nature such as rent, utilities, supplies, secretarial expenses, stationery, charges for furniture, fixtures and equipment, employee benefits including insurance, payroll taxes and compensation of all personnel.

Other Fees: Silver Point or its affiliates may receive compensation in connection with lending or other financial transactions or investments (including, without limitation, acquisitions, dispositions, recapitalizations and restructurings, and the provision of financial advisory, investment monitoring, investment management or similar or related services). 100% of the portion of such compensation ratably attributable to the Flagship Funds' investment in any such transactions or investments (or, in the case of broken deal fees, such proposed transaction or investment) will be applied as an offset to either the Flagship Management Fee or the incentive compensation; provided, however, that if Silver Point or its affiliates receive any fees in connection with or arising from providing administrative, collateral management or similar or related services (including agency services) in respect of lending or other financial transactions, such fees will not be applied as an offset to the Flagship Management Fee or the incentive compensation (as applicable). If the Flagship Management Fee or the incentive compensation (as applicable) is not sufficient to fully

effect such offset in any particular period, any shortfall will be carried forward to reduce future Flagship Management Fees or incentive compensation (as applicable) until such shortfall is fully offset. Notwithstanding the foregoing, in the event an investor in the Flagship Funds withdraws or redeems prior to the making of the adjustment described in the previous sentence, such investor will forego, and will not be entitled to, any portion of any such subsequent adjustment.

The Flagship Funds will not receive the benefit of any compensation received by Silver Point or its affiliates in connection with the portion of any financial transactions or investments attributable to participants other than the Flagship Funds. A conflict of interest may arise if Silver Point causes a Flagship Fund to participate in a financial transaction or investment with others and fees are paid to Silver Point or its affiliates.

### **Additional Fees and Expenses - C & I Funds**

Expenses: The C & I Funds will bear their own expenses, including legal, accounting, tax, auditing, consulting and other professional expenses; the C & I Management Fee; with respect to the C & I Fund II, fees payable to subadvisors; professional liability insurance (including costs relating to directors' and officers' liability insurance and errors and omissions insurance); research and market data expenses; interest on indebtedness; custodial fees; bank service fees; investment-related fees and expenses (such as third-party sourcing fees, fees and expenses of legal and other professionals, due diligence expenses and travel, lodging and meal expenses) related to the analysis, purchase or sale of investments, whether or not the investments are consummated; other expenses related to the purchase, monitoring, sale, settlement, custody or transmittal of C & I Fund assets (directly or through trading affiliates) as will be determined by Silver Point in its sole discretion (including costs associated with systems and software used in connection with investment-related activities); costs of reporting to investors and investor meetings; administration fees and expenses charged by any third-party provider of administration services; entity-level taxes; expenses relating to the offer and sale of interests; organizational fees and expenses (including legal, accounting, consulting, filing and other organizational expenses); filing fees; costs of winding up and liquidating the C & I Funds; expenses incurred in connection with an investor that defaults in respect of a commitment; and other expenses associated with the operation of the C & I Funds and their investment activities, including extraordinary expenses such as litigation, workout and restructuring and indemnification expenses, if any.

Other Fees: Silver Point or its affiliates may receive compensation in connection with financial transactions or investments made by the C & I Funds. 100% of the portion of such compensation ratably attributable to the C & I Funds' investment (or, in the case of broken deal fees, the C & I Funds' proposed investment) in such transactions or investments will be applied as an offset to the C & I Management Fee. If the C & I Management Fee is not sufficient to fully effect such offset in any particular period, any shortfall will be carried forward to reduce future C & I Management Fees until the earlier of such time as (i) such shortfall is fully offset or (ii) Silver Point is no longer paid the C & I Management Fee by the C & I Funds. Any fees received by Silver Point or its affiliates in connection with or arising from providing administrative, collateral management or similar or related services (including agency services) in respect of financial transactions or investments will not be applied as an offset to the C & I Management Fee and will be on arm's-length terms and disclosed to investors no less often than quarterly.

The C & I Funds will not receive the benefit of any compensation received by Silver Point or its affiliates in connection with the portion of any financial transactions or investments attributable to participants other than the C & I Funds. A conflict of interest may arise if Silver Point causes a C & I Fund to participate in a financial transaction or investment with others and fees are paid to Silver Point or its affiliates.

### **Additional Fees and Expenses – The Specialty Credit Fund**

Expenses: The Specialty Credit Fund will bear its own expenses, including legal, accounting, tax, auditing, consulting and other professional expenses (including, without limitation, expenses relating to establishing reputation and public relations in connection with self-sourced lending or other financial transactions); the Specialty Credit Fund Management Fee and Specialty Credit Fund Incentive Compensation; professional liability insurance (including costs relating to directors' and officers' liability insurance and errors and omissions insurance); research and market data expenses; interest on indebtedness; custodial fees; bank service fees; investment-related fees and expenses (such as third-party sourcing fees, fees and expenses of legal and other professionals, due diligence expenses and travel, lodging and meal expenses) related to the analysis, purchase or sale of investments, whether or not the investments are consummated; expenses related to special purpose vehicles (including, without limitation, overhead expenses related thereto); interest payable on debt, if any, incurred to finance the Specialty Credit Fund's investments; other expenses related to the purchase, monitoring, sale, settlement, custody or transmittal of fund assets (directly or through trading affiliates) as will be determined by Silver Point (or, following Conversion, an affiliate thereof, as applicable) in its sole discretion (including costs associated with systems and software used in connection with investment-related activities); costs of reporting to investors and investor meetings (including meetings of the advisory committee and reasonable expenses incurred by members of the advisory committee in connection with their attendance); administration fees and expenses charged by any third-party provider of administration services; entity-level taxes; expenses relating to the offer, transfer, sale and marketing of interests (other than any private placement fees or expenses incurred in connection with the sale of interests or interests in the BDC Vehicle (as defined above) prior to an IPO, which will instead be borne by Silver Point); filing fees and expenses; Federal and state registration fees and expenses; regulatory and compliance fees and expenses of the Specialty Credit Fund (including with respect to any registration activities of the Specialty Credit Fund); costs of winding up and liquidating the Specialty Credit Fund; costs associated with Conversion and ensuring compliance with the applicable BDC (as defined above) and RIC (as defined below) requirements, including, but not limited to, costs incurred in connection with the organization of, and transfer of assets to, a private investment vehicle and all other expenses incurred in connection with effecting Conversion; expenses incurred in connection with an investor that defaults in respect of a commitment; and other expenses associated with the operation of the Specialty Credit Fund and its investment activities, including extraordinary expenses such as litigation, workout and restructuring and indemnification expenses, if any. For the avoidance of doubt, the Specialty Credit Fund will also bear its allocable share (based on invested capital) of any of the expenses listed above incurred by any subsidiary of the Specialty Credit Fund.

Following Conversion, the Specialty Credit Fund will also be responsible for the costs of the offering of common shares and other securities, including, but not limited to, all expenses incurred in connection with an IPO; costs and expenses relating to distributions paid to investors; costs of effecting sales and repurchases of the Specialty Credit Fund's

securities; allocated costs incurred by Silver Point or its affiliate in providing managerial assistance to those companies in which the Specialty Credit Fund has invested who request it; transfer agent fees; fees and expenses paid to the Specialty Credit Fund's independent directors (including expenses and costs related to meetings of the independent directors); costs of preparing and filing reports with the SEC and other Specialty Credit Fund reporting and compliance costs, including registration and listing fees; the Specialty Credit Fund's allocable portion of the fidelity bond; the costs of reports, proxy statements or other notices to investors, including printing and mailing costs; the costs of any stockholders' meetings and communications; expenses payable under any underwriting agreement, including associated fees, expenses and any indemnification obligations; and all other expenses incurred by the Specialty Credit Fund in connection with maintaining its status as a BDC.

Administrative Fees and Expenses: Silver Point, or an affiliate, may perform some or all of the functions of a third-party administrator in-house. Each affiliated administrator will be reimbursed for all out-of-pocket expenses out of the assets of the Specialty Credit Fund.

Following Conversion, the Specialty Credit Fund will reimburse Silver Point or its affiliates, as applicable, for all costs and expenses incurred in connection with administering the Specialty Credit Fund's business including out of pocket expenses (including travel, lodging and meals), the Specialty Credit Fund's allocable portion of Silver Point's or any affiliated administrator's overhead expenses in performing its obligations under the Specialty Credit Fund's advisory agreement or any administration agreement, as applicable, including rent and the allocable portion of the compensation paid by Silver Point or its affiliates, as applicable, to the Specialty Credit Fund's Chief Compliance Officer and Chief Financial Officer and their respective staffs (based on the percentage of time such individuals devote, on an estimated basis, to the business affairs of the Specialty Credit Fund), third-party software licensing, implementation, data management and recovery services and custom development costs.

Other Fees: If Silver Point or its affiliates receives any compensation in the form of directors' fees, transaction fees, monitoring fees, financial advisory fees, investment management fees, origination fees, arrangement fees, commitment fees, broken deal fees and other fees for similar or related services and any other compensation in connection with lending or other financial transactions or investments (including, without limitation, acquisitions, dispositions, recapitalizations and restructurings), the portion of such compensation ratably attributable to investments made (or, in the case of broken deal fees, proposed) by the Specialty Credit Fund will be either (a) paid to the Specialty Credit Fund or (b) prior to Conversion, applied as an offset to the Specialty Credit Fund Management Fee. Prior to Conversion, if the Specialty Credit Fund Management Fee is not sufficient to offset any such fees, any shortfall will be carried forward to reduce future Specialty Credit Fund Management Fees until the earlier of such time as (i) such shortfall is fully offset or (ii) Silver Point is no longer entitled to receive the Specialty Credit Fund Management Fee from the Specialty Credit Fund. Upon Conversion or such time that Silver Point is no longer entitled to receive the Specialty Credit Fund Management Fee from the Specialty Credit Fund, any remaining shortfall will be paid by Silver Point or its affiliates to the Specialty Credit Fund.

Any fees received by Silver Point or its affiliates in connection with or arising from providing administrative, collateral management or similar or related services to the



Specialty Credit Fund in respect of lending or other financial transactions or investments will be retained by Silver Point or its affiliates and will not be applied as an offset to the Specialty Credit Fund Management Fee, it being understood that, in the event that any expenses incurred by Silver Point or its affiliates in connection with the provision of the foregoing services are charged to the Specialty Credit Fund as a fund expense, the portion of such compensation ratably attributable to such expenses will be either (x) paid to the Specialty Credit Fund or (y) prior to Conversion, paid to Silver Point and applied as an offset to the Specialty Credit Fund Management Fee.

### **Additional Compensation**

Neither Silver Point nor any of its supervised persons accept brokerage commissions for the sale of securities or other investment products.

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

Silver Point and its affiliates accept performance-based fees from every Fund. As a result, Silver Point and its affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

**ITEM 7**  
**TYPES OF CLIENTS**

Silver Point and its affiliates generally provide investment advice to the Funds, as described above.

## **ITEM 8**

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **Methods of Analysis and Investment Strategies**

*The descriptions set forth in this Brochure of specific advisory services that Silver Point offers to clients, and investment strategies pursued and investments made by Silver Point on behalf of its clients, should not be understood to limit in any way Silver Point's investment activities. Silver Point may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Silver Point considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies Silver Point pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.*

#### Flagship Funds

Silver Point's investment strategy with respect to the Flagship Funds focuses on making investments in debt, equity or other securities, obligations or instruments of misvalued, mislevered, leveraged or financially distressed companies and in event-oriented and other special situations. The Flagship Funds may hold both long and short positions in such investments. The investment strategies employed by the Flagship Funds may include (without limitation) the following: credit-oriented investments; event-oriented investments; asset-oriented investments; and investments in misvalued securities, obligations or instruments.

In seeking to achieve its investment objective, the Flagship Funds may utilize any equity, debt, derivative or other instrument that Silver Point deems appropriate, including, but not limited to, bank debt, receivables and trade claims, and may provide financing, including direct lending, debtor-in-possession financing and bankruptcy exit financing, either directly or indirectly through investments in companies, including affiliates of Silver Point, providing such financing. In select circumstances, Silver Point may also pursue other attractive private investment opportunities.

#### C & I Funds

Silver Point's investment strategy with respect to the C & I Funds is to invest in commercial and industrial and commercial real estate (collectively, "C & I") loans, principally acquired from banks and other financial institutions. The majority of the loans are secured by hard assets (including commercial real estate). C & I Fund III may operate property obtained through foreclosure or otherwise and seek to capture both current cash flow and future appreciation.

#### Specialty Credit Fund

Silver Point's investment strategy with respect to the Specialty Credit Fund is to originate loans to small and middle market companies domiciled in the United States and invest in specialty bridge financings, rescue financings and secondary purchases of loans and other

credit-related assets. It is anticipated that the majority of these loans will be secured, floating rate investments. The Specialty Credit Fund will focus on opportunities that have niche characteristics—situations involving complexity, imminent capital needs, sourcing challenges, and similar features that limit the participation of traditional financing sources—as well as on other credit-related assets. In seeking to achieve its investment objective, the Specialty Credit Fund may invest across a broad range of industries.

In addition, the Fund may invest in a broad range of asset classes and instruments as the Specialty Credit Fund GP deems appropriate, including, but not limited to, equity and debt securities (secured or unsecured), loans, derivatives, receivables and trade claims, whether or not such investments are privately placed, directly purchased, publicly traded, held through participations or otherwise, or issued by any company, entity, organization, government or other person. The Specialty Credit Fund may also make investments in companies and issuers domiciled outside of the United States.

At any time during the term of the Specialty Credit Fund, Silver Point may, in its sole discretion, elect to effect a restructuring of the Specialty Credit Fund by causing the Specialty Credit Fund to (i) convert to, merge with or directly or indirectly transfer all or any portion of its assets to, an entity that has elected to be treated as a BDC under the 1940 Act, (ii) elect to be treated as a RIC for U.S. federal income tax purposes and (iii) conduct an IPO.

## **Risk Factors**

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by Silver Point. These risk factors include only those risks Silver Point believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by or types of securities recommended by Silver Point.*

The Funds' investment programs are speculative and entail substantial risks. There can be no assurance that the investment objectives of the Funds will be achieved.

### Risk Factors with respect to the Flagship Funds, the C & I Funds and the Specialty Credit Fund

*Investments Generally.* All investments are speculative and risk the loss of substantial capital. No guarantee or representation is made that the Funds' investment programs will be successful. The Funds' investment programs involve, without limitation, risks associated with limited diversification and concentration, investments in speculative assets and the use of speculative investment strategies and techniques, interest rates, volatility, tracking risks in hedged positions, credit deterioration or default risks, currency risks, systems risks and other risks inherent in the Funds' activities. The Funds' investments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular markets where the Funds may invest their assets.

Silver Point's methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or

current, and such information may be misinterpreted. In certain situations Silver Point may be unable to, or may choose not to, implement risk management strategies because of the costs involved or other relevant circumstances, and even if risk management strategies are utilized, such strategies cannot fully insulate the Funds from the risks inherent in their planned activities.

*Availability of Investments.* The identification of investments suitable for the Funds is difficult and involves significant uncertainty. There can be no guarantee that Silver Point will identify such investment opportunities or that committed capital will be fully invested. Even if such investments are identified there can be no assurance that they will not decline in value considerably while held by the Funds including, without limitation, as a result of weakness in the credit or other markets, or other circumstances.

*Identity of Beneficial Ownership and Withholding on Certain Payments.* In order to avoid a U.S. withholding tax of 30% on certain payments (including payments of gross proceeds) made with respect to certain actual and deemed U.S. investments, each non-U.S. domiciled Fund has registered with the United States Internal Revenue Service (the "Service") and generally will be required to identify, and report information with respect to, certain of its direct and indirect U.S. account holders (including debtholders and equityholders). A non-U.S. investor in a Fund will generally be required to provide to such Fund information which identifies its direct and indirect U.S. ownership. Any such information provided to such Fund will be shared with the Service or, in the case of a non-U.S. domiciled Fund located in a jurisdiction that has entered into a Model 1 IGA, the local authority responsible for sharing such information with the Service. A non-U.S. investor that is a "foreign financial institution" within the meaning of Section 1471(d)(4) of the U.S. Internal Revenue Code of 1986, as amended, will generally be required to timely register with the Service and agree to identify, and report information with respect to, certain of its own direct and indirect U.S. account holders (including debtholders and equityholders). A non-U.S. investor who fails to provide such information to a Fund or timely register and agree to identify, and report information with respect to, such account holders (as applicable) may be subject to the 30% withholding tax with respect to its share of any such payments attributable to actual and deemed U.S. investments of such Fund, and the general partner or board of directors of such Fund may take any action in relation to such investor's interest in such Fund or redemption proceeds to ensure that such withholding is economically borne by the relevant investor whose failure to provide the necessary information gave rise to the withholding. Investors should consult their own tax advisors regarding the possible implications of these rules on their investments in a Fund.

#### Risk Factors with respect to the Flagship Funds and the Specialty Credit Fund

*Exposure to Certain Financial Institutions.* The Flagship Funds and the Specialty Credit Fund may invest in financial instruments issued by financial institutions, such as investment and commercial banks, insurance companies, savings and loan associations, mortgage originators and other companies engaged in the financial services industry (collectively, "financial institutions"). In addition, financial institutions will act as counterparties to the Flagship Funds in connection with the Flagship Funds' and the Specialty Credit Fund's investment activities, and will provide prime brokerage services to the Flagship Funds and the Specialty Credit Fund. The Flagship Funds and the Specialty Credit Fund may also gain exposure to these entities through derivative transactions, including, without limitation, options, credit default swaps and credit linked notes, and through long and short strategies.

In the course of conducting their business operations, financial institutions are exposed to a variety of risks that are inherent to the financial services industry. Significant risks that could affect the financial condition and results of operations of financial institutions include, but are not limited to, fluctuations in interest rates, exchange rates, equity and commodity prices and credit spreads caused by global and local market and economic conditions; credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations; the potential inability to repay short-term borrowings with new borrowings or assets that can be quickly converted into cash while meeting other obligations; operational failures or unfavorable external events; potential changes to the established rules and policies of various U.S. and non-U.S. legislative bodies and regulatory and exchange authorities, such as federal and state securities, bank regulators and industry participants; risks associated with litigation, investigations and/or proceedings by private claimants and governmental and self-regulatory agencies arising in connection with a financial institution's activities; and its continuing ability to compete effectively in the market. Recently, many financial institutions have announced writedowns and losses relating to their exposures to the U.S. subprime market. These financial institutions may continue to have exposure to these markets and products, and as market conditions continue to evolve the fair value of certain mortgage-related instruments could further deteriorate, which could result in further writedowns and losses. Other areas of financial institutions' businesses that have not yet been adversely affected by the illiquidity in mortgage and lending markets could be adversely affected if current conditions in the credit market spread to other sectors. While financial institutions seek to manage these and other risks through risk management policies and procedures, there can be no assurance that such any financial institution's risk management practices will be effective.

*Repurchase Programs and Bank Obligations.* Repurchase agreements are subject to the risk of failure of the seller to repurchase the investment purchased by the Flagship Funds and the Specialty Credit Fund, or delays or limitations on realization of the purchase obligation in the event of the initiation of bankruptcy or other proceedings involving the seller. Certain types of bank obligations which may be acquired by the Flagship Funds and the Specialty Credit Fund may not be covered by insurance from the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

*Investments in Non-Traded Equity.* As part of their investment programs, the Flagship Funds and the Specialty Credit Fund may make investments in non-traded equity. These investments may occur as a result of, among other things, direct equity investments and the Flagship Funds' and the Specialty Credit Fund's purchase of debt instruments that convert to equity interests in the event of a reorganization of an entity's capital structure.

The Flagship Funds' and the Specialty Credit Fund's investments in non-traded equity involve a high degree of business and financial risk. The entities in which the Flagship Funds and the Specialty Credit Fund invest may be financially distressed or have recently emerged from bankruptcy, they may require substantial additional capital to support expansion or to achieve or maintain a competitive position, they may produce substantial variations in operating results from period to period and they may operate at a loss. Such risks may adversely affect the performance of such investments and result in substantial losses. In addition, these entities may require governmental approvals or be subject to licensing procedures in order to operate in their markets. The Flagship Funds and the Specialty Credit Fund could be adversely affected by delays in, or refusals to grant, such

approvals or licenses.

*Bank Loans.* The Flagship Funds' and the Specialty Credit Fund's investment programs will include investments in bank loans. The value of bank loans can fluctuate in response to actual and perceived changes in creditworthiness, non-U.S. exchange rates, political stability or soundness of economic policies. Bank loans (as well as other debt obligations) are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk). These obligations are subject to other risks, including, without limitation: (i) declines in the value of collateral securing the obligations, if any; (ii) declines in the enterprise value of the obligor; (iii) failure of restrictive covenants, if any, to adequately protect the interests of the creditor; (iv) the failure of the bankruptcy process (or other determination of creditors' rights) to produce the outcome anticipated by the investor; (v) the possible invalidation of an investment transaction as a preference or fraudulent conveyance under relevant creditors' rights laws; (vi) so-called lender-liability claims by the issuer of the obligations; and (vii) environmental or other liabilities that may arise with respect to collateral securing the obligations. In analyzing each bank loan, Silver Point compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Flagship Funds and the Specialty Credit Fund, as applicable. The risks associated with bank loans generally also apply to the specific types of bank loans discussed below (*e.g.*, leveraged loans and bridge loans).

#### Risk Factors with respect to the C & I Funds and the Specialty Credit Fund

*Foreclosure Risks.* It is possible that the C & I Funds and the Specialty Credit Fund may find it necessary or desirable to foreclose on certain loans. The foreclosure process is often lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses against the C & I Funds or the Specialty Credit Fund, including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower's position. In some states, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the mortgaged property and may result in disrupting the ongoing leasing, management and operation of the property, and may negatively affect the sales price of the property.

There can be no assurance that there will be a ready market for resale of foreclosed properties because investments in real estate generally are not liquid; holding periods accordingly are difficult to predict, particularly as business plans may be revised to adapt to changing economic, business and financial conditions. In addition, there may be significant expenditures associated with holding real property, including real estate taxes and maintenance costs. The liquidation proceeds upon sale of the real estate may be less than the amount invested in the loan, resulting in a loss to the C & I Funds or the Specialty Credit Fund. Any costs or delays involved in the liquidation of the real estate will further reduce proceeds received and thus increase any loss.



*Taking Possession of Underlying Collateral.* The C & I Funds and the Specialty Credit Fund may take possession of collateral including, without limitation, an asset or business, through a purchase or foreclosure action. There can be no assurance that Silver Point or any management team established by Silver Point will be able to successfully operate, hold or maintain the collateral in accordance with the expectations of the C & I Funds and the Specialty Credit Fund, or that the C & I Funds and the Specialty Credit Fund will be able to profit from their investment in such collateral.

*Risks Associated with Bankruptcy Cases.* There may be instances where the borrowers of the loans in which the C & I Funds and the Specialty Credit Fund invest seek protection under U.S. bankruptcy law. 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 which may be contrary to the interests of the C & I Funds and the Specialty Credit Fund.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a debtor usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the debtor and the C & I Funds and the Specialty Credit Fund; it is subject to unpredictable and lengthy delays; and during the process the debtor's competitive position may erode, key management may depart and the debtor may not be able to invest adequately. In some cases, the debtor may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental value. Such investments can result in a total loss of principal.

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 the C & I Funds' and the Specialty Credit Fund's influence with respect to a class of debt can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Silver Point, on behalf of the C & I Funds and the Specialty Credit Fund, may elect to serve on creditors' committees or other groups to ensure preservation or enhancement of the C & I Funds' and the Specialty Credit Fund's positions as creditors. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If Silver Point concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the C & I Funds and the Specialty Credit Fund, it will resign from that committee or group, and the C & I Funds and the Specialty Credit Fund may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if the C & I Funds and the Specialty Credit Fund are represented on a committee or group, they may be restricted or prohibited under applicable law from disposing of or increasing their

investments in such company while they continue to be represented on such committee or group.

*Risks Associated with Investing in Commercial and Industrial Loans; Real Estate as Collateral.* Certain of the C & I Funds' and the Specialty Credit Fund's loan investments may be subject to the risks inherent in the ownership of real property to the extent that real property may be underlying collateral for such investments. For instance, the C & I Funds will often invest in loans secured by commercial and industrial properties. While Silver Point will typically value commercial and industrial and other assets secured by real property based on their real estate liquidation value alone (including for underwriting purposes), a property's tenant(s), a property's attributes and the quality of the neighbourhood, may each adversely impact the ability of the borrower to repay the loan and the value of the property. Factors that can affect the value of commercial & industrial loans and loans that are targeted for investment by the Specialty Credit Fund include, without limitation, (i) the diversity and quality of a property's tenants, including whether the owner relies on a single or dominant tenant and the creditworthiness of any such tenant; (ii) the terms, including duration, of a property's leases with tenants; (iii) an economic decline in the business that occupies a property; (iv) a decline in a particular business segment, which thereby reduces demand for a particular type of space; (v) the physical attributes of a property (both individually and in comparison to competing properties), including, but not limited to, a property's age, its physical condition, design and appearance, its location and access to transportation, and its ability to offer amenities (e.g., sophisticated systems and/or wiring requirements); (vi) a property's technological attributes and adaptability to changes in a tenant's technological needs; (vii) the desirability of the neighborhood as a location; (viii) continued expenses for maintenance, refurbishment and modernization of existing facilities, even prior to their useful life; (ix) a decline in the managerial capacity or prowess of a business operator; (x) the strength of the local economy, including the cost of labor, quality of life and the tax environment; (xi) an adverse impact on the neighborhood's population, including employment growth (thereby creating demand for office space), each influence the ability of the borrower to repay the loan and the underlying value of the business occupying the property and (xii) acts of God and other factors beyond the control of Silver Point. In the event of a default of a loan, the C & I Funds and the Specialty Credit Fund may not fully recover the amount invested in the loan, which may result in a loss on such loan even if purchased at a discount.

*Potential Environmental Liabilities.* Under various U.S. Federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate (which may include lenders such as the C & I Funds and the Specialty Credit Fund in some instances) may be required to investigate and clean up any hazardous or toxic substances or petroleum product releases and may be liable for the costs in connection with such contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner knew of, or was responsible for, the presence of the contaminants, and the liability under such laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The cost of investigation, remediation or removal of such substances may be substantial, and the owner's liability as to any property is generally not limited to the value of the property and/or the aggregate assets of the owner. Furthermore, the presence of such substances on such property may adversely affect the owner's ability to sell or rent such property or to borrow using such property as collateral.

Persons who arrange for the disposal or treatment of hazardous or toxic substances or petroleum products at a disposal or treatment facility may also be liable for the costs of removal or remediation of a release of hazardous or toxic substances or petroleum products at such disposal or treatment facility, whether or not the facility is owned or operated by such person. In certain circumstances, third-party lenders that have directed or had an active involvement in the environmental compliance activities or the day-to-day management of a borrower's facilities or that have taken possession of or title to such borrower's collateral may be liable for the costs of removal or remediation of a release of hazardous or toxic substances or petroleum products at the facility. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with contamination. In addition, the owner of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain U.S. Federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. These laws may impose liability for release of asbestos-containing materials and may provide for third parties to seek recovery from owners or operators of real property for personal injury associated with such asbestos-containing materials.

In connection with the C & I Funds' and the Specialty Credit Funds' debt investments, the C & I Funds and the Specialty Credit Fund, to the extent they have an active involvement in the environmental compliance activities of a borrower's facilities or takes possession of a borrower's collateral, may incur liability for environmental costs. Additionally, changes in environmental laws or in the environmental condition of an asset may create liabilities that did not exist at the time of acquisition and that could not have been foreseen.

#### Risk Factors with respect to the Flagship Funds

*High Yield and Preferred Securities.* The Flagship Funds invest in "high yield" bonds and preferred securities that are rated in the lower rating categories by the various credit rating agencies or comparable non-rated securities. Securities in the lower-rated categories and comparable non-rated securities are subject to greater risk of loss of principal and interest than higher-rated and comparable non-rated securities, and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings or comparable non-rated securities in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated and comparable non-rated securities, the yields and prices of such securities may be more volatile than those for higher-rated and comparable non-rated securities. The market for lower-rated and comparable non-rated securities is thinner, often less liquid, and less active than that for higher-rated or comparable securities, which can adversely affect the prices at which these securities can be sold and may even make it impractical to sell such securities. High-yield bonds and preferred securities are also typically lower in the capital structure of the relevant issuer than other forms of indebtedness, including secured bank debt. As a result, these securities may not be secured (or fully secured) by the underlying assets of the issuer and, in the event of a bankruptcy, reorganization or other similar event, the Flagship Funds would be subject to significant losses in respect of their investment in such securities.

*Corporate Debt.* The Flagship Funds invest in bonds, notes, debentures and other instruments of indebtedness issued by, and other obligations of, corporations. These instruments may pay fixed, variable or floating rates of interest, and may include zero coupon and pay-in-kind obligations. The Flagship Funds may invest in corporate debt instruments that have experienced or are contemplated to experience ratings downgrades. The Flagship Funds may invest in instruments that have the lowest quality ratings or are unrated.

*Ratings.* Credit ratings of debt instruments represent the rating agency's opinions regarding their credit quality and are not a guarantee of quality. Credit ratings evaluate the safety of the principal and interest payments, not the market value risk, of lower-rated instruments. Such ratings also may not accurately reflect macroeconomic or systematic risk, including the risk of increased illiquidity in the credit markets. Accordingly, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Rating agencies may re-rate an instrument which could cause substantial loss as the ratings are downgraded. Such reviews and potential downgrades may be more likely during periods of volatility in the credit markets. Additionally, rating agencies may incorrectly rate instruments due to errors in their internal evaluation processes or models or methodologies. The rating agencies may retrospectively change their rating methodology in the future, which may affect the rating assigned to the existing debt instruments. The Flagship Funds' investments may experience significant credit rating volatility.

*Leveraged Loans.* "Leveraged loans" are loans made to companies with a below investment grade rating from Moody's and S&P. Such loans may be performing poorly when the Flagship Funds acquire them. There is no assurance that Silver Point will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Flagship Funds may lose their entire investment or may be required to accept cash, property or securities with a value less than the Flagship Funds' original investment and/or may be required to accept payment over an extended period of time.

*Bridge Loans.* It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including leveraged buyouts, where it serves as an advisor to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing. However, due to recent market conditions affecting the availability of these other sources of financing (principally high yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities than the permanent financing by which they are expected to be replaced. Borrowers and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at

maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan (with maturities similar to that of a bond). If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by Silver Point, there may be an adverse effect upon the ability of Silver Point to manage the assets of the Flagship Funds in accordance with its models and projections or an adverse effect upon the Flagship Funds' performance and ability to make distributions.

*Risks of Investments in Special Situations.* The Flagship Funds may invest in "event-driven" and other special situations such as recapitalizations, spin-offs, restructurings, bankruptcy, litigation, corporate control transactions, corporate events and other catalyst-oriented strategies. Silver Point could be incorrect in its assessment of the magnitude or probability of the downside risks associated with an investment in an "event-driven" or other special situation, thus resulting in significant losses to the Flagship Funds. Investments in such securities are often difficult to analyze or may have limited trading histories or limited in-depth research coverage. Investing in special situations frequently requires the investor to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's financial instruments. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as Silver Point had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value, but fail to implement it, which can result in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the price paid by the Flagship Funds for the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which may result in litigation to enjoin the proposed transaction; (ii) intervention of a federal or state 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 a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of investing in special situations, the results of the Flagship Funds' operations may be expected to fluctuate from period to period. Accordingly, limited partners of the Domestic Flagship Fund, or shareholders of the Offshore Flagship Fund, as applicable, should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

*Broad Investment Mandate.* The Flagship Funds' investment strategy permits investments to be made in a broad range of issuers, securities, financial instruments and transactions. Subject to the concentration limits set forth in the Flagship Funds' respective offering memoranda, Silver Point may also cause the Flagship Funds to focus their investment activities in a limited number of industries, market sectors or types of securities, financial instruments or transactions. Within those broad parameters, Silver Point will make investment decisions for the Flagship Funds as it deems appropriate in its sole discretion. No assurance can be given that the Flagship Funds will be successful in obtaining suitable investments, or that if such investments are made, the objectives of the Flagship Funds will

be achieved.

*Nature of Bankruptcy Proceedings.* There are a number of significant risks when investing in companies involved in bankruptcy proceedings, including the following: First, many events in a bankruptcy are the product of contested matters and adversary proceedings which are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be adversely impacted by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, 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. Fifth, creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions, especially in the case of investments made prior to the commencement of bankruptcy proceedings. Sixth, certain claims, such as claims for taxes, may have priority by law over the claims of certain creditors. Seventh, under certain circumstances, payments to the Flagship Funds and distributions by the Flagship Funds to their investors may be reclaimed if any such payment is later determined to have been a preferential payment. Eighth, the Flagship Funds may seek representation on creditors' committees, and as a member of a creditors' committee they may owe certain obligations generally to all creditors similarly situated that the committee represents and they may be subject to various trading or confidentiality restrictions. If Silver Point concludes that the Flagship Funds' membership on a creditors' committee entails obligations or restrictions that conflict with the duties it or its affiliates owe to the Flagship Funds' investors, or that otherwise outweigh the advantages of such membership, the Flagship Funds will not seek membership in, or will resign from, that committee. Because the Flagship Funds will indemnify the Flagship GPs, Silver Point or any other person serving on a committee on behalf of the Flagship Funds for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on the Flagship Funds' investment in a reorganization company.

*Leveraged Companies.* The Flagship Funds' investments are expected to include companies whose capital structures may have significant leverage. Such investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. The leveraged capital structure of such investments will increase the exposure of the portfolio companies to adverse economic factors such as downturns in the economy or deterioration in the condition of the portfolio company or its industry. Additionally, the securities acquired by the Flagship Funds may be the most junior in what will typically be a complex capital structure, and thus subject to the greatest risk of loss.

*Hedging Risks.* Silver Point may hedge some or all of the Flagship Funds' portfolios by taking long and short positions in related securities or through the use of futures, swaps and other derivative instruments, involving, among other things, securities, interest rates or currencies. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of such portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same

developments, thus seeking to moderate the decline in the portfolio position's value. Therefore, hedging transactions may prevent losses while limiting the opportunity for gain if the value of the portfolio position should increase. In the event of an imperfect correlation between a position in a hedging instrument and the portfolio position that it is intended to protect, the desired protection may not be obtained, and the Flagship Funds may be exposed to risk of loss. In addition, it is not possible to hedge fully or perfectly against any risk, and hedging entails its own costs and risks, such as counterparty risk. Silver Point may determine in its sole discretion not to hedge against certain risks or may not anticipate certain risks and certain risks may exist that cannot be hedged.

*Leverage and Financing Risk.* The Flagship Funds may leverage their investments in order to enhance returns. Accordingly, the Flagship Funds' securities may be pledged in order to borrow additional funds for investment purposes. The Flagship Funds' investment return may be leveraged with options, short sales and other derivative instruments (including swaps).

Financing arrangements to which the Flagship Funds are or may be subject may contain financial covenants, including limitations on the level of financing that may be provided, asset coverage requirements, limitations on restricted payments (including distributions), minimum performance requirements, issuer and industry diversification requirements, and other limitations and covenants. Furthermore, the financing terms (including, without limitation, terms related to margin requirements) contained in each of the Flagship Fund's prime brokerage arrangements may be changed by the relevant prime broker, subject to certain limitations.

While leverage presents opportunities for increasing the Flagship Funds' total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by the Flagship Funds would be magnified to the extent the Flagship Funds are leveraged. The cumulative effect of the use of leverage by the Flagship Funds in a market that moves adversely to the Flagship Funds' investments could result in a substantial loss to the Flagship Funds which would be greater than if the Flagship Funds were not leveraged.

In general, the Flagship Funds' anticipated use of short-term margin borrowings results in certain additional risks to the Flagship Funds. For example, should the securities pledged by the Flagship Funds to brokers to secure margin accounts decline in value, the Flagship Funds could be subject to a "margin call," pursuant to which the Flagship Funds must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Flagship Funds' assets, the Flagship Funds might not be able to liquidate assets quickly enough to satisfy their margin requirements.

None of the Flagship Funds will borrow money to acquire investments or satisfy obligations of the Flagship Funds in excess of two and one-half times the sum of (i) the net asset value of the Domestic Flagship Fund or the Master Flagship Fund (as applicable) and (ii) the aggregate amount of deferred Flagship Management Fees and incentive compensation (as applicable), if any, owed to Silver Point (each, as determined at the time of the borrowing); provided that the Flagship Funds may exceed such limit with respect to borrowings incurred to facilitate short trading activity and hedging activity.

*Short Selling.* The Flagship Funds may sell securities short. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the Flagship Funds' portfolios. A short sale of a security involves the risk of a theoretically unlimited loss from a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating any loss.

*Position Limits.* In addition to the requirement that each Flagship Fund not invest more than an amount equal to 15% of its net asset value (determined at the time of investment) in any single portfolio company without the consent of a majority in interest of such Flagship Fund's investors, the Flagship Funds may be subject to "position limits" imposed by various regulators. Such position limits may limit the Flagship Funds' ability to effect desired trades. Position limits are the maximum amounts of net long or net short positions that any one person or entity may own or control in a particular financial instrument. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if the Flagship Funds do not intend to exceed applicable position limits, it is possible that different accounts managed by Silver Point and its affiliates may be aggregated. If at any time positions managed by Silver Point were to exceed applicable position limits, Silver Point would be required to liquidate positions to the extent necessary to come within those limits. Further, to avoid exceeding the position limits, the Flagship Funds might have to forego or modify certain of their contemplated trades.

*Risks of Options.* A component of the Flagship Funds' investment programs may involve the purchase and sale of options. There are risks associated with the sale and purchase of call options and put options.

The value of an option may change because of a change in the value of the underlying securities, the passage of time, changes in the market's perception as to the future price behavior of the underlying securities, interest rates, or any combination of the foregoing. In the case of the purchase of an option, the risk of loss of an option buyer's entire investment in the option (i.e., the premium paid and transaction charges) reflects the nature of an option as a wasting asset that may become worthless at its expiration. Where an option is written (or sold) uncovered, the option seller may be liable to pay substantial additional margin, and the risk of loss is theoretically unlimited, as the option seller will be obligated to deliver, or take delivery of, a security at a predetermined price, which may, upon the exercise of the option, be significantly different from its market value at the time the option was initially written (or sold).

The Flagship Funds may purchase and sell exchange-traded options on individual securities, securities sectors and/or securities indices. There can be no guarantee that there will at all times be a liquid market for all options. A market could become unavailable if one or more exchanges were to stop trading options or it could become unavailable with respect to options on a particular underlying stock if the exchanges stopped trading options on that stock. In addition, a market could become temporarily unavailable if unusual events (e.g., volume exceeds clearing capability) were to interrupt normal exchange operations. If an options market were to become illiquid or otherwise unavailable, an option holder would be able to realize profits or limit losses only by exercising and an option seller or writer would



remain obligated until the option is exercised or until the option expires.

If trading is interrupted in an underlying stock, the trading of exchange-traded options on that stock is usually halted as well. Holders and writers of such options will then be unable to close out their positions until options trading resumes, and they may be faced with considerable losses if the stock reopens at a substantially different price. Even if options trading is halted, holders of options will generally be able to exercise them. However, if trading has also been halted in the underlying stock, option holders face the risk of exercising options without knowing the stock's current market value. If exercises do occur when trading of the underlying stock is halted, the party required to deliver the underlying stock may be unable to obtain it, which may necessitate a postponed settlement and/or the fixing of cash settlement prices.

*Highly Volatile Markets.* The prices of commodities contracts and all derivative instruments, including options prices, can be highly volatile. Price movements of forward and other derivative contracts in which the Flagship Funds' assets may be invested are 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. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Flagship Funds also are subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses.

*Illiquidity and Credit Risk of Derivative Instruments.* The Flagship Funds may enter into transactions involving privately negotiated over-the-counter derivative instruments, including, without limitation, total-return, interest rate, non-U.S. currency and credit default swaps, over-the-counter options and forward contracts on securities, security indices and non-U.S. currency, and volatility and other swaps (each, a "Synthetic Asset"). There can be no assurance that a liquid secondary market will exist for any particular derivative instrument at any particular time. Although over-the-counter derivative instruments are designed to be tailored to meet particular financing needs and, therefore, typically provide more flexibility than exchange-traded products, the risk of illiquidity is also greater as these instruments can generally be terminated only by negotiation with the other party to the instrument. Over-the-counter derivative instruments, unlike exchange-traded instruments, are not guaranteed by an exchange or clearinghouse and thus may have greater credit risks.

*Other Derivative Instruments.* The Flagship Funds may effectuate a portion of their investment objective indirectly through Synthetic Assets including, without limitation, total return swaps and credit derivatives.

Each Synthetic Asset that is a credit derivative or total return swap may reference one or more reference assets including leveraged loans, high yield bonds, second lien loans and other debt financings or securities (each, a "Reference Obligation"). Exposure to such Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of the securities or investments. The Flagship Funds will have a contractual relationship only with a counterparty, and not with any issuer (each, a "Reference Entity") of a Reference Obligation unless an event of default occurs with respect

to any such Reference Obligation, physical settlement applies and the counterparty delivers the Reference Obligation to the Flagship Funds. If the Flagship Funds do not take delivery of the Reference Obligation, the Flagship Funds likely will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and the Flagship Funds will not have any rights of set-off against the Reference Entity.

In the event of the insolvency of the counterparty, the Flagship Funds will be treated as general creditors of the counterparty, and will not have any claim of title with respect to the Reference Obligations. Consequently, the Flagship Funds will be subject to the credit risk of the counterparty, as well as that of the Reference Entity. As a result, entering into Synthetic Assets subjects the Flagship Funds to an additional degree of risk with respect to defaults by the counterparty as well as by the respective Reference Entities.

While the Flagship Funds expect that returns in connection with Synthetic Assets will reflect those of each related Reference Obligation, as a result of the terms of the individual Synthetic Asset instruments and the assumption of the credit risk of the counterparty, the Flagship Funds' Synthetic Assets will likely have a different expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default. In addition, entering into Synthetic Assets may also be done on a levered basis, which means that the returns in connection with an investment in a Synthetic Asset, whether positive or negative, may be higher than they would have been had the Flagship Funds purchased the Reference Obligation directly.

Synthetic Assets may be less liquid and not as transferable as other obligations and may be subject to more variability between their market value and actual sale price of the underlying Reference Obligation than other obligations. In addition, there is no assurance that a buyer will be available or a termination value will be immediately determinable if the Flagship Funds decide to sell or terminate a Synthetic Asset.

It is expected that the Flagship Funds will not be able to transfer Synthetic Assets without the consent of the applicable counterparty. If the Flagship Funds want to terminate their exposure to a Synthetic Asset and the counterparty objects, the Flagship Funds may be obligated to continue to hold the Synthetic Asset. In addition, because the Synthetic Asset may not be liquid, it may be difficult to enter into an offsetting synthetic transaction at what Silver Point believes is the market price.

To enter into a Synthetic Asset, the Flagship Funds generally will enter into a form of ISDA Master Agreement. The ISDA Master Agreement has "events of default" and "termination events" and an unwind methodology that is applicable to both parties. If an "event of default" or "termination event" occurs with respect to either party, the non-defaulting or non-affected party will have a right to designate an "early termination date", and the party will use a standard valuation methodology as specified in the ISDA Master Agreement to determine the termination price for all the Synthetic Assets. Depending upon the market conditions when the early termination date is designated, the unwind price may be less than what Silver Point believes is a fair unwind price, particularly if the price is based upon third party quotations. For example, recently the credit markets have experienced a liquidity crisis, including the derivative markets on loans and leveraged finance instruments, which has made the sale and termination of derivative instruments difficult.

The Flagship Funds may take advantage of opportunities with respect to certain Synthetic Assets that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Flagship Funds and legally permissible. Special risks may apply to instruments that are invested in by the Flagship Funds in the future that cannot be determined at this time or until such instruments are developed or invested in by the Flagship Funds. For example, risks with respect to credit derivatives may include determining whether an event will trigger payment under the contract and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to basis risk. Other Synthetic Assets may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

*Non-U.S. Currency.* The Flagship Funds may enter into non-U.S. currency option and forward contracts for speculative, hedging or other investment purposes. Non-U.S. currency option contracts (the right to buy or sell the underlying non-U.S. currency at a specific price in a specific currency) involve risks similar to the risks involved in trading securities options. Non-U.S. currency forward contracts (agreements to exchange one currency for another at a future date) involve a risk of loss if currency exchange rates move against the Flagship Funds, unless such contracts are hedges of non-U.S. currency risk of the Flagship Funds in their investments. In addition, forward contracts are not guaranteed by an exchange or clearinghouse. Therefore, a default by the forward contract counterparty may result in a loss to the Flagship Funds for the value of unrealized profits on the contract or for the difference between the value of their commitments, if any, for purchase or sale at the current currency exchange rate and the value of those commitments at the forward contract exchange rate.

It is contemplated that most non-U.S. currency forward contracts will be with banks. There are no limitations on daily price moves of forward contracts. Banks are not required to continue to make markets in currencies. There have been periods during which certain banks have refused to continue to quote prices for forward contracts or have quoted prices with an unusually wide spread (the difference between the price at which the bank is prepared to buy and that at which it is prepared to sell). The imposition of credit controls by governmental authorities might limit the level of such forward trading to less than that which Silver Point would otherwise recommend, to the possible detriment of the Flagship Funds. Neither the Commodity Futures Trading Commission nor the U.S. banking authorities regulate forward currency transactions through banks. In respect of such trading, the Flagship Funds are subject to the risk of bank failure or the inability of or refusal by a bank to perform with respect to such contracts.

*Liquidity of Investments.* The Flagship Funds' investments will include privately-held securities or other financial instruments which are generally less liquid than publicly-traded securities. Such investments may require a significant amount of time from the date of initial investment before disposition. The value of all illiquid securities and any marketable securities for which reliable quotations are not available (including Designated Investments) will be their fair value (which may be their cost) as determined pursuant to the policies and procedures described under the respective Flagship Funds' offering memoranda. There can

be no assurance that the valuations assigned to such securities will ever be realized.

*Non-U.S. Investments.* The Flagship Funds' portfolios may consist of non-U.S. securities, financial instruments and other assets. Such investments require consideration of certain risks typically not associated with investing in the U.S. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by the U.S. or non-U.S. governments, U.S. and non-U.S. withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, political difficulties, including expropriation of assets, confiscatory taxation and economic or political instability in non-U.S. nations.

With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of funds or other assets of the Flagship Funds, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the markets of different countries, and their associated risks, are expected to change independently of each other.

There may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the U.S., and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. Securities markets outside the U.S., while growing in volume, have for the most part substantially less volume than U.S. markets, and many securities traded on these non-U.S. markets are less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets. There also may be less extensive regulation of the securities markets in particular countries than in the U.S.

Additional costs could be incurred in connection with the Flagship Funds' international investment activities. Brokerage commissions outside the U.S. generally are higher than in the U.S. Expenses also may be incurred on currency exchanges when investments are changed from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of non-U.S. laws to non-U.S. custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

Investments denominated in currencies other than the U.S. dollar have a price determined by reference to currencies other than the U.S. dollar. The Flagship Funds value their securities and other assets in U.S. dollars. The value of certain of the Flagship Funds' assets fluctuates with U.S. dollar exchange rates as well as with price changes of the Flagship Funds' investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Flagship Funds make their investments will reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of the Flagship Funds' investments in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite

effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the Flagship Funds' non-U.S. dollar investments.

#### Risk Factors with respect to the C & I Funds

*Lack of Diversification.* The C & I Funds' investment strategy is focused on investing in a narrow category of assets. The aggregate return on the investments may be adversely affected by the unfavorable conditions which may impact a particular region or property type and will be at a greater risk to overall changes in the economy (and in particular the commercial & industrial loan market) than if the C & I Funds had a more diversified portfolio.

*General Credit Risks.* The C & I Funds will be exposed to losses resulting from borrower default. Therefore, the value of the underlying collateral, the creditworthiness of the borrower or other counterparty and the priority of the lien are each of great importance. Silver Point cannot guarantee the adequacy of the protection of the C & I Funds' interests, including the validity or enforceability of the applicable loan purchase contract and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, Silver Point cannot assure that claims may not be asserted that might interfere with enforcement of the C & I Funds' rights.

*Vulnerability to Interest Rate Changes.* Some of the loans in which the C & I Funds invest will be fixed-rate debt or similar instruments, and therefore will decline in value when interest rates rise. Also, because the value of real estate may decline when interest rates rise, the value of the collateral underlying the loans in which the C & I Funds invest may decline at the same time as the securities themselves. Therefore, rising interest rates could substantially reduce the value of the investments and the price the C & I Funds would receive if it tried to dispose of them.

*Investments Longer Than Term.* The C & I Funds may make investments which may not be advantageously disposed of prior to the date scheduled for dissolution of the C & I Funds. Additionally, due to the illiquid nature of the collateral that underlies many of the positions which the C & I Funds are expected to acquire, as well as the uncertainties of the reorganization and active management process, Silver Point is unable to predict with confidence what the exit strategy will ultimately be for any given position. Although Silver Point expects that investments (and their underlying collateral, if applicable) will be able to be disposed of prior to dissolution, the C & I Funds may have to sell, distribute, or otherwise dispose of investments (or collateral) at a disadvantageous time for a price which is less than the price that could have been obtained if they were held for a longer period of time.

*General Real Estate Risks.* The C & I Funds' investments will be subject to the risks inherent in the ownership of real property to the extent that real property will typically be underlying collateral for the C & I Funds' loan investments. These risks include, but are not limited to, typical expenses incurred in connection with the ownership of real property; general and local economic conditions; the supply and demand for properties; fluctuations in the average occupancy and room rates for hotel properties; the financial resources of tenants; changes in building, environmental, and other laws; changes in real property tax rates; changes in interest rates and the availability of mortgage funds which may render the sale or refinancing of properties difficult or impracticable; negative developments in the

economy that depress travel activity; environmental liabilities; uninsured casualties; the quality and philosophy of management; competition based on rental rates; quality of maintenance; changes in operating costs; the exercise of the right of eminent domain by governmental entities; terrorism; acts of God and other factors beyond the control of Silver Point.

*Prepayment Risk.* The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "discount" loans (loans whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since the C & I Funds will focus on investments in discount loans, such loans may be adversely affected by slower than anticipated prepayments.

*Risks Associated with Non-Performing Loans.* It is anticipated that certain loans purchased by Silver Point for the C & I Funds will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans. By their nature, these investments will involve a high degree of risk. Commercial & industrial loans in workout and/or restructuring modes or under the United States Bankruptcy Code are subject to additional potential liabilities, which may exceed the value of the C & I Funds' original investments. For example, borrowers often resist foreclosure by asserting numerous claims, counterclaims and defenses against the holder of the real estate loan, including lender liability claims and defenses, in an effort to delay or prevent foreclosure. Under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the C & I Funds and distributions or dividends by the C & I Funds to their investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. In addition to being lengthy and expensive, foreclosure and bankruptcy proceedings may disrupt ongoing leasing and management of the property.

*Second Lien Loans.* Although the C & I Funds expect to invest primarily in loans where they hold a first lien position, the C & I Funds may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In the event of default by the borrower, holders of loans secured by a second lien on assets will have a lower priority in terms of payment than holders of loans secured by a first lien on assets. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.

*Leverage and Financing Risk.* The C & I Fund II may leverage its investments in order to enhance returns. Accordingly, the C & I Fund II's assets may be pledged in order to borrow additional funds for investment purposes.

The C & I Fund III may use leverage as part of its investment strategy and may secure such leverage with one or more assets of the C & I Fund III, a pledge of the investors'

undrawn capital commitments or the C & I III GP's right to call capital. Such leverage may be obtained through limited partnerships or other vehicles (each, a "C & I III Alternative Investment Vehicle") that will invest in lieu of the C & I III Fund or any subsidiary through which the C & I Fund III may invest its assets directly or indirectly (a "C & I III Subsidiary"). Investors may be required to confirm the terms of their capital commitments to the lender, to honor capital calls made by the lender, to provide financial information to the lender and to execute other documents in connection with obtaining such leverage. In addition, the C & I III Fund, any C & I III Alternative Investment Vehicle and any C & I III Subsidiary may use its credit facilities to bridge the investors' capital contributions and for investment related purposes.

Financing arrangements to which the C & I Fund II and C & I Fund III may be subject may contain financial covenants, which may include limitations on the level of financing that may be provided, asset coverage requirements, limitations on restricted payments (including distributions), minimum performance requirements, diversification requirements, and other limitations and covenants.

While leverage presents opportunities for increasing the C & I Fund II's and C & I Fund III's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by the C & I Fund II or C & I Fund III would be magnified to the extent the C & I Fund II or C & I Fund III is leveraged. The cumulative effect of the use of leverage by the C & I Fund II or the C & I Fund III in a market that moves adversely to the C & I Fund II's or C & I Fund III's investments could result in a substantial loss to the C & I Fund II or C & I Fund III which would be greater than if the C & I Fund II or C & I Fund III were not leveraged.

#### Risk Factors with respect to the Specialty Credit Fund

*Nature of Investments.* The Specialty Credit Fund intends to invest a substantial portion of its commitments in senior secured loans and secondary purchases of debt issued by small and middle market companies, and to a lesser extent, preferred stock and equity investments.

- *Senior Secured Loans.* When the Specialty Credit Fund makes a "unitranche" or senior secured term loan investment in a portfolio company, it generally takes a security interest in the available assets of the portfolio company, including the equity interests of its subsidiaries, which is expected to help mitigate the risk that the Specialty Credit Fund will not be repaid. However, there is a risk that the collateral securing the loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. In some circumstances, the lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that the Specialty Credit Fund will receive principal and interest payments according to the loan's terms, or

at all, or that the Specialty Credit Fund will be able to collect on the loan should it be forced to enforce its remedies.

- *Mezzanine or Other Junior Debt.* To the extent the Specialty Credit Fund invests in mezzanine or other junior debt, it may incur additional risks. Junior debt investments generally will be subordinated to senior loans and will either have junior security interests or be unsecured. As such, other creditors may rank senior to the Specialty Credit Fund in the event of an insolvency. This may result in greater risk and loss of principal.
- *Equity Investments.* When the Specialty Credit Fund invests in senior secured loans or mezzanine loans, it may acquire equity securities, including warrants, as well. In addition, the Specialty Credit Fund may invest directly in the equity securities of portfolio companies. The goal is ultimately to dispose of such equity interests and realize gains upon the disposition of such interests. However, the equity interests the Specialty Credit Fund receives may not appreciate in value and, in fact, may decline in value. Accordingly, the Specialty Credit Fund may not be able to realize gains from its equity interests, and any gains that it does realize on the disposition of any equity interests may not be sufficient to offset any other losses.
- *Preferred Stock and Preferred Securities.* To the extent the Specialty Credit Fund invests in preferred securities, it may incur particular risks, including:
  - preferred stock and preferred securities generally include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer;
  - if the Specialty Credit Fund owns a preferred security that is deferring its distributions or paying interest in-kind, it may be required to report income for U.S. federal income tax purposes before it receives such distributions and investors may be required to pay incentive compensation on non-cash accruals that ultimately may not be realized;
  - preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore are subject to greater credit risk than more senior debt instruments, and preferred stock is similarly subordinated to preferred securities; and
  - generally, preferred stock and preferred security holders have no voting rights with respect to the issuing company unless preferred distributions or dividends have been in arrears for a specified number of periods, at which time the holders may elect a number of directors to the issuer's board, but only until all the arrearages have been paid.



Silver Point expects that a substantial portion of the Specialty Credit Fund's portfolio will consist of investments in private companies and companies with attributes that may be perceived as more risky or speculative by loan counterparties. These attributes include, but are not limited to: (i) borrowers with an imminent need for capital; (ii) borrowers with complex capital structures; (iii) borrowers undergoing corporate reorganizations or restructurings; (iv) borrowers in out-of-favor or misunderstood industries; and/or (v) borrowers pledging non-traditional assets as security. The Specialty Credit Fund's ability to make a fully informed investment decision may be constrained, as there is little public information available about private companies, which also may not have third-party debt ratings or audited financial statements. Insufficient access to information about market comparables may also constrain the quality of the investment decision process. The Specialty Credit Fund will depend on Silver Point to obtain adequate information through due diligence to evaluate the creditworthiness and potential returns from investing in these companies. If the Specialty Credit Fund is unable to obtain sufficient material information about the companies in which it invests, it may not make a fully informed investment decision and the Specialty Credit Fund may suffer losses.

*Small and Middle Market Companies.* The Specialty Credit Fund intends to invest primarily in small and middle market companies, which involves a number of significant risks, including:

- such issuers may have limited financial resources and may be unable to meet their obligations under their debt securities that the Specialty Credit Fund holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the Specialty Credit Fund realizing any guarantees the Specialty Credit Fund may have obtained in connection with its investment;
- they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on the portfolio company and, in turn, on the Specialty Credit Fund;
- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;
- Silver Point and, following Conversion, any of the Specialty Credit Fund's executive officers or directors may, in the ordinary course of business, be named as defendants in litigation arising from the Specialty Credit Fund's investments in the portfolio companies;
- they generally have less publicly available information about their businesses, operations and financial condition and, if the Specialty Credit Fund is unable

to uncover all material information about these companies, it may not make a fully informed investment decision; and

- they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

*Investments in Sub-Investment Grade and Non-Rated Securities.* Silver Point anticipates that a substantial portion of the Specialty Credit Fund's portfolio may consist of investments that have been given either a below investment grade rating from Moody's Investors Service, Inc. and Standard & Poor's Corporation or have not been rated by any ratings agency. Securities in the lower-rated categories and comparable non-rated securities are subject to greater risk of loss of principal and interest than higher-rated and comparable non-rated securities, and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings or comparable non-rated securities in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated and comparable non-rated securities, the yields and prices of such securities may be more volatile than those for higher-rated and comparable non-rated securities. The market for lower-rated and comparable non-rated securities is thinner, often less liquid, and less active than that for higher-rated or comparable securities, which can adversely affect the prices at which these securities can be sold and may even make it impractical to sell such securities.

*Hedging Policies and Risks; Synthetic Investments.* In connection with the financing of certain investments, the Specialty Credit Fund may employ hedging techniques designed to reduce the risks of such investments, including, without limitation, adverse movements in securities prices. However, such hedging techniques are not expected to play a significant role in the Specialty Credit Fund's overall investment strategy. Moreover, the Specialty Credit Fund is not required to employ such hedging techniques in connection with its investments, and may be unable to anticipate all risks against which such hedges could be employed. Inherent risks associated with such transactions include, among others, the possible default by the counterparty to the transaction and the illiquidity of the instrument acquired by the Specialty Credit Fund relating thereto. Although such transactions may reduce the Specialty Credit Fund's exposure to, among other things, decreases in the value of investments, the costs and risks associated with these arrangements may reduce the returns that the Specialty Credit Fund would have otherwise achieved if these transactions were not entered into by the Specialty Credit Fund. In addition, although such hedging transactions may hedge economic risks, they may not be effective hedges for tax purposes. For example, the tax character of the gain or loss on the hedging transaction may differ from the character of the gain or loss on the investment or the timing of the gain or loss for tax purposes may differ between the hedging transaction and the investment. Changes to the regulations applicable to the financial instruments the Specialty Credit Fund uses to accomplish its hedging strategy could affect the effectiveness of that strategy.

With respect to any investments in synthetic instruments, the Specialty Credit Fund will have a contractual relationship only with the synthetic instrument counterparty, and no direct rights with respect to the underlying asset. The Specialty Credit Fund may not have any voting, information, or other rights of ownership with respect to the underlying asset. In addition, the Specialty Credit Fund will be subject to the credit risk of the synthetic

instrument counterparty, and, in the event of the insolvency of such counterparty, the Specialty Credit Fund generally will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the underlying asset.

*Derivative Instruments.* The Specialty Credit Fund may enter into derivative transactions, including total return swaps ("TRSs") and other derivative instruments for hedging and other investment purposes. Derivative instruments come in many varieties, including futures and forward contracts, options (both written and purchased), swaps and swaptions. For example, in certain situations, the Specialty Credit Fund expects to enter into currency hedges with such instruments.

The Specialty Credit Fund's derivatives may be exchange-listed, centrally-cleared or traded over the counter ("OTC"). In connection with trading in exchange-listed or centrally-cleared instruments, the Specialty Credit Fund is subject to the risk of failure of any of the clearinghouses or clearing members through which its positions are cleared. OTC derivative instruments may be subject to the risk that a counterparty will default on its payment obligations or that one party will not be able to meet its obligations to the other. Furthermore, in certain derivative transactions, the Specialty Credit Fund will be required to post collateral to secure its obligations to a counterparty or clearing member under the transaction. The counterparty or clearing member, however, may not be required to collateralize any of its obligations to the Specialty Credit Fund. Requirements for the Specialty Credit Fund to post collateral may expose it to the risk that it will not have sufficient unencumbered cash or securities to satisfy those collateral requirements and the risk that its counterparty or clearing member will fail to return excess collateral. Depending on the extent to which the Specialty Credit Fund is required to collateralize its derivatives positions, those positions may effectively add leverage to the Specialty Credit Fund's portfolio by exposing it to changes in the value of the derivative's underlier in excess of the amount that the Specialty Credit Fund has invested in the derivative. Furthermore, an OTC derivative instrument may contain optional early termination provisions that require a cash settlement. It is possible that the Specialty Credit Fund will owe more to the counterparty or, alternatively, will be entitled to receive less from the counterparty than it would have if the Specialty Credit Fund controlled the timing of such termination due to the existence of adverse market conditions at the time of such termination.

With respect to leverage embedded in derivative instruments, the Specialty Credit Fund may be subject to major losses in the event that it is forced to liquidate positions at a disadvantageous time. Furthermore, the credit extended to the Specialty Credit Fund by dealers to permit it to maintain its leveraged positions can be terminated by the dealers largely in their discretion, forcing liquidation at potentially material losses.

There is a lack of authoritative guidance related to the treatment of TRSs in the context of the 1940 Act asset coverage ratio. For this reason, following Conversion, the Specialty Credit Fund may be required to include the leverage of a TRS for purposes of computation of the asset coverage ratio under the 1940 Act, which would cause the Specialty Credit Fund's asset coverage ratio to decrease.

Changes to the regulations applicable to derivatives, including TRSs, could affect the Specialty Credit Fund's ability to use these instruments and the costs of doing so.

*Investments Longer Than Term.* In the event that the Specialty Credit Fund does not conduct an IPO, the Specialty Credit Fund may not be able to advantageously dispose of its investments prior to the end of the term of the Specialty Credit Fund. In these circumstances, although Silver Point expects that investments (and their underlying collateral, if applicable) will be able to be disposed of prior to the end of the term of the Specialty Credit Fund, the Specialty Credit Fund may have to sell, distribute, or otherwise dispose of investments (or collateral) at a disadvantageous time for a price which is less than the price that could have been obtained if they were held for a longer period of time. Additionally, due to the illiquid nature of the collateral that underlies many of the positions which the Specialty Credit Fund is expected to acquire, as well as the uncertainties of the reorganization and active management process, Silver Point is unable to predict with confidence what the exit strategy will ultimately be for any given position. Further, if the Specialty Credit Fund creates a subsidiary licensed as a small business investment company (an "SBIC") prior to an IPO, the term of the Specialty Credit Fund will be automatically extended pending the final distribution by such SBIC subsidiary to the Specialty Credit Fund.

*Sourcing of Investments.* Silver Point expects to source a substantial volume of the Specialty Credit Fund's investment opportunities through Silver Point's investment professionals, internal sourcing platform and external relationships. To the extent these sourcing channels do not present the Specialty Credit Fund with a sufficient volume of investment opportunities, or the opportunities presented are not suitable for investment by the Specialty Credit Fund, the Specialty Credit Fund's performance may be materially adversely affected.

*Competition for Investments.* Other public and private entities, including commercial banks, commercial financing companies, BDCs, insurance companies and other private investment funds compete with the Specialty Credit Fund to make the types of investments that the Specialty Credit Fund plans to make. The Specialty Credit Fund may also compete for investments with alternative investment vehicles such as hedge funds, whose investment in this area has increased. As a result of these new entrants, competition for investment opportunities has intensified in recent years and may continue to intensify in the future. Certain of these competitors may be substantially larger, have considerably greater financial, technical and marketing resources than the Specialty Credit Fund will have and offer a wider array of financial services. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to the Specialty Credit Fund. In addition, some competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships. The Specialty Credit Fund may lose investment opportunities if it does not match its competitors' pricing, terms and structure. If it matches competitors' pricing, terms and structure, however, the Specialty Credit Fund may experience decreased net interest income and increased risk of credit loss. Many of the Specialty Credit Fund's competitors are not subject to the regulatory restrictions and valuations that 1940 Act will impose on the Specialty Credit Fund following Conversion and the tax consequences of qualifying as a RIC. The investment strategy of the Specialty Credit Fund depends in part on the ability of the Specialty Credit Fund to source investment opportunities in which the participation of traditional financing sources is limited. As a result, there can be no assurance that the competitive pressures faced by the Specialty Credit Fund will not have a material adverse effect on the Specialty Credit Fund's business, financial condition and results of operations.

*Risk of Leverage.* As part of the Specialty Credit Fund's business strategy, the Specialty Credit Fund may directly or indirectly leverage its investments through borrowings and may utilize leverage embedded in derivative instruments. This will result in the Specialty Credit Fund controlling more assets than the Specialty Credit Fund has capital contributions from investors. Direct leverage increases the Specialty Credit Fund's returns if the Specialty Credit Fund earns a greater return on investments purchased with borrowed funds than the Specialty Credit Fund's cost of borrowing such funds. However, the use of leverage exposes the Specialty Credit Fund to additional levels of risk, including (i) net asset value declining more sharply than it otherwise would have had the Specialty Credit Fund not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions, (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Specialty Credit Fund's cost of borrowing such funds and (iv) general interest rate fluctuations, which may adversely impact the rate of return on invested capital. If the assets and liabilities of the Specialty Credit Fund are not appropriately matched, adverse changes in interest rates could reduce or eliminate the incremental income created through the use of leverage. In the event of a sudden, precipitous drop in value of the Specialty Credit Fund's assets, the Specialty Credit Fund might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses, and may not be able to make distributions. The Specialty Credit Fund's ability to service any debt that it incurs will depend largely on its financial performance and will be subject to prevailing economic conditions and competitive pressures. The financing costs of direct leverage will reduce cash available for distribution to investors.

Following Conversion, the Specialty Credit Fund generally must have 200% asset coverage for its debt after incurring any new indebtedness, meaning that the total value of the Specialty Credit Fund's assets, less existing debt, must be at least twice the amount of the debt (i.e., 50% leverage) in order to comply with the limitations on leverage applicable to BDCs. Prior to Conversion, it is not anticipated that aggregate borrowing by the Specialty Credit Fund will exceed the limitations on leverage applicable to BDCs under the 1940 Act. However, the Specialty Credit Fund may engage in borrowings in excess of these limitations where Silver Point believes such borrowings are in the best interest of the Specialty Credit Fund. Furthermore, the Specialty Credit Fund may, in accordance with regulatory guidance or SEC approval, be able to indirectly obtain leverage in excess of these limits through off-balance sheet arrangements, including non-controlling investments in a joint venture or similar investment vehicle which itself has direct exposure to leverage or other off-balance sheet financings. If approved by the SEC, leverage incurred by the joint venture or investment vehicle generally would not be included in the calculation of debt for the purposes of the asset coverage test described above. In addition, if the Specialty Credit Fund (either directly, or indirectly through a subsidiary) is licensed as an SBIC, the limitations on leverage applicable to BDCs under the 1940 Act may be exceeded.

Moreover, after an IPO, the Specialty Credit Fund Management Fee payable to Silver Point will be payable based on the Specialty Credit Fund's total gross assets, including those assets acquired through the use of leverage.

Furthermore, any debt facility into which the Specialty Credit Fund may enter may impose financial and operating covenants that restrict business activities, ability to call capital, remedies on default and similar matters. In connection with borrowings, the Specialty Credit Fund's lenders may also require it to pledge assets, capital commitments and/or the

proceeds of its capital calls. Debt facilities into which the Specialty Credit Fund enters may be subject to periodic renewal by lenders and there can be no guarantee that lenders will continue to extend credit to the Specialty Credit Fund.

Lastly, the Specialty Credit Fund may be unable to obtain its desired leverage, which would, in turn, affect its return on capital, resulting in reduced rates of return relative to projections.

*Predatory and Other Lending Laws.* Under the anti-predatory lending laws of some states, the origination of certain residential mortgage loans (including loans that are not classified as "high cost" loans under applicable law) must satisfy a net tangible benefits test with respect to the related borrower. This test may be highly subjective and open to interpretation. As a result, a court may determine that a residential mortgage loan, for example, does not meet the test even if the related originator reasonably believed that the test was satisfied.

Failure of residential mortgage loan originators or servicers to comply with these laws, to the extent any of their residential mortgage loans become part of the Specialty Credit Fund's mortgage-related assets, could subject the Specialty Credit Fund, as an assignee or purchaser of the related residential mortgage loans, to monetary penalties and could result in the borrowers attempting to rescind the affected residential mortgage loans. If the loans are found to have been originated in violation of predatory or abusive lending laws, and the Specialty Credit Fund has no right to indemnification or the sellers are unable to meet their indemnification obligations, the Specialty Credit Fund could incur losses, which could adversely impact the Specialty Credit Fund's results of operations, financial conditions and business.

*Rescue Lending.* As part of its lending activities, the Specialty Credit Fund may originate loans to companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although the terms of such financing may result in significant financial returns to the Specialty Credit Fund, they involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Specialty Credit Fund will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company that it funds, the Specialty Credit Fund may lose all or part of the amounts advanced to the borrower or may be required to accept collateral with a value less than the amount of the loan advanced by the Specialty Credit Fund to the borrower.

*State Licensing Requirements.* The Specialty Credit Fund may be required to obtain various state licenses in order to, among other things, originate commercial loans, and may also be required to obtain similar licenses from other authorities, including outside the United States in connection with one or more investments. Applying for and obtaining required licenses can be costly and take several months. There is no assurance that the Specialty Credit Fund will obtain all of the licenses that it needs on a timely basis. Furthermore, the Specialty Credit Fund will be subject to various information and other requirements in order to obtain and maintain these licenses, and there is no assurance that

the Specialty Credit Fund will satisfy those requirements. The failure to obtain or maintain licenses might restrict investment options and have other adverse consequences.

*Illiquidity; Market for Investments in Portfolio Companies.* A significant portion of the Specialty Credit Fund's investments will be in loans to private companies. The illiquidity of these investments may make it difficult for the Specialty Credit Fund to sell positions if the need arises. In addition, if the Specialty Credit Fund is required to liquidate all or a portion of its portfolio quickly, it may realize significantly less than the value at which it had previously recorded such investments. In addition, the Specialty Credit Fund may face other restrictions on its ability to liquidate an investment in a portfolio company to the extent that it holds a significant portion of a company's equity or if it has material non-public information regarding that company.

*Potential Lack of Diversification.* The Specialty Credit Fund's portfolio may be concentrated in a limited number of portfolio companies and industries. Beyond the asset diversification requirements associated with the qualification as a RIC for U.S. tax purposes following Conversion, the Specialty Credit Fund does not have fixed guidelines for diversification, and while the Specialty Credit Fund is not targeting any specific industries, its investments may be concentrated in relatively few industries. As a result, the aggregate returns the Specialty Credit Fund realizes may be significantly adversely affected if a small number of investments perform poorly or if the Specialty Credit Fund needs to write down the value of any one investment. Additionally, a downturn in any particular industry in which the Specialty Credit Fund is invested could significantly affect its aggregate returns. Market conditions, including increased competition, may also cause the Specialty Credit Fund's portfolio to be comprised of assets that differ significantly from Silver Point's expectations at the time of the initial offering of interests.

*Non-U.S. Investments.* The Specialty Credit Fund's investment strategy may include potential investments in foreign companies and in companies whose principal assets, including real estate, are located in foreign countries. Investing in such companies may expose the Specialty Credit Fund to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of the Specialty Credit Fund's investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. Even where the Specialty Credit Fund is able to hedge currency risk, there can be no assurance that the Specialty Credit Fund's strategies will be effective.

*Structure of Investments.* The Specialty Credit Fund's portfolio companies may have, or may be permitted to incur, other debt, or issue other equity securities that rank equally with, or senior to, the Specialty Credit Fund's investments. By their terms, those

instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which the Specialty Credit Fund is entitled to receive payments in respect of its investments. These debt instruments would usually prohibit the portfolio companies from paying interest on or repaying the Specialty Credit Fund's investments in the event and during the continuance of a default under the debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to the Specialty Credit Fund's investment in that portfolio company typically would be entitled to receive payment in full before the Specialty Credit Fund receives any distribution in respect of its investment. After repaying those holders, the portfolio company may not have any remaining assets to use for repaying its obligation to the Specialty Credit Fund. In the case of securities ranking equally with the Specialty Credit Fund's investments, the Specialty Credit Fund would have to share on an equal basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

The rights the Specialty Credit Fund may have with respect to the collateral securing certain loans it makes to its portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements or agreements among lenders. Under these agreements, the Specialty Credit Fund may forfeit certain rights with respect to the collateral to holders with prior claims. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of those enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. The Specialty Credit Fund may not have the ability to control or direct such actions, even if as a result its rights as lenders are adversely affected.

*Original Issue Discount and Payment-in-kind Interest.* Original issue discount ("OID") may arise if the Specialty Credit Fund holds securities issued at a discount, receive warrants in connection with the making of a loan, through contractual payment-in-kind ("PIK") interest (interest paid in the form of additional principal amount of the loan instead of in cash), or in certain other circumstances. Prior to a Qualified IPO, and in certain circumstances following a Qualified IPO, Income Incentive Compensation will be calculated and paid on income that may include OID, i.e., interest that has been accrued but not yet received in cash. The higher interest rates of OID instruments reflect the payment deferral and increased credit risk associated with these instruments, and OID instruments generally represent a significantly higher credit risk than coupon loans. Even if the accounting conditions for income accrual are met, the borrower could still default when actual payment to the Specialty Credit Fund is supposed to occur at the maturity of the obligation. OID instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK interest has the effect of increasing the assets of the Specialty Credit Fund under management, thereby increasing the Specialty Credit Fund Management Fee. Depending on the amount of noncash income generated by OID and PIK, the Specialty Credit Fund may have difficulty funding distributions to investors, and may use leverage to do so.

*Interest Rate Risk.* The majority of the Specialty Credit Fund's debt investments are likely to be based on floating rates, such as LIBOR, EURIBOR, the Federal Funds Rate or the Prime Rate. General interest rate fluctuations may have a substantial negative impact on



the Specialty Credit Fund's investments, the value of an investment in the Specialty Credit Fund and the rate of return on invested capital. On one hand, a reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on net interest income, which also could be negatively impacted by borrowers making prepayments on their loans. On the other hand, an increase in interest rates could increase the interest repayment obligations of borrowers and result in challenges to their financial performance and ability to repay their obligations.

An increase in interest rates also could decrease the value of any investments the Specialty Credit Fund holds which earn fixed interest rates, including subordinated loans, senior and junior secured and unsecured debt securities and loans and high yield bonds, and also could increase the Specialty Credit Fund's interest expense, thereby decreasing net income. Also, an increase in interest rates available to investors could make investment in the Specialty Credit Fund less attractive if the Specialty Credit Fund is not able to increase its distribution rate, which could reduce the value of an investment in the Specialty Credit Fund.

A rise in the general level of interest rates typically leads to higher interest rates applicable to the Specialty Credit Fund's debt investments. Accordingly, an increase in interest rates may result in an increase in the amount of the incentive compensation payable to Silver Point. To the extent that the floating interest rates applicable to the Specialty Credit Fund's debt investments are subject to a negotiated cap or floor, the Specialty Credit Fund may be unable to capitalize upon favorable market fluctuations of interest rates.

*Potential FATCA Withholding Tax.* The failure of an investor that is a non-U.S. entity to comply with the reporting requirements of the Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act ("FATCA") will result in a 30% withholding tax on payments to the investor of certain U.S. source income (including interest and dividends) and gross proceeds from the sale or other disposition of property that can produce U.S. source interest or dividends. In addition, if an investor receives such payments through a foreign financial institution, the payments will also be subject to a 30% withholding tax if the foreign financial institution does not comply with FATCA requirements. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in the Specialty Credit Fund.

*The following risk factors will apply only in the event Silver Point determines to proceed with Conversion and the Specialty Credit Fund elects to be regulated as a BDC under the 1940 Act.*

*BDC Regulations; Raising Capital.* Operating as a BDC has a number of advantages compared to continuing as a private fund but also presents additional challenges. The 1940 Act imposes numerous constraints on the operations of BDCs and in connection with Conversion the Specialty Credit Fund must be brought into compliance with these constraints. For example, BDCs are required to invest at least 70% of their total assets in securities of nonpublic or thinly traded U.S. companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. The asset diversification requirements and leverage limitations applicable to BDCs may hinder Silver Point's ability to take advantage of attractive investment opportunities and to achieve the Specialty Credit Fund's targeted returns on its investments, as the Specialty

Credit Fund will have less flexibility to alter its asset mix following Conversion than during the private phase.

Regulations governing the Specialty Credit Fund's operation as a BDC could affect the Specialty Credit Fund's ability to raise additional capital, and the ways in which the Specialty Credit Fund can do so. Even if the Specialty Credit Fund is able to raise additional capital, there can be no assurance that it will be able to invest proceeds in a manner sufficient to achieve the Specialty Credit Fund's investment objectives. Market conditions and risk/return profiles of targeted investments following Conversion may differ significantly from expectations at the time of this offering, which could result in lower returns on investments. Raising additional capital through debt or equity financing may expose the Specialty Credit Fund to risks, including the typical risks associated with leverage, or may result in dilution to the Specialty Credit Fund's then-current stockholders. The 1940 Act limits the Specialty Credit Fund's ability to incur borrowings and issue debt securities and preferred stock, requiring that after any borrowing or issuance the ratio of total assets (less total liabilities other than indebtedness) to total indebtedness plus preferred stock, is at least 200%. Consequently, if the value of the Specialty Credit Fund's assets declines, the Specialty Credit Fund may be required to sell a portion of its investments and, depending on the nature of its leverage, repay a portion of its indebtedness at a time when it may be disadvantageous to do so, including in connection with Conversion.

As a BDC, the Specialty Credit Fund will not generally be able to issue and sell its common stock at a price below net asset value per share. The Specialty Credit Fund may, however, sell its common stock, or warrants, options or rights to acquire its common stock, at a price below the then-current net asset value per share of its common stock if its board of directors determines that a sale is in the best interests of the Specialty Credit Fund and its stockholders, and its stockholders approve it.

*Continuing Investment by Silver Point.* Following an IPO, and subject to any applicable underwriter's lock-up or restrictions under U.S. securities laws, the SP Persons may dispose of their investment in the Specialty Credit Fund.

*Required Participation in Conversion.* Limited partners will not have a consent right with respect to Silver Point's decision to convert the Specialty Credit Fund to a BDC. Upon Conversion, each limited partner will cease to be a limited partner of the Specialty Credit Fund and will receive interests in the newly formed entity that will elect to be regulated as a BDC under the 1940 Act. While limited partners will not have the option to approve Conversion, each limited partner will be entitled to receive an interest in a newly formed BDC Vehicle in proportion to the relative fair market value of its interest in the Specialty Credit Fund as determined by Silver Point (taking into account relative interests in underlying investments of the Specialty Credit Fund, including accrued Specialty Credit Fund Incentive Compensation and any loss carryforward associated with any cumulative net realized capital losses and unrealized capital depreciation to the extent applicable) as of the effective date of Conversion (net of the fair value of assets distributed to a private investment vehicle organized for the purpose of ensuring compliance with BDC and RIC requirements, and taking into consideration expenses and taxes incurred by the Specialty Credit Fund, or any parallel investment entity or feeder entity, in connection with Conversion). In addition, in the event that Conversion occurs prior to the expiration or early termination of the Specialty Credit Fund Commitment Period, each limited partner will be required to "roll over" its commitment to the Specialty Credit Fund by making a capital

commitment to purchase additional shares of the BDC Vehicle in an amount up to its unfunded commitment as of the effective date of Conversion. In order to facilitate compliance with BDC and RIC portfolio diversification requirements applicable to the Specialty Credit Fund following Conversion, limited partners may also be issued interests in a private investment vehicle with economic and other material terms substantially similar to the economic and other material terms of the Specialty Credit Fund in order to ensure compliance with BDC and RIC requirements. No assurance can be made as to the percentage of the Specialty Credit Fund's assets, if any, that will be transferred to such a private investment vehicle. Although Silver Point expects that each limited partner will receive a proportionate interest in such private investment vehicle corresponding to its proportionate interest in the Specialty Credit Fund, Silver Point may distribute to any limited partner a greater interest in such private investment vehicle and proportionately reduce such limited partner's interest in the BDC Vehicle in order to address legal or regulatory requirements applicable to the BDC Vehicle.

In order to facilitate Conversion, each limited partner will grant Silver Point an irrevocable power of attorney authorizing Silver Point to act in the limited partner's name and on its behalf to execute, file, and complete any and all documents, certifications and consents determined by Silver Point to be reasonably necessary or desirable to effect Conversion and consummate an IPO, including in connection with (i) reconstituting the Specialty Credit Fund as a corporation, (ii) exchanging each limited partner's interest in the Specialty Credit Fund for interests in the BDC Vehicle, (iii) providing any stockholder consents or approvals required by the 1940 Act, including for purposes of approving or ratifying entry into any investment advisory agreement between the BDC Vehicle and Silver Point. Similarly, Silver Point will have the right, without obtaining the consent of any limited partners, to make such modifications to the Specialty Credit Fund's constitutive documents, capital structure and governance arrangements in order to facilitate Conversion so long as, in the reasonable opinion of Silver Point, (x) the economic interests of the limited partners are not materially diminished or materially impaired, (y) such modifications are consistent with the requirements applicable to BDCs under the 1940 Act and (z) such modifications are not inconsistent with the description of Conversion set forth in the Specialty Credit Fund's offering documents.

Since the BDC Vehicle is expected to be organized as a corporation following Conversion, a limited partner's statutory and contractual rights as a stockholder of a corporation are expected to differ materially from a limited partner's rights and obligations as a limited partner in a Delaware limited partnership prior to Conversion, and in some cases may be less favorable.

*Tax Implications of Conversion.* Conversion may be structured in a number of different ways, each of which may have distinct tax consequences. Limited partners that are C corporations for U.S. federal income tax purposes, and possibly other U.S. Partners, may be required to recognize tax as a result of Conversion. To the extent Conversion is not taxable, the BDC Vehicle's basis in the assets will be the same as the Specialty Credit Fund's basis in the assets prior to Conversion, which may result in the BDC Vehicle recognizing greater taxable gain upon disposition of the assets, giving rise to taxable dividends that will be paid out proportionately to BDC Vehicle stockholders at the time.

*Corporate Form of BDC Vehicle.* The BDC Vehicle is expected to be organized as a domestic corporation. However, the BDC Vehicle may be organized as another type of

limited liability entity that will elect to be treated as a BDC under the 1940 Act. As such, the BDC Vehicle may have a capital structure or governance arrangements that differs from what is described in the Specialty Credit Fund's offering documents.

*No Partnership Agreement Following Conversion.* Upon Conversion, each limited partner will cease to be a limited partner of the Specialty Credit Fund and instead will become a stockholder of the BDC Vehicle. Following Conversion, the continuing rights and obligations of each limited partner will be reflected in the governing documents of the BDC Vehicle and in a separate shareholders agreement between each limited partner and Silver Point, which will include provisions addressing each limited partner's continuing capital obligations to the Specialty Credit Fund, transfer restrictions and other rights and obligations, and which will remain in effect until the occurrence of an IPO. While the shareholders agreement will contain some terms and conditions that are substantially similar to terms and conditions of the partnership agreement, many contractual provisions contained in the partnership agreement will automatically cease to apply upon Conversion or upon an IPO.

*Parallel Investment Entities Following Conversion.* Prior to Conversion, Silver Point may establish parallel investment entities that will generally invest proportionally in transactions on similar terms and conditions, including parallel investment entities that will not utilize leverage ("Unlevered Parallel Investment Entities"). If any parallel investment entities are formed, an investor in such a parallel investment entity will be entitled to receive an interest in the newly formed BDC Vehicle in proportion to the relative fair market value of its interest in the parallel investment entity as of the effective date of Conversion in the same manner described above with regard to limited partners and the Specialty Credit Fund. Upon Conversion, it is expected that the BDC Vehicle will assume all of the outstanding indebtedness of the Specialty Credit Fund and parallel investment entities that utilize leverage, if any. As a result, investors in Unlevered Parallel Investment Entities will be exposed to less credit risk prior to Conversion than investors in the Specialty Credit Fund and parallel investment entities that utilize leverage.

*IPO and Listing.* Following Conversion, there can be no assurances that the Specialty Credit Fund will be able to successfully commence or complete an IPO or list the common stock of the BDC Vehicle on a national securities exchange. The timing and pricing of any IPO are dependent upon market conditions and there may be a significant delay between Conversion and an IPO. During the period following Conversion until consummation of an IPO or the expiration of the term of the Specialty Credit Fund, the Specialty Credit Fund will continue its investment activities and operations as a privately held BDC whose shares are subject to transfer restrictions. Even if the Specialty Credit Fund successfully completes an IPO, the Specialty Credit Fund may not be able to list the common stock of the BDC Vehicle on a national securities exchange, which would significantly restrict the ability of investors to transfer their interests in the Specialty Credit Fund. Furthermore, even if the common stock of the BDC Vehicle is listed on a national securities exchange, investors' ability to dispose of their shares of the BDC Vehicle will be dependent upon the existence of sufficient trading volume in, and a market for, the common stock of the BDC and there can be no assurances that such trading volume or market will materialize.

*RIC Qualification.* The Specialty Credit Fund will incur corporate-level income tax costs following Conversion if it is unable to qualify as a RIC for U.S. tax purposes or if the Specialty Credit Fund is not able to substantially distribute all of its income in a timely

fashion. Although Silver Point will use commercially reasonable efforts to cause the Specialty Credit Fund to qualify as a RIC, no assurance can be given that the Specialty Credit Fund will be able to qualify for and maintain RIC status. To obtain and maintain RIC tax treatment under the Code, the Specialty Credit Fund must meet the following annual distribution, income source and asset diversification requirements.

The Specialty Credit Fund must distribute to its stockholders on an annual basis at least 90% of its net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. In the event the Specialty Credit Fund uses debt financing, it will be subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict it from making distributions necessary to satisfy the distribution requirement. In addition, as discussed in more detail below, the Specialty Credit Fund's income for tax purposes may exceed its available cash flow. If the Specialty Credit Fund is unable to obtain cash from other sources, it could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

The Specialty Credit Fund must derive at least 90% of its gross income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.

The Specialty Credit Fund must meet specified asset diversification requirements at the end of each quarter of its taxable year. The need to satisfy these requirements in order to prevent the loss of RIC status may result in the Specialty Credit Fund's having to dispose of certain investments quickly on unfavorable terms. Because most of the Specialty Credit Fund's investments will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If the Specialty Credit Fund fails to qualify for RIC tax treatment for any reason, the resulting federal income tax liability could substantially reduce the Specialty Credit Fund's net assets, the amount of income available for distribution, and the amount of the Specialty Credit Fund's distributions.

*Failure to Maintain BDC Status.* If the Specialty Credit Fund does not remain a BDC, it might be regulated as a closed-end investment company under the 1940 Act, which would subject the Specialty Credit Fund to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease its operating flexibility. In addition, failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against the Specialty Credit Fund.

*Distributions Following Conversion.* There can be no assurance that the Specialty Credit Fund will achieve investment results or maintain a tax status that will allow or require any specified level of cash distributions or year-to-year increases in cash distributions. Although a portion of the Specialty Credit Fund's expected earnings and distributions will be attributable to net interest income, it is not expected that the Specialty Credit Fund will generate capital gains from the sale of its portfolio investments on a level or uniform basis from quarter to quarter. This may result in substantial fluctuations in quarterly distributions.

In certain cases, the Specialty Credit Fund may recognize income before or without receiving cash representing the income. Depending on the amount of noncash income, this

could result in difficulty satisfying the annual distribution requirement applicable to RICs. Accordingly, the Specialty Credit Fund may delay distributions during a year until it generates cash or it may have to sell some of its investments at times it would not consider advantageous, raise additional debt or equity capital or reduce new investments to meet these distribution requirements. In addition, the withholding tax treatment of the Specialty Credit Fund's distributions to certain of its non-U.S. stockholders will depend on whether and when Congress enacts legislation extending the pass-through treatment of "interest-related dividends" and "short-term capital gain dividends" and the Specialty Credit Fund may elect to defer the payment of dividends in any year pending the resolution of this issue.

*Ownership Restrictions.* Investment companies registered under the 1940 Act are restricted from acquiring directly or through a controlled entity more than 3% of the Specialty Credit Fund's total outstanding voting stock (measured at the time of the acquisition), unless these funds comply with an exemption under the 1940 Act as well as other limitations under the 1940 Act that would restrict the amount that they are able to invest in the Specialty Credit Fund's securities. Private funds that are excluded from the definition of "investment company" either pursuant to Section 3(c)(1) or 3(c)(7) of the 1940 Act are also subject to this restriction. In order to ensure compliance with these restrictions, certain investors may be precluded from acquiring additional shares at a time that they might desire to do so and may be prohibited from participating in drawdowns and/or the BDC Vehicle's dividend reinvestment plan. Silver Point may also purchase for the benefit of the BDC Vehicle or its investors, or cause the BDC Vehicle to purchase, some or all of an investor's shares of the BDC Vehicle at a price determined by Silver Point in accordance with the valuation policies set forth herein.

*Stockholder Filing Requirements.* Because the Specialty Credit Fund's common stock will be registered under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") ownership information for any person who beneficially owns 5% or more of the Specialty Credit Fund's common stock will have to be disclosed in a Schedule 13G or other filings with the SEC. Beneficial ownership for these purposes is determined in accordance with the rules of the SEC, and includes having voting or investment power over the securities. In some circumstances, investors who choose to reinvest their dividends may see their percentage stake in the Specialty Credit Fund increased to more than 5%, thus triggering this filing requirement. Although the Specialty Credit Fund will provide in its quarterly statements the amount of outstanding stock and the amount of the investor's stock, the responsibility for determining the filing obligation and preparing the filing remains with the investor.

*Broad Authority for Board Action.* The Specialty Credit Fund's board of directors will have the authority to modify or waive certain of the Specialty Credit Fund's operating policies and strategies without prior notice (except as required by the 1940 Act) and without stockholder approval. However, once the election is made, absent stockholder approval, the Specialty Credit Fund may not change the nature of its business so as to cease to be, or withdraw the Specialty Credit Fund's election as, a BDC. The effect any changes to the Specialty Credit Fund's current operating policies and strategies would have on its business, operating results and value of the Specialty Credit Fund's common stock cannot be predicted. Nevertheless, the effects may adversely affect the Specialty Credit Fund's business and impact its ability to make distributions.

*Resignation of Adviser.* Following Conversion, the Silver Point affiliate serving as adviser the Specialty Credit Fund will have the right, under its advisory agreement, to resign at any time upon 60 days' written notice, regardless of whether the Specialty Credit Fund has found a replacement. In addition, the board of directors will have the authority to remove Silver Point for any reason or for no reason, or may choose not to renew the advisory agreement. If Silver Point resigns or is terminated, the Specialty Credit Fund may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If the Specialty Credit Fund is unable to do so quickly, its operations are likely to experience a disruption, costs under any new agreements could increase, its financial condition, business and results of operations as well as its ability to pay distributions are likely to be adversely affected and the value of an interest in the Specialty Credit Fund may decline.

*Failure to Generate Net Realized Capital Gains or Obtain Additional Funds.* As a RIC, the Specialty Credit Fund must annually distribute at least 90 percent of its investment company taxable income as a dividend and may either distribute or retain its realized net capital gains from investments. Unless investors elect to reinvest dividends, earnings that the Specialty Credit Fund is required to distribute to stockholders will not be available to fund future investments. Accordingly, absent raising additional capital, the Specialty Credit Fund may have insufficient funds to make new and follow-on investments, which could have a material adverse effect on the Specialty Credit Fund's financial condition and results of operations. Because of the structure and objectives of its business, the Specialty Credit Fund may experience operating losses and expect to rely on proceeds from sales of investments, rather than on interest and dividend income, to pay its operating expenses. There is no assurance that the Specialty Credit Fund will be able to sell its investments and thereby fund its operating expenses.

*Valuation of Portfolio Securities Following Conversion.* In accordance with the 1940 Act, assets that are not publicly traded or whose market prices are not readily available will be valued at fair value as determined in good faith by the Specialty Credit Fund's board of directors, which will be supported by the valuation function of Silver Point and by the audit committee of the board of directors. In connection with that determination, investment professionals from Silver Point will prepare portfolio company valuations using sources and/or proprietary models depending on the availability of information on the assets and the type of asset being valued, all in accordance with the Specialty Credit Fund's valuation policy.

The participation of Silver Point in the valuation process could result in a conflict of interest, since Silver Point's incentive compensation and (following an IPO) Specialty Credit Fund Management Fee is based in part on the Specialty Credit Fund's assets.

*Anti-Takeover Provisions.* State corporate law, the Specialty Credit Fund's certificate of incorporation and bylaws will contain provisions that may discourage, delay or make more difficult a change in control of the Specialty Credit Fund or the removal of the Specialty Credit Fund's directors. These measures may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of the Specialty Credit Fund's stockholders and could have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices.

*Legislative Changes Allowing Additional Leverage.* Under the 1940 Act, following Conversion the Specialty Credit Fund generally will not be permitted to incur borrowings, issue debt securities or issue preferred stock unless immediately after the borrowing or issuance the ratio of total assets (less total liabilities other than indebtedness) to total indebtedness plus preferred stock, is at least 200%. Recent legislation introduced in the U.S. House of Representatives, if passed, would modify this section of the 1940 Act and increase the amount of debt that BDCs may incur by modifying the asset coverage percentage from 200% to 150%. As a result, the Specialty Credit Fund may be able to incur additional indebtedness in the future and limited partners may face increased investment risk. In addition, since the Specialty Credit Fund Management Fee following Conversion is calculated as a percentage of the value of the Specialty Credit Fund's total gross assets, which includes any borrowings for investment purposes, Specialty Credit Fund Management Fee expenses will increase if the Specialty Credit Fund incurs additional indebtedness.

*No Opt-Out Rights Following Conversion.* Prior to Conversion, some limited partners may exercise rights granted to them pursuant to a side letter to opt out of particular investments, which may increase the other limited partners' pro rata interest in that particular investment.

Following Conversion, limited partners will not have the ability to opt out of particular investments, notwithstanding any rights granted to them pursuant to a side letter. Limited partners that had opted out of certain investments prior to Conversion will hold a pro rata interest in those investments to the extent the BDC Vehicle holds those investments, by virtue of their ownership of shares of stock of the BDC Vehicle which represent undivided interests in the assets of the BDC Vehicle. Furthermore, the fair value of a limited partner's interest, upon which the size of the interest in the BDC Vehicle to which the limited partner is entitled upon Conversion is based, will take into account the degree to which a limited partner has opted out of any investments prior to Conversion. As a result, each limited partner's pro rata interest in, and income from, each of the Specialty Credit Fund's investments may change upon Conversion.

*Potential FATCA Withholding Tax.* Following Conversion, the failure of a stockholder that is a non U.S. entity to comply with the reporting requirements of FATCA will result in a 30% withholding tax on payments to the stockholder of certain U.S. source income (including interest and dividends) and gross proceeds from the sale or other disposition of property that can produce U.S. source interest or dividends. In addition, if a stockholder receives such payments through a foreign financial institution, the payments will also be subject to a 30% withholding tax if the foreign financial institution does not comply with FATCA requirements. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of FATCA on their investment in the Fund.

#### Risks Related to Operating as a Small Business Investment Company.

*SBA Regulation.* The Specialty Credit Fund (either directly, or indirectly through a subsidiary) may apply to the U.S. Small Business Association (the "SBA") for a license to operate as a Small Business Investment Company (an "SBIC"). As a licensed SBIC, the Fund, or its subsidiary, licensed as an SBIC (the "SBIC Vehicle") will be subject to regulation under the Small Business Investment Act and the regulations and policies promulgated thereunder. During the term of the SBIC Vehicle, the applicable SBA



regulations and policies may change in ways that could require the SBIC Vehicle to alter its business activities.

Current SBA regulations provide SBA with certain rights and remedies if an SBIC violates their terms. Remedies for regulatory violations are graduated in severity depending on the severity of a particular violation or significant departure from certain key regulatory metrics. For minor regulatory infractions, warnings are typically given. Remedies for more significant infractions may include (i) limiting or prohibiting the use of debentures, (ii) declaring outstanding debentures immediately due and payable, (iii) restricting distributions and the making of new investments, (iv) mandatory reductions of management fees and (v) drawdown of unfunded capital commitments to the SBIC. In cases of significant violations, SBA may require the investors in an SBIC to remove its general partner or its officers, directors, managers or partners, or SBA may obtain appointment of a receiver for such SBIC.

"Capital Impairment," or the extent of net realized (and, in certain circumstances, net unrealized) losses as compared to an SBIC's private capital commitments, is a key SBA regulatory metric. "Realized losses" include interest payments, management fees, organizational and other expenses. Under certain circumstances, SBA regulations preclude the inclusion of the full amount of "unrealized appreciation" from portfolio companies in the calculation of Capital Impairment, which may further exacerbate the extent of any Capital Impairment. Significant Capital Impairment may result in the imposition of severe penalties by SBA.

*No Assurance of SBIC License.* There can be no assurances that SBA will issue an SBIC license to the Fund or its subsidiary.

*Limited Transferability.* Prior to an IPO, investors in the SBIC Vehicle will not be permitted to transfer their interests (directly or indirectly) in the SBIC Vehicle without the consent of SBA, and no investor may be released of its obligation to fund its unfunded commitment to the SBIC Vehicle without the consent of SBA.

SBA facilitates investment in small businesses by financing loans ("SBA Leverage") to SBICs. Under the current policy of SBA, in order to secure SBA Leverage, investors with a 50% or greater interest in an SBIC are required to provide SBA with a written agreement not to transfer their interest in the SBIC without SBA's consent and to be held liable for the repayment of the total amount of such SBA funding if they violate such agreement.

*Unavailability of SBA Leverage.* Becoming licensed as an SBIC does not automatically assure that an SBIC will receive SBA Leverage. Receipt of SBA leverage is dependent upon the SBIC's continued compliance with SBA regulations and policies and the availability of funding. The amount and availability of SBA Leverage is dependent upon annual Congressional authorizations and in the future, may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient SBA Leverage available at the times desired by the SBIC Vehicle.

*Use of SBA Leverage.* The use of SBA Leverage will magnify the potential for both gains and losses with respect to investments made by the SBIC Vehicle. As a result of the commitment fees, repayment obligations and semi-annual interest payments to which SBA is entitled, returns to investors in the SBIC Vehicle may be flat, lower than, or even negative as compared to returns from an investment in a fund that did not use SBA Leverage.

There can be no assurance that the SBIC Vehicle will generate returns that exceed the crossover point for return enhancement attributable to SBA Leverage. The payments to which SBA is entitled may reduce or entirely eliminate returns to investors if the SBIC Vehicle does not generate sufficient returns in excess of such payments.

*SBA Leverage and Limitations on Leverage Applicable to BDCs.* In the event that the Fund (or its subsidiary) is licensed as an SBIC, the limitations on leverage applicable to BDCs under the 1940 Act may be exceeded either in accordance with certain provisions of the 1940 Act applicable to SBICs or in accordance with an exemptive order from the SEC. There can be no assurance as to when or whether the SEC would grant such an exemptive order.

*Limits on Distributions.* Pursuant to SBA regulations, an SBIC with outstanding debentures may distribute cumulative realized profits (less unrealized losses on investments) to its investors, but it may not return more than 2% of its outstanding capital to investors in any fiscal year without SBA's prior approval. SBA's limitations on an SBIC's ability to make distributions may result in the receipt of "phantom income" by investors in the SBIC Vehicle.

Historically, SBA has permitted repayments in excess of 2% only pursuant to an approved "wind-up" plan filed by an SBIC pursuant to which SBA determines that repayment of the outstanding debentures is adequately assured. SBA generally only gives that approval when the SBIC has previously made significant repayments of debentures, the remaining portfolio is performing well and SBA feels reasonably well assured that outstanding debentures will be repaid in full. With respect to funds available for distribution, an SBIC will seek to negotiate with SBA the proportion of those funds that will be used to repay debentures and to make distributions constituting a return of its capital. While sometimes this proportion is 1:1, an SBIC cannot reliably predict what arrangement SBA may be willing to accept.

SBICs can make distributions before the end of a fiscal year. If, however, an SBIC were to make a distribution mid-year from its Retained Earnings Available for Distribution ("READ") that then existed, but at the end of the year the SBIC did not have READ for the year (for example, if the SBIC wrote off an investment after mid-year), then SBA has considered that distribution to be improper and an event of default under the debentures. The SBIC would be given a specified period of time to cure the default, not less than fifteen days. The failure to cure could result in SBA declaring all debentures immediately due and payable and seeking the appointment of SBA or its designee as a receiver.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Silver Point's advisory business or the integrity of Silver Point's management.

## **ITEM 10**

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

#### **Broker-Dealer Registration Status**

Silver Point and its management persons are not registered as broker-dealers and do not have any application pending to register as a broker-dealer or registered representative of a broker-dealer.

#### **Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status**

Silver Point and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

#### **Material Relationship or Arrangements with Industry Participants**

Silver Point does not have any relationships or arrangements that are material to its advisory business or to its clients with related persons that are industry participants.

#### **Material Conflicts of Interest Relating to Other Investment Advisers**

Silver Point generally does not recommend or select other investment advisers for its clients; however, Silver Point has the right to cause the Flagship Funds, to enter into joint venture arrangements, co-invest with third parties or otherwise participate in pooled investment vehicles with others, or to allocate discrete portions of the Flagship Funds' assets to independent managers to manage on a discretionary basis, if Silver Point determines that such an arrangement represents the best way to access a particular investment opportunity or otherwise expand the investment expertise available to the Flagship Funds. The Flagship Funds may be subject to various costs relating to such ventures, including additional performance-based or fixed asset-based fees or allocations payable to the promoters, managers, finders or sub-advisors of such ventures. For ventures involving an investment in a particular transaction, a difficult-to-access market or where a third party brings a special expertise to the situation (as determined in the sole discretion of Silver Point), any such fees and allocations will not reduce the Flagship Management Fee or the incentive compensation. For all such other ventures, Silver Point will determine whether any such fees and allocations will reduce the Flagship Management Fee or the incentive compensation. The Specialty Credit Fund may participate or invest in joint ventures, co-investment transactions, or other similar strategic or operating arrangements, including those that involve incentive, management or other compensation to third parties.

#### **Other Conflicts**

The Funds will be subject to a number of actual and potential conflicts of interest involving Silver Point and its affiliates, employees or partners, including the Funds, accounts or sub-accounts (collectively, the "Silver Point Group"), including, among other things, the fact that: (i) the Silver Point Group may conduct substantial investment, administrative and other related activities for the accounts of clients or members of the Silver Point Group

(such accounts or clients, including the Funds, "Silver Point Accounts") in which a particular Fund has no interest; (ii) the Silver Point Group advises other Silver Point Accounts, which may utilize the same, similar or different strategies, objectives and policies as a particular Fund, and may have financial incentives (including, without limitation, as it relates to the composition of investors in such funds and accounts or to the Silver Point Group's compensation arrangement) to favor certain Silver Point Accounts over such Fund; (iii) the Silver Point Group may use strategies similar, in whole or in part, to those of the Flagship Funds, the C & I Funds or the Specialty Credit Fund in certain other Silver Point Accounts; (iv) the Silver Point Group may give advice and recommend financial instruments to, or buy or sell financial instruments for, a Fund, which advice or financial instruments may differ from advice given to, or financial instruments recommended or bought or sold for, other Silver Point Accounts; and (v) the Silver Point Group and other Silver Point Accounts may actively engage in transactions in the same financial instruments sought by a Fund and, therefore, may compete with such Fund for investment opportunities or may hold positions potentially in conflict with positions maintained on behalf of such Fund. Due to restrictions imposed on the Silver Point Group in connection with the management of other Silver Point Accounts, a Fund may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

Silver Point Accounts will make investments in the same issuers and conflicts of interest (or perceived conflicts of interest) may arise in connection with such investments, including as a result of investing in different levels of an issuer's capital structure or otherwise in different classes of an issuer's financial instruments. In addition, other Silver Point Accounts may make follow-on or other investments (including with respect to issuers in which a Fund has an investment) in which such Fund will not participate. These investments may create additional conflicts of interest among a Fund and such Silver Point Accounts. While these conflicts cannot be eliminated, the Silver Point Group endeavors to address potential conflicts in a manner that is fair and equitable to each Fund and the other Silver Point Accounts. Conflict resolution may result in a Fund receiving less consideration than it may have otherwise received in the absence of such a conflict of interest.

The Firm's partners and employees have co-invested with the Flagship Funds in certain investments. It is expected that the Firm's partners and employees will continue to invest or co-invest in certain opportunities identified by Silver Point. Conflicts of interest may arise with respect to such investment opportunities, including with respect to the allocation of such opportunities between the Flagship Funds and the Firm's partners and/or employees, and with respect to potential conflicts arising from the nature of certain investments as more fully described herein. Allocations of investment opportunities available to the Flagship Funds and the Firm's partners and employees are made on a basis providing priority to the Flagship Funds.

The Specialty Credit Fund may co-invest with other Funds or accounts managed by or for the benefit of Silver Point or its affiliates, including any vehicle formed by Silver Point or its affiliates whose principal purpose is to co-invest alongside the Specialty Credit Fund; provided that any such co-investment vehicle will not be allocated all or part of any investment opportunity unless the Specialty Credit Fund has first received its appropriate share of such investment opportunity (if any), as determined by Silver Point.

Following Conversion, the Specialty Credit Fund generally will be prohibited under the 1940 Act from participating in certain transactions with its affiliates without prior approval of the independent directors of the Specialty Credit Fund (the "Independent Directors") and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of the Specialty Credit Fund's outstanding voting securities is an affiliate of the Specialty Credit Fund for purposes of the 1940 Act, and the Specialty Credit Fund generally will be prohibited from buying or selling any security from or to such affiliate, absent the prior approval of the Independent Directors. The 1940 Act also prohibits certain "joint" transactions with certain of the Specialty Credit Fund's affiliates, which could include investments in the same issuers (whether at the same or different times), without prior approval of the Independent Directors and, in some cases, the SEC. If a person acquires more than 25% of the Specialty Credit Fund's voting securities, the Specialty Credit Fund will be prohibited from buying or selling any security from or to such person or certain of that person's affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit the Specialty Credit Fund's ability to transact business with the Specialty Credit Fund's officers or directors or their affiliates.

These prohibitions will affect the manner in which investment opportunities are allocated between the Specialty Credit Fund and other funds managed by Silver Point or its affiliates. Most importantly, the Specialty Credit Fund generally will be prohibited from co-investing with other Silver Point Accounts or affiliates in Silver Point-originated loans and financings unless the Specialty Credit Fund co-invests in accordance with the applicable regulatory guidance or has obtained an exemptive order from the SEC permitting such co-investment activities. Accordingly, while Silver Point intends to allocate suitable opportunities among the Specialty Credit Fund and other Silver Point Accounts or affiliates of Silver Point based on the Specialty Credit Fund's allocation principles, the prohibition on co-investing with affiliates could significantly limit the scope of investment opportunities available to the Specialty Credit Fund. In particular, the decision by Silver Point to allocate an opportunity to one or more Silver Point Accounts or to an affiliate, or the existence of a prior co-investment structure, might cause the Specialty Credit Fund to forgo an investment opportunity that it otherwise would have made. Similarly, the Specialty Credit Fund generally may be limited in its ability to invest in an issuer in which a Silver Point Account or affiliate had previously invested. The Specialty Credit Fund may in certain circumstances also be required to sell, transfer or otherwise reorganize assets in which the Specialty Credit Fund has invested with Silver Point Accounts or affiliates at times that the Specialty Credit Fund may not consider advantageous.

The Specialty Credit Fund intends to apply for an exemptive order from the SEC in order to permit the Specialty Credit Fund to co-invest with Silver Point Accounts and other affiliates following Conversion, but there can be no assurances that such exemptive order will be granted. Accordingly, there can be no assurances that the Specialty Credit Fund will be able to co-invest alongside Silver Point Accounts or affiliates, other than in the limited circumstances currently permitted by regulatory guidance. In the event that the Specialty Credit Fund is able to obtain an exemptive order from the SEC, the Specialty Credit Fund would only be permitted to co-invest alongside Silver Point Accounts or other affiliates in accordance with the terms and condition of the exemptive order.

Silver Point's policies and procedures are intended to produce fairness over time, but may not, and are not expected to, produce mathematical precision in the allocation of individual purchases and sales of securities.

The Specialty Credit Fund intends to enter into one or more financing arrangements with third-party lenders to bridge the limited partners' capital contributions, for other investment purposes or for purposes of paying Specialty Credit Fund expenses. Any such financing may be secured by a pledge of the asset related to the borrowing under the financing arrangement or to one or more other assets of the Specialty Credit Fund, the limited partners' unfunded commitments or the Specialty Credit Fund GP's right to call capital from the partners. In addition, any such financing may be personally guaranteed by certain partners of Silver Point (in such capacity, the "Guarantors"), which may give rise to potential conflicts of interest. The Guarantors will not receive any compensation for providing, or relating to, such a personal guarantee.

Silver Point and its investment personnel will devote to the Funds as much time as Silver Point deems necessary and appropriate to manage the business of the Funds. The investment personnel of Silver Point (and the other service providers of the Funds) will continue to provide services to other Silver Point Accounts. Future activities of the Silver Point Group, including the establishment of other investment funds, may give rise to additional conflicts of interest.

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

**Code of Ethics**

Silver Point strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, Silver Point has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold:

- employees must act in the best interests of the Funds;
- employees must comply with all applicable laws, rules and regulations;
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided;
- employees must not take any inappropriate advantage of their positions; and
- information concerning the identity of securities held by, and financial circumstances of, the Funds and their investors must be kept confidential.

Clients may request to review the Code by contacting Silver Point at the address or telephone number listed on the first page of this document.

**Cross Trades/Principal Transactions**

Subject to applicable restrictions in Silver Point's written policies and procedures, Silver Point may determine that it would be in the best interests of certain clients to transfer a security from one client to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax, liquidity, leverage, rebalancing or other legal reasons. If Silver Point decides to engage in a Cross Trade, Silver Point will determine that the trade is in the best interests of each client involved, will take steps to ensure that the transaction is consistent with its fiduciary duties and will seek to obtain best execution for each of those clients.

When effecting cross transactions between clients, Silver Point, its affiliates and its personnel may have cross ownership interests and will potentially have conflicting loyalties and responsibilities. To the extent that such transactions may be viewed as principal transactions due to the ownership interest in the client by Silver Point, its affiliates or its personnel, Silver Point will comply with the requirements of Section 206(3) of the Advisers Act. In no event will a Fund engage in a principal transaction except where (i) a Fund selects one or more unaffiliated persons to consider and approve or disapprove principal



transactions, and such committee approves such transaction, or (ii) to the extent a Fund has independent third party directors, such directors consider and approve of such transaction.

### **Investing in Securities that Silver Point or a Related Person Recommends to Clients**

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to Silver Point on a periodic basis, and it requires that employees pre-clear certain types of personal securities transactions. Subject to internal compliance policies and approval procedures, and to the extent consistent with Silver Point's fiduciary duties to the Funds, Silver Point, its affiliates and its employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of the Funds.

Silver Point, its affiliates and its employees may give advice or take action for their own accounts that may differ from, or conflict with advice given or action taken for the Funds. These activities may affect the prices and availability of other securities or instruments held by or potentially considered for one or more Funds. Potential conflicts also may arise due to the fact that Silver Point and its personnel may have different levels of investments in the various Funds.

Silver Point endeavors to monitor and resolve conflicts with respect to investment opportunities in a manner that it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above.

### **Conflicts of Interest Created by Contemporaneous Trading**

Silver Point manages investments on behalf of a number of clients. Certain clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. It is the policy of Silver Point to allocate investment opportunities among all clients fairly, in accordance with each client's applicable investment strategies, over a period of time. Silver Point will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any other client solely because Silver Point purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the client.

It is expected that investment opportunities that are consistent with the investment strategies of two or more clients will be allocated among such clients in such proportion as Silver Point or its affiliates may deem to be fair and equitable. Among other considerations, in keeping with principles of fiduciary responsibility, Silver Point may consider the following factors: (i) a client's objectives (whether such objectives are considered solely in light of the specific investment under consideration or in the context of such client's overall holdings); (ii) the relative amounts of a client's capital available for new investments in the relevant strategy or asset class or based on other investment-related characteristics; (iii) the terms, structure and, availability of financing in respect of an investment; (iv) the diversification of a client's overall holdings; (v) the size, liquidity and anticipated duration of the proposed investment; (vi) the potential for imbalances in a client's portfolio; (vii) a client's diversification, leverage and other limitations; and (viii) tax or legal issues (including BDC and RIC requirements). Such considerations, among others,

may result in allocations among such clients on a basis other than available capital. Such clients may invest in issuers in which other clients have pre-existing investments (including the same, similar or potentially conflicting financial instruments of such issuers) and the terms and structure of such pre-existing investments may differ from such client's investments (including in a manner that is more beneficial to the other clients).

## **ITEM 12**

### **BROKERAGE PRACTICES**

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

As noted previously, Silver Point has full discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid.

With respect to the Flagship Funds and the Specialty Credit Fund, portfolio transactions will be allocated to broker-dealers on the basis of best execution and in consideration of the provision of certain investment-related services (including research services) and/or payment of the costs of investment-related research, which Silver Point believes to be of benefit to the Flagship Funds or the Specialty Credit Fund. Silver Point will use various brokers and dealers to execute, settle and clear securities transactions for the Flagship Funds and the Specialty Credit Fund. Subject to best execution, in selecting broker-dealers (including a prime broker) Silver Point may consider, among other things, the overall cost of the transaction; the size and type of the transaction; the nature of the market for the financial instrument; execution capability, speed and efficiency; market intelligence regarding the transaction; the extent to which the broker-dealer makes a market in the financial instrument involved or has access to such markets; the broker-dealer's financial stability; the broker-dealer's reputation for diligence, fairness and integrity; quality of service rendered by the broker-dealer in other transactions for Silver Point; confidentiality considerations; the quality and usefulness of research services and investment ideas presented by the broker-dealer; the broker-dealer's willingness to correct errors; the broker-dealer's ability to accommodate any special execution or order handling requirements in connection with any particular transaction; and other factors deemed appropriate by Silver Point. Accordingly, if Silver Point concludes that the commissions charged by a broker or the spreads applied by a dealer are reasonable in relation to the overall quality of services rendered by such broker or dealer (including, without limitation, the value of the brokerage and research products or services provided by such broker or dealer), the Flagship Funds and the Specialty Credit Fund may pay commissions to or be subject to spreads applied by such broker-dealer in an amount greater than the amount another broker-dealer might charge or apply. Silver Point need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Silver Point reviews, on at least a quarterly basis, the quality of brokerage executions.

The C & I Funds do not generally utilize broker-dealers in connection with their portfolio transactions.

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

Although Silver Point does not have any formal "soft dollar" arrangements, from time to time, Silver Point may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transactions) for effecting Flagship Fund and Specialty Credit Fund transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and

research services provided by the broker-dealer. The use of "soft dollars", if any, generated by the Flagship Funds or the Specialty Credit Fund to pay for research and research-related products or services, if any, will fall within the safe harbor created by Section 28(e) of the Exchange Act, and will be subject to prevailing interpretations of Section 28(e) by the SEC. Silver Point believes it is important to its investment decision-making processes to have access to independent research.

Also, consistent with Section 28(e), research obtained with soft dollars generated by the Flagship Funds or the Specialty Credit Fund may be used by Silver Point to service clients other than the Flagship Funds or the Specialty Credit Fund, as applicable, including clients that may not have paid for the soft dollar benefits. Silver Point does not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Where a product or service provides both research and non-research assistance to the Flagship Funds or the Specialty Credit Fund, Silver Point will make a reasonable allocation of the cost that may be paid for with soft dollars.

If Silver Point uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Silver Point receives a benefit because it does not have to produce or pay for such products or services. Silver Point may have an incentive to select or recommend a broker-dealer based on Silver Point's interest in receiving research or other products or services, rather than on its clients' interest in receiving most favorable execution.

Silver Point reviews, on at least a quarterly basis, its order execution practices, the quality of brokerage services (including research) and the costs associated with such services. In no case will Silver Point make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.

### **Brokerage for Client Referrals**

Neither Silver Point nor any related person receives referrals from any broker-dealer or third party to manage any investment fund or managed account. From time to time, representatives of Silver Point may speak at conferences and programs sponsored by a broker for investors interested in investing in hedge funds. Through such "capital introduction" events, prospective investors in the Funds may meet with Silver Point. Neither Silver Point nor the Funds compensate the brokers for organizing such events or for any investments ultimately made by prospective investors attending such events, nor do they anticipate doing so in the future. The Funds may accept subscriptions from investors who also provide services to the Funds, including brokers and their affiliates. Relationships such as these could be viewed as creating a conflict of interest that potentially could affect Silver Point's ability to seek best execution. While Silver Point's relationship with brokers may influence it in deciding whether to use such broker in connection with brokerage, financing and other activities of the Funds, Silver Point will not commit to allocate a particular amount of brokerage to a broker in any situation. Furthermore, Silver Point conducts best execution reviews on at least a quarterly basis.

### **Directed Brokerage**

Silver Point does not recommend, request or require that a client direct Silver Point to

execute transactions through a specified broker-dealer.

### **Order Aggregation**

To the extent permitted by applicable law, orders of clients may be combined with orders for other clients, and if any order is not filled at the same price, orders may be allocated on an average price basis. Each client that participates in an aggregated order should participate at the average price for all of the clients' transactions in that security at that time, with transaction costs shared *pro rata* based on each client's participation in the transaction. Silver Point will generally execute client transactions on an aggregated basis when it believes that to do so will allow it to obtain best execution or reduce transaction costs. When aggregating orders, the clients will be treated in a fair and equitable manner.

Situations may occur where a client could be disadvantaged because of the investment activities conducted by Silver Point or its affiliates for other clients. To the extent permitted by applicable law and while not disadvantaging any clients, orders of clients may be combined with orders for investment funds, accounts or sub-accounts of members of the Silver Point Group.

## **ITEM 13 REVIEW OF ACCOUNTS**

### **Frequency and Nature of Review of Client Accounts**

Silver Point, analysts, traders and the portfolio manager perform various daily, weekly, monthly, quarterly and periodic reviews of Fund positions. A review of a Fund account may also be triggered by any unusual activity or special circumstance.

### **Factors Prompting Review of Client Accounts Other than a Periodic Review**

Silver Point provides audited financial statements to its clients within 120 days of the applicable Fund's fiscal year end.

### **Content and Frequency of Account Reports to Clients**

Investors in the Funds receive unaudited information at least quarterly regarding the performance of their Fund as well as other relevant information from time to time (which for the Flagship Funds currently includes, among other things, monthly investor letters and exposure reports, and for the C & I Funds currently includes, among other things, quarterly investor letters). In addition, Silver Point issues tax reports and audited financial statements to investors on an annual basis. Investors may receive additional information (for example, in connection with due diligence requests), which is in addition to information provided in a Fund's regular reports to investors.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

**Economic Benefits for Providing Services to Clients**

Silver Point does not receive economic benefits from non-clients for providing investment advice and other advisory services to its clients.

**Compensation to Non-Supervised Persons for Client Referrals**

Neither Silver Point nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. Silver Point may in the future enter into arrangements with third party placement agents or distributors to solicit investors in the Funds, and such arrangements would generally provide for the compensation of such persons for their services at Silver Point's expense (including through offsets to the fees and compensation received by Silver Point and its affiliates in respect of the Funds).

## **ITEM 15**

### **CUSTODY**

Silver Point is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to the Funds are sent by qualified custodians to Silver Point. Fund investors receive annual audited financial statements prepared by independent public accountants. In addition, Fund investors receive account statements from a third party administrator, which for certain Funds includes custody reports and account statements.

Silver Point is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, Silver Point is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it requires that each Fund be subject to an audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and Silver Point requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.



**ITEM 16**  
**INVESTMENT DISCRETION**

Silver Point or an affiliate serves as the management company with discretionary trading authority for each Fund.

Silver Point's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents.

Silver Point or an affiliate of Silver Point entered into an investment management or similar agreement with each Fund, pursuant to which Silver Point or an affiliate of Silver Point was granted discretionary trading authority.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

Silver Point has adopted proxy voting policies and procedures in compliance with Advisers Act Rule 206(4)-6. The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities (collectively, "Proxies") in a manner that will best serve the interests of the applicable Funds, as determined by Silver Point in its discretion on a case-by-case basis.

In limited circumstances, Silver Point may refrain from voting Proxies where Silver Point believes that not voting would be in the best interests of the applicable Fund, taking into consideration various factors, including, but not limited to, the costs associated with exercising the Proxy, legal restrictions on trading relating to the exercise of the Proxy and whether Silver Point has sold the underlying securities since the record date of the Proxy. Generally, the Funds may not direct Silver Point's vote in a particular solicitation.

Actual or perceived conflicts of interest may arise between the interests of the investing Funds on the one hand and Silver Point or its affiliates on the other hand. If Silver Point determines that an actual or perceived conflict may arise when voting Proxies pursuant to its proxy voting policies and procedures, Silver Point will evaluate the potential conflict and will determine how to proceed in accordance with its Proxy voting policies. The Funds may obtain a copy of Silver Point's Proxy voting policies and its Proxy voting record upon request.

**ITEM 18**  
**FINANCIAL INFORMATION**

Silver Point is not required to include a balance sheet for its most recent fiscal 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.