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**Form ADV, Part 2A – Disclosure Brochure**

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This brochure provides information about the qualifications and business practices of Crestline Management, L.P. If you have any questions about the contents of this brochure, please contact us at (817) 339-7600. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Crestline Management, L.P. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Being registered as an investment adviser with the SEC does not imply a certain level of skill or training.

## Material Changes

As of January 1, 2016, Crestline Management, L.P. (“Crestline”) admitted a new passive limited partner, Thru Line, L.P. (“Thru Line”). Thru Line’s ownership of Crestline does not represent a majority share of the partnership and does not provide Thru Line with the ability to take part in management or control of Crestline.

In 2015 Crestline began offering a separate managed account investment program that seeks to invest fund client assets in segregated portfolios sub-advised by third party portfolio managers in a managed account arrangement. The investment program generally involves long/short equity trading.

Also in 2015, Crestline hired an experienced European opportunistic investment credit team and opened its first European office in London. The European investment adviser – Crestline Management OFE, LLP is an Appointed Representative/Tied Agent of Mirabella Advisers LLP, a firm that is registered with the Financial Conduct Authority (“FCA”). Crestline Management OFE, LLP is in the process of applying for registration with the FCA. Crestline Management OFE, LLP, a relying adviser, provides non-discretionary advice and is helping Crestline with investment diligence and analysis for its clients on certain opportunities primarily European. Crestline Management OFE, LLP has agreed to comply with the compliance policies and procedures of Crestline and is considering registering separately with the SEC.

Effective January 1, 2016, certain investment professionals previously associated with the secondary investment activities conducted by certain Crestline clients amicably departed from Crestline to start a new investment management firm. The departed individuals remain involved in a consulting capacity with the wind-down of the secondary investment activities of Crestline clients. In connection with the departure Crestline began closing the operations of its Park City, UT affiliate Crestline West Associates, Inc.

Finally, Crestline-Kirchner, L.P. recently became the substitute investment manager of White Oak Strategic Master Fund, L.P. and its two feeder funds, as well as White Oak Strategic II SRV, L.P. and White Oak Opportunity SRV, L.P.

## Table of Contents

Advisory Business .....	4
Fees and Compensation .....	8
Performance-Based Fees and Side-By-Side Management.....	10
Types of Clients .....	11
Methods of Analysis, Investment Strategies and Risk of Loss .....	12
Disciplinary Information.....	29
Other Financial Industry Activities and Affiliations.....	30
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	33
Brokerage Practices .....	34
Review of Accounts .....	35
Client Referrals and Other Compensation .....	36
Custody .....	37
Investment Discretion .....	38
Voting Client Securities .....	39
Financial Information.....	41

## Advisory Business

Founded in 1997, Crestline provides attractive risk-adjusted returns for sophisticated asset owners. We use our credit expertise and innovative products to pursue value creation in global markets.

Crestline Management, L.P., or Crestline, and its affiliates sponsor and provide investment management services on a discretionary basis to private pooled investment funds and private managed accounts (single investor funds or entities), which are referred to in this brochure as the clients or fund clients, that employ a variety of investment strategies. Depending upon the type of strategy permitted by the relevant fund client's constituent and offering documents, which are referred to in this brochure as governing documents, and/or the relevant fund client's mandate, a fund client may have an opportunistic investing strategy (blending structured equity, private equity, private credit and direct investing seeking to capitalize on current market dislocations and inefficiencies), a lending strategy or a diversified low volatility (fund-of-funds or long/short segregated portfolio strategy). Crestline also provides "beta" solution services to certain fund clients and investors and also provides targeted due diligence services to certain investors upon request. The opportunistic investing strategy, lending strategy, low volatility strategies and the "beta" solution services are Crestline's core lines of business.

Fund clients with opportunistic investment strategies invest in a broad variety of financial instruments ranging from marketable securities and options to illiquid investments, including, without limitation, structured equity, private credit and debt instruments and real estate related investments. The goal of the opportunistic fund clients is to seek to achieve superior risk-adjusted returns over a finite period of time utilizing a flexible and opportunistic investment mandate that will tactically invest capital in order to seek to take advantage of market dislocations and inefficiencies through investments in (1) sectors Crestline believes have been abandoned by traditional banks, (2) economic and market dislocations and (3) special situations. Fund client investments will generally take the form of (a) corporate solutions (debt or structured equity investments in small and medium sized businesses), (b) asset based (lending against or purchasing a single asset or a portfolio of assets with a cash flow stream attached), (c) stressed/special situations (typically a debt investment or asset purchase of an underperforming company or undervalued asset) and (d) hedges and derivatives related to the foregoing investments. Investments will consist of both debt and equity investments and will be primarily focused in the United States and Europe.

Crestline has also established a platform for alternative financing for middle market companies ("Specialty Lending). Specialty Lending's objective is to achieve illiquidity premiums, while assuming less risk, over high-yield and broadly syndicated bank debt markets by making investments generally in directly-originated middle market loans (or acquiring such loans in a secondary transaction such as a syndication or other market transaction). Crestline seeks to provide investors in Specialty Lending with (i) exposure to privately negotiated investments in the middle companies, (ii) downside protection by emphasizing investments in senior secured loans with conservative risk metrics and strong business fundamentals, (iii) high levels of current income, and (iv) potential for equity upside through warrants and small direct equity investments (only when made alongside Specialty Lending's debt investment).

With respect to its “fund of funds” business, where it makes allocations to portfolio managers, Crestline allocates, and from time to time reallocates, the capital of its fund clients to the investment discretion of portfolio managers by investing in the underlying private funds they manage, which are referred to in this brochure as the underlying private funds. Crestline also expects to make some such allocations via funds which Crestline has sponsored, but such allocations will generally be sub-advised or in some cases managed entirely by one or more third-party investment management firms subject to Crestline’s oversight. The portfolio managers, in turn, invest those assets using a number of investment strategies. With respect to the segregated portfolio long/short investment program, Crestline engages third party portfolio managers as sub-advisers to provide a continuous investment program, including investment research and discretionary management, to the respective managed account for which the sub-adviser is engaged. In certain instances the sub-advisers will be internal Crestline employees that will be compensated similar to third party sub-advisers. Crestline’s investment strategy relies on its performance of extensive due diligence, which is discussed in “*Methods of Analysis, Investment Strategies and Risk of Loss*” for more details.

Furthermore, as part of the investment program of certain fund clients, Crestline previously acquired investments in underlying private funds directly from sellers of such funds via the secondary market and typically at a substantial discount to the underlying private fund’s published net asset value. The clients or accounts utilizing this investment strategy are generally in wind-down and Crestline is working with a group of former employees who are consulting on the wind-down, however, Crestline remains the sole decision maker over such accounts/clients.

Crestline also provides due diligence functions to certain clients by providing fundamental due diligence and analysis of discrete investment opportunities which may take the form of venture capital or private equity investments. Such investments may have unique catalysts for value realization such as initial public offerings, mergers, acquisitions or other business combinations which Crestline may advise an investor in as part of such investments.

When appropriate, Crestline creates special purpose vehicles to pool its fund clients’ assets and invest in financial instruments (including loans) and to invest with portfolio managers. Crestline also invests its fund clients’ assets through discretionary managed accounts, entities consisting primarily of Crestline-advised fund clients as investors, swaps or other similar products. Crestline tailors its advisory services to the requirements (including any client restrictions) of each of the fund clients it manages, as set forth in the private placement memorandum or the investment mandate in the relevant investment management agreement.

In 2013, Crestline established a joint venture with the Kirchner Group, “Crestline-Kirchner,” which focuses on underperforming, stressed and special situations in private equity. Crestline-Kirchner offers a suite of solutions for limited partners and general partners including providing liquidity to investors, follow-on capital to support existing investments, portfolio management expertise and fund restructuring. In late 2014, Crestline-Kirchner became the substitute investment manager of a fund family that was subsequently renamed CK Pearl Fund Ltd and CK Pearl Fund LP, and in late 2015 Crestline-Kirchner became the substitute investment manager of White Oak Strategic Master Fund, L.P. and its two feeder funds, as well

as White Oak Strategic II SRV, L.P and White Oak Opportunity SRV, L.P., collectively the “White Oak funds”. The White Oak funds directly originated private debt financings to middle-market companies.

Crestline also has a “beta” solutions business that customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant fund client or investor. See the section entitled “Methods of Analysis, Investment Strategies and Risk of Loss” for further discussion.

Crestline, via its affiliate, also offers a Collateralized Loan Obligation (“CLO”) platform. Crestline sponsors a series of new CLO issuances through its partnership with Crestline Denali Capital, L.P. (“Crestline Denali”), an investment adviser separately registered with the Securities and Exchange Commission. Additional information regarding Crestline Denali and its Advisory Business is available in its Form ADV. This document does not contain detailed information about Crestline Denali. See Crestline Denali’s Form ADV for information about Crestline Denali.

Crestline provides investment advice through various affiliates and subsidiaries. Crestline Investors, Inc. is the general partner of Crestline Management, L.P. and Crestline Associates Holdings, L.P. Crestline Associates Holdings, L.P., or Associates, serves as the holding company of the general partner and special limited partner entities (that in some cases harvest incentive based compensation) of certain of its fund clients. Also, Crestline SI (GP), L.P. and Crestline SI (GP), Ltd. serve as general partner to certain special purpose vehicles that hold certain designated investments. As needed, Crestline may create entities to serve as general partner to certain limited partnership investment funds, such as Crestline Specialty Lending Associates, Ltd. which has its own independent board of directors which serves as the general partner of Crestline Specialty Lending, L.P. Specific detail regarding general partner relationships can be found in each investment fund’s offering memorandum or other constituent documents. Crestline Canada, Inc. and its subsidiary Crestline Canada Sub, L.P. are investment managers doing business in Canada that provide the “beta” overlay advice to Crestline Management, L.P. and certain Canadian trusts. Crestline-Kirchner Private Equity Group is a joint venture providing services to limited and general partners of private equity funds. Crestline Management OFE, LLP serves as the European investment adviser and is an Appointed Representative/ Tied Agent of Mirabella Advisers LLP, a firm that is registered with the Financial Conduct Authority (“FCA”). Crestline Management OFE, LLP is in the process of applying for registration with the FCA. Crestline Management OFE, LLP, a relying adviser, provides non-discretionary advice and is helping Crestline with investment diligence and analysis for its clients on certain opportunities primarily European. Crestline Management OFE, LLP has agreed to comply with the compliance policies and procedures of Crestline and is considering registering separately with the SEC. Crestline Management, L.P. has been registered as an investment adviser with the Securities and Exchange Commission since 2002.

Crestline’s principal owner is Mr. Douglas K. Bratton (and estate planning entities); minority owners include Thru Line, L.P., Ms. Caroline Cooley and Mr. John Cochran. The non-entity owners of Crestline also own Crestline Canada, Inc. Thru Line, L.P. is, alongside Crestline Canada, Inc., an owner of Crestline Canada Sub, L.P. Crestline utilizes other research affiliate entities in the ordinary course of business in New York and Tokyo, Japan.

As of December 31, 2015, Crestline has approximately \$9,054,684,032 of assets under management, which includes assets of liquidating accounts managed by Crestline and \$2,362,128,309 of notional assets managed by Crestline Canada, Inc. in “beta” overlay strategies. Crestline’s regulatory AUM computed pursuant to applicable SEC guidelines is \$8,027,288,103.

## Fees and Compensation

Each fund client sets forth its specific fee structure (including how it charges fees) in a confidential explanatory memorandum, similar disclosure document or account agreement provided to (in the case of an account agreement, executed by) prospective investors in the relevant fund client.

Crestline deducts fees from its fund clients either monthly or quarterly, and either in advance (but not more than three months in advance) or arrears depending on the individual fund client. Crestline deducts the fees directly from its fund clients. Crestline generally charges one of, or a combination of, the following:

1. management fees, which are computed on a percentage of assets under management (based on the net or total asset value before performance-based compensation), that: (A) may be on a sliding scale; (B) may be subject to a minimum floor (expressed in dollars or as a percentage of assets under management); and (C) currently range from 0.30% per annum to 1.75% per annum depending on the fund client; and
2. performance-based allocations, performance-based fees and carried interest compensation, or performance-based compensation, which are computed on the percentage of capital appreciation the relevant fund client experiences, which range from 5% per annum to 20% per annum and which may be subject to a “hurdle,” “preferred return” and/or a “high watermark.” “Carried interest compensation” is a term that generally refers to performance-based compensation to the relevant fund’s general partner or investment manager after repayment of any capital contributions and an agreed upon preferred return to the investor when investments are realized. Crestline may make direct investments in securities for certain fund clients (as opposed to investments in underlying private funds) via special purpose vehicles, for which Crestline may receive additional performance-based compensation.

In computing net asset values on which to charge fees/allocations, Crestline and its fund clients rely not only on the accuracy of the valuations and performance results provided by the underlying private funds but also on the actual return on invested capital as investments are realized.

Crestline generally does not negotiate its allocations and fees. Under special circumstances, however, Crestline may enter into agreements with certain investors in its fund clients that may provide different terms to those investors. Crestline may waive or reduce its management fee and performance-based compensation for certain of its related persons or service providers invested in its fund clients.

Management agreements to which Crestline is a party are terminable based on the provisions outlined in each of the fund client’s governing documents and in each relevant management agreement. In the event of termination of an investment advisory contract or management agreement, Crestline will prorate all unearned, prepaid fees and refund those unearned fees to the fund clients. Investors in those fund clients are, however, typically not able to withdraw their capital until the end of a quarter and, therefore, do not receive pro rata refunds.



In addition to the fees paid by the fund clients to Crestline Management, L.P. and to Associates (via the entities it owns), to the extent the particular strategy involves investing in underlying private funds or sub-advisors, they will generally also charge expenses, such as those set forth in the following paragraph, and an asset-based management fee and performance-based allocation or fee to the fund clients and that is paid by the fund clients, thereby resulting in two layers of expenses, fees and allocations. Also, non-Crestline fund client investors that directly invest in the separate managed account investment program will also pay fees to the external managers in addition to the fees paid to Crestline. However, Crestline fund clients that invest in the separate managed account investment program will not pay two layers of fees to Crestline.

Fund clients will also pay other expenses in addition to the fees paid to Crestline. For example, fund clients may pay portfolio transaction costs, brokerage commissions, transaction fees, custodial and administration fees, audit and legal fees, registration, licensing, governmental filing fees, costs of portfolio manager background checks, lender expenses, transfer taxes, wire transfer fees and other related fees and taxes. For information regarding expenses for research, see “Brokerage Practices”. In addition, Crestline may use the services of a third party as part of its diligence process (i.e. manager background checks and verifications), such diligence services are in addition to the due diligence conducted by Crestline and not in lieu of Crestline’s extensive due diligence process. Crestline and/or its fund clients will pay for the cost of such services. Crestline and/or its fund clients may absorb certain of Crestline’s internal, research and/or due diligence expenses (i.e. travel expenses incurred while visiting prospective or existing portfolio managers). Please refer to the relevant fund client’s governing documents for further details, including as to whether the relevant fund client or Crestline will bear those expenses. The fund clients will also pay certain expenses of the underlying funds, including many of the fees disclosed above for the fund clients, and depending on the terms of the funds may also pay management fees to those fund managers. See “Brokerage Practices” for further description of potential expenses.

Crestline may also recommend or cause a related party, Crestline-Kirchner, to be engaged by certain portfolio funds of its clients to provide consulting, diligence, valuation, successor general partner and other services. The above services would result in separate compensation to be paid to the related party and may be deemed to be an indirect charge to the Crestline funds with those portfolio funds. For information relating to the conflict of interest that this creates and how Crestline attempts to manage that conflict, see “Item 10. Other Financial Industry Activities and Affiliations.”

Certain principal owners of Crestline have a direct or indirect ownership interest in DC Funding Partners LLC, which is a portfolio manager, and an ownership interest in Crestline Denali Capital, L.P. which is owned in part by Crestline Management, L.P. See the section entitled “Other Financial Industry Activities and Affiliations” for further discussion. Neither Crestline nor any of its employees accepts any other compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

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

Crestline receives performance-based compensation from certain of its fund clients. Crestline also manages fund clients that pay only asset-based fees and do not pay performance-based compensation or that pay lower performance-based compensation. Managing both types of fund clients creates potential conflicts of interest. Crestline can potentially receive higher fees from fund clients with higher performance-based compensation arrangements than from fund clients with lower performance-based compensation arrangements or from fund clients that pay only asset-based fees. As a result, Crestline may have an incentive to favor its fund clients paying the highest performance-based compensation by directing the best investment ideas to those fund clients or by taking on increased investment risk in the portfolios of those fund clients. Crestline has established investment allocation procedures designed to prevent these conflicts from influencing the allocation of investment opportunities among its fund clients and to ensure all of its fund clients are treated fairly and equitably and in accordance with the relevant fund client's investment strategy. When allocating investment opportunities, Crestline considers several factors, including, without limitation:

- investment strategy;
- current strategy allocation and concentration within each fund client;
- capital available for investment;
- anticipated redemptions and/or subscriptions by investors within each fund client,
- diversification within each fund client's portfolio; and
- the risk/return objectives of each fund client and minimum investment requirements of the underlying private funds.

In addition, certain of Crestline's fund clients require the approval of an investor-composed advisory committee before Crestline can structure investments in investment vehicles where Crestline may receive additional performance-based compensation.

Also, Crestline intends to offer segregated portfolios that will have an internal employee acting as the sub-adviser to the segregated portfolio ("internal sub-adviser") in addition to his or her other Crestline responsibilities. The internal sub-adviser will earn fees typical of an external sub-adviser and such fees will not reduce the fees that Crestline earns related to the client fund.

In addition, performance-based compensation may create an incentive for Crestline to favor investments with a greater risk profile. Crestline recognizes that it owes fiduciary duties to its fund clients and will act in good faith and with fairness in all its dealings with its fund clients. Crestline will take its duties into account in dealing with all actual and potential conflicts of interest.

## Types of Clients

Crestline serves as the investment manager to private domestic fund clients that were formed for the benefit of U.S. investors, and private offshore fund clients that were formed for the benefit of non-US investors and U.S. tax-exempt investors. Fund clients include “pooled” investment funds as well as funds for single investors (including groups of affiliated single investors). Crestline also has a “beta” solutions business that customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant fund client or investor.

Investors in its fund clients include:

- governmental plans, state pension and permanent funds, sovereign wealth funds;
- private retirement plans, corporate pensions, multi-employer pensions;
- financial institutions and other institutional clients;
- foundations, endowments and other charitable organizations; and
- family offices, and high net worth individuals.

Certain investors invest with Crestline via a managed account held at the investor’s designated broker which is then managed by Crestline pursuant to an IMA between Crestline and the investor.

In determining whether to launch a fund client, Crestline will look to whether it will have sufficient capital to meet its fund client’s investment objectives and return goal. Crestline generally requires investors in its fund clients to be qualified purchasers, as defined in the Investment Company Act of 1940, as amended, and generally requires a minimum investment of \$1,000,000 (\$500,000 in the case of Crestline Plus, L.P. and \$100,000, €100,000, or Canadian \$100,000 in the case of a limited class of interests in Crestline Offshore Fund, Ltd.), although Crestline reserves the right to accept lesser amounts.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

Crestline provides discretionary investment advisory services for its fund clients with investment strategies that are opportunistic, including distressed investments, directly-originated (or syndicated loans or loans acquired in market transactions) middle market loans or due diligence on unique opportunities for certain institutional clients, or generally multi-manager hedge fund portfolios (i.e. funds of funds) and platforms for multiple managers with targeted risk and return objectives (i.e. segregated portfolio investment program), and investments in funds acquired in the secondary market (which are currently in wind-down).

Crestline also has a “beta” solutions business that customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant fund client or investor. Beta management can be applied as a means of providing portable alpha and other beta management applications, such as portfolio hedging.

With respect to Crestline’s successor GP program, Crestline will assess the underlying portfolio, will bring in relevant industry experts to develop a timeline and plan for value realization and will execute on such plan with the oversight of relevant stakeholders such as existing investors, advisory committees or independent boards of directors as applicable.

While the strategies set forth below are designed to reduce the risk of loss from investing, investing in securities involves a risk of loss that clients should be prepared to bear.

### **Investment Strategies**

As noted herein, the firm has fund clients that focus on opportunistic investments and fund clients that focus on more traditional fund-of-fund type investments.

With respect to opportunistic and lending clients, those fund clients will make direct investments in securities, as opposed to via an investment in an underlying private fund, and certain fund clients will invest in middle market loans, whether directly-originated or syndicated loans or loans acquired in other market transactions.

Fund clients investing in other managers generally allocate assets to a variety of portfolio managers through direct investments in underlying private funds (partnerships, limited liability companies, corporations or similar limited liability entities) or segregated portfolio arrangements, through acquisition of investments in underlying private funds managed by portfolio managers via the secondary market and, in certain instances, through discretionary managed accounts, single purpose entities, entities consisting primarily of Crestline-advised funds or through swaps or other similar products.

With respect to fund clients that invest in portfolio managers or segregated portfolio arrangements, the underlying private funds in which Crestline invests pursue a variety of absolute return or event driven strategies including, without limitation, convertible arbitrage, derivative arbitrage, distressed securities/bank debt, bank loans, private credit, fixed income arbitrage, market-neutral equity, capital

structure arbitrage, CTAs/managed futures, financing strategies, equity long/short, commodity relative value, credit/structured products, credit relative value, activist investments, merger arbitrage and special situations/other. Certain of these strategies involve complex and sophisticated analysis, modeling, and/or trading techniques, and involve complex, exotic, and/or hard to price securities. Additionally, many of these strategies involve leverage and/or varying degrees of operational and legal complexity and sophistication. A more detailed description of these strategies is set forth in the relevant fund clients' governing documents.

## **Investment Process**

### **Opportunistic Investing**

Certain fund clients have an "opportunistic" investment strategy that generally follows the due diligence process outlined below when those fund clients invest in underlying private funds. The investment diligence and portfolio construction process of those fund clients, however, differs from the process outlined below in that the opportunistic fund clients seek investment opportunities that are more market driven or that seek to capitalize on more immediate market trends and dislocations. Crestline designed the opportunistic fund clients to have a more concentrated, less liquid portfolio with more overall market exposure. Investments can be made directly in securities or through portfolio managers. A primary factor in opportunistic fund portfolio construction is the return profile of the target investment.

### **Direct Investment Transactions**

Certain fund clients within Crestline's opportunistic investment strategy will make investments directly, singularly or via co-investments ("Direct Investments"). Direct Investments (both in funds and certain managed accounts) will be internally managed or in concert with specialists in order to seek to maximize value. Crestline will generally construct its own Direct Investment deals but fund clients may invest with a Portfolio Manager and may enter into a Direct Investment alongside the same Portfolio Managers. Crestline's employees and affiliate clients may also invest in parallel in some of these transactions. Crestline selects direct investing opportunities based on rigorous research and due diligence. The investment selection focuses on the reason for a transaction, macroeconomic risks, industry trends, unit economics, business operating risk, alternate exit strategies and downside mitigants, cash flow and valuation stress testing and management risks. When assessing the deal structure, Crestline will heavily scrutinize deal terms such as size, loan-to-value, return components, call protection, maturity, security/collateral, covenants, inter-creditor protections, tax structuring and compliance with Partnership terms.

The investment process with respect to direct investments is similar to the investment process involved in opportunistic investing and secondary market transactions. The investment team uses proprietary valuation models and methodology, internal resources and external relationships to evaluate direct investment opportunities and establish pricing and expected hold periods.

### **Directly originated middle market loans**

Certain private fund clients acquire investments in middle market loans, whether directly originated or syndicated loans acquired in market transactions ("Specialty Lending"). These private funds clients seek to primarily originate, invest in, or acquire privately-negotiated loans to middle market companies. Crestline will adhere to a disciplined, focused investment screening and selection process with an emphasis

on rigorous fundamental analysis and due diligence. Crestline will also retain, in certain situations, external consultants, advisors and accountants to augment due diligence. The investment process will generally be segmented into (1) preliminary analysis (including, identify key risk factors, loan repayment drivers and core areas of diligence; utilize traditional valuation methodologies to start to triangulate value; and prepare standard credit and business analysis; and (2) full due diligence and structuring (including, deep private equity style underwriting including analysis of unit level economics, cost and growth drivers, customer and supplier dynamics, company position and competitive dynamics, cash flow profile and drivers, balance sheet strength, and appropriate third party diligence). Post investment closing, Crestline will pursue a continuous and methodical approach to monitoring and portfolio management.

### **Portfolio Manager Investments**

The following investment process summary applies when Crestline is investing with a portfolio manager directly rather than acquiring an investment via the secondary market or middle market loans, whether approving a portfolio manager to serve as sub-adviser to a segregated portfolio or whether directly originated or syndicated loans or loans acquired in other market transactions. See below for a discussion of secondary market investments and see above for investments in middle market loans, whether directly originated or syndicated loans or loans acquired in other market transactions.

### **Investment Due Diligence**

With respect to the fund clients with a diversified low volatility strategy, Crestline employs a top-down, forward-looking approach to investing. Crestline's goal is to understand the potential drivers of returns going forward and in that manner, select investment strategies it believes will generate desired returns. Crestline then selects portfolio managers it believes can execute on the investment strategies it has identified. Using a variety of sources including databases (internal and external), prime brokers, professional contacts, existing portfolio manager relationships, industry publications and other investors Crestline is able to identify potential portfolio managers that it believes can execute on a given strategy. As part of the initial identification and screening process, Crestline's investment professionals gather the portfolio managers' marketing materials and other fund materials, set up calls or office meetings, check references, and perform a quantitative analysis of historical returns. Crestline will move a portfolio manager into the due diligence process only after enough preliminary work has been done to know whether it likes the basic fundamentals of the portfolio manager, the strategy, the returns and the risk profile. Portfolio construction goes hand in hand with the investment process, as a fund client's governing documents dictate the appropriate blend of investments, both minimum and maximum.

Crestline employs a very thorough due diligence process that includes a range of personnel and resources across the Crestline organization.

Additional information that Crestline gathers and analyzes during the investment due diligence process may include, without limitation: due diligence questionnaires, legal documents (offering memoranda, organizational documents, investment management agreements), regulatory filings (Form ADV, Schedules 13D, 13G, 13F, Section 16 filings, Rule 8 filings, etc.), reference checks, background checks, portfolio and risk information, assessment of historical returns, investment analysis, models, and risk tools. Crestline seeks to analyze a prospective underlying investment fund's investment strategy and opportunity set, the

quality and skills of the portfolio manager, the identifiable risks involved in the strategy and firm and how they are managed or mitigated. During the due diligence process, separate investment and operational research teams make on-site visits. Other participants in the process include Crestline's risk and legal teams.

### **Operational Due Diligence**

Another core tenet of Crestline's investment process is the operational due diligence of portfolio managers and the underlying private funds they manage. Crestline's operational due diligence team focuses extensively on the quality of the operational procedures, infrastructure, internal controls, legal and regulatory compliance, trade capture, execution, reconciliation, valuation, cash management, disaster recovery and business continuity, technology systems, valuation and third party service providers. Crestline may cause a portfolio manager to change procedures and institute better internal controls as a pre-condition for an investment by a fund client. A portfolio manager must meet Crestline's strict operational due diligence guidelines or Crestline will dismiss them from further consideration. Crestline conducts its operational due diligence on an ongoing basis through the monitoring of active portfolio managers. The operational due diligence team reports to a veto power-holding member of Crestline's investment committee. Crestline's investment committee is composed of senior investment and operational staff.

### **Risk Management**

Crestline integrates risk management throughout all the steps of its investment process. Crestline has a dedicated Director of Risk Management, a risk team and a risk committee, which together make up Crestline's risk management department. The primary role of Crestline's risk management department is to enhance Crestline's risk management capabilities by integrating position level analysis and additional quantitative tools into the initial due diligence of the underlying private fund, risk monitoring and portfolio construction process. Crestline structures its risk management functions separately from its portfolio management to ensure independence. Crestline places high importance on having independent oversight on issues relating to portfolio/risk of underlying private funds, the risk management department reports to a veto power--holding member of Crestline's investment committee. The investment committee ultimately votes on investments.

### **Ongoing Monitoring**

The diligence process continues after Crestline makes an investment. After investment, Crestline continues to monitor the underlying private funds and sub-advisers to the segregated portfolios. The ongoing monitoring of underlying private funds and sub-advisers includes:

- annual front office and back office reviews, quarterly calls (more frequent if necessary);
- review of financial statements and quarterly letters, portfolio monitoring (through managers' risk reports, position reports and/or third party risk aggregation reports);
- quarterly questionnaires;
- annual due diligence questionnaires;
- review of regulatory filings, updated periodic background checks;
- quarterly measurement of quantitative risk; and
- monthly media sweeps.

Separate investment teams within Crestline are responsible for monitoring their respective managers and sectors cover the portfolio managers and evaluate each portfolio manager on a formal basis quarterly. The respective investment team addresses any portfolio managers that it determines has any issues of concern in its regular weekly investment review meeting. Additionally, Crestline stores the information that it gathers through the monitoring process in its database, which is also monitored by the risk management department. The risk management department has established flags (up to 500 different items per underlying private fund) for each of the data items being monitored and will separately bring flagged issues of concern to Crestline's investment committee.

In addition, Crestline's operational due diligence process is a continuous process with respect to active underlying private funds (as opposed to underlying private funds where Crestline waits to receive redemption proceeds) and sub-advisers. Crestline gathers a significant amount of information from the underlying private fund on a monthly or quarterly basis, or more frequently in the case of sub-advisers, which the respective investment team, the risk team, and the operational due diligence team then review. Each team will discuss any identified risks, issues, or other items that require additional clarity with Crestline's management. In addition, Crestline's operational due diligence team conducts, at a minimum, an annual on-site visit to each ongoing underlying private fund in, or sub-adviser to, the portfolio. The investment and operational diligence teams discuss any operational issues discovered by the operational due diligence team from their on-going monitoring of underlying private funds during their quarterly meetings, sooner depending on the findings of the on-going reviews. With respect to underlying private funds where Crestline is waiting to receive redemption proceeds, the investment team for the respective underlying private fund will monitor those underlying private funds and will involve the operational due diligence team and risk management department, as necessary.

### **Beta Overlay**

Crestline also has a "beta" solutions business that customizes portfolio overlay and hedging solutions for institutional investors according to the governing documents of the relevant fund client or investor. A "beta" overlay involves investing a notional amount via a derivative contract with the objective of earning the return on a benchmark index or customized basket of securities. Crestline will periodically rebalance the account and the derivative contract exposures at pre-determined rebalancing points, or as required by the relevant agreements. Crestline also employs derivatives to manage or eliminate an investor or fund client's foreign exposure to risk factors such as currency risk or interest rate risk. To support these overlay and hedging programs, Crestline performs daily monitoring and risk management functions and provides liquidity and collateral management services.

### **Collateralized Loan Obligations**

Crestline sponsors a series of new Collateralized Loan Obligations ("CLO") under its partnership with Crestline Denali Capital, L.P. ("Crestline Denali"), an investment adviser registered with the Securities and Exchange Commission. Crestline Denali will tailor its investment strategy, which is best summarized as primarily long only, buy and hold, to each fund client. Crestline Denali attempts to keep its fund clients reasonably fully invested at all times by purchasing primarily first lien senior secured non-investment grade syndicated bank loan obligations extended primarily to U.S.-based companies operating across numerous industries. This strategy is intended to create diverse investment portfolios designed to help mitigate default



risk and to enable its fund clients to profit from the interest rate arbitrage between the interest earned on the underlying investment pool and the interest paid on its borrowing source.

Crestline Denali targets small investment positions typically equal to .3% - 2.0% of an individual fund client's total size in an effort to minimize individual obligor default risk.

Crestline Denali will generally invest in bank loan obligations possessing the following core credit attributes:

- The transaction will involve a private company and be sponsored by a private equity sponsor firm having significant or meaningful capital invested or at risk or a transaction with a public or privately-held company represented by a financial intermediary.
- The borrower will have a professional management team with a combination of experience, balance and depth.
- The borrower will be a market leader or possess a demonstrable strategic advantage.
- The borrower will have a proven or provable record of earnings in line with the capital structure in place or proposed.
- The transactions will be generally structured along one or more of the following key financial ratios:
  - Pro forma Senior Debt/EBITDA average of 3.5x (4.0x upper range)
  - Pro forma Total Debt/EBITDA average of 5.0x (5.5x upper range)
  - Pro forma Cash Flow Interest Coverage greater than 2.0x
  - Pro forma Fixed Charge Coverage greater than 1.2x
  - Sub-debt plus equity at least 40% of total capitalization
  - Cash equity at least 20% of total capitalization

### **Secondary Market Transactions**

Historically, certain fund clients acquired investments in underlying private funds managed by portfolio managers via the secondary market. The investment funds or accounts focused on this investment strategy are by their own terms in the wind-down process.

### **Risks**

Investing in securities involves a high risk of loss that clients should be prepared to bear. Crestline's investment strategies entail substantial risks and it cannot assure investors in fund clients that the fund clients will achieve their investment objectives. Material risks are set forth in the governing documents of each fund client and include those set forth below.

Risks associated with Crestline's opportunistic investment strategies include:

- **Contingent Liabilities.** From time to time, the opportunistic fund client may incur contingent liabilities in connection with an investment, and there can be no assurance the

fund clients will adequately reserve for contingent liabilities or that such liabilities will not have an adverse effect on the funds.

- **Debt Securities and Private Debt Instruments.** Investments in debt are subject to the ability of the issuer or the borrower to meet principal and interest payments on the obligation and may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer or the borrower and the general market conditions. In addition, private debt instruments have significant liquidity risks and market value risks since they are not generally traded in organized exchange markets but are traded by banks and other institutional investors. See below for additional risks related to debt investments in the Specialty Lending fund section. Those same risks apply to opportunistic investments in debt.
- **Bank Loans.** Investments generally will be in the form of loan participations and assignments of portions of such loans. The loan participation interests in which an opportunistic fund client invests may not be rated by any nationally recognized rating service. Participations and assignments are subject to a number of risks, including credit risk, interest rate risk, liquidity risk and the risks of being a lender. Such investments are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; and (iii) environmental liabilities that may arise with respect to collateral securing the obligations.
- **Second Lien Loans.** 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. Such loans are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy, which can materially affect recoveries. Variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. 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.
- **Debtor-in-Possession ("DIP") Loans.** Debtor-in-possession or DIP loans are most often revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. It is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.
- **High Yield Debt.** High Yield Debt securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments.
- **Convertible Securities.** Convertible securities are bonds, debentures, notes, preferred stock or other securities that may be converted into or exchanged for a specified amount of

common stock of the same or different issuer within a particular period of time at a specified price or formula and entitle the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock.

- **Non-Performing Debt.** It is anticipated that certain debt instruments purchased by the fund clients 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 such investments.
- **Bankruptcy Risks.** Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. Generally, the duration of a bankruptcy case can only be roughly estimated. 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 values. Such investments can result in a total loss of principal. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. Fund clients may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.
- **Equitable Subordination.** If a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors, or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). Fund clients do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of debt obligations and the fund clients' focus on "active management" of their investments, the fund clients may be subject to claims from creditors of an obligor that debt obligations of such obligor that are held by the fund clients should be equitably subordinated.

- **Residential Mortgage Loans.** Residential mortgage loans are secured by single-family residential property and are subject to risks of delinquency and foreclosure and risks of loss. Fund clients will hold or be exposed to non-prime or sub-prime residential mortgage loans (which are subject to higher delinquency, foreclosure and loss rates than prime residential mortgage loans), which could result in higher losses. Non-prime and sub-prime residential mortgage loans are made to borrowers who have poor or limited credit histories and, as a result, do not qualify for traditional mortgage products. Because of the poor, or lack of, credit history, non-prime and sub-prime borrowers have materially higher rates of delinquency, foreclosure and loss compared to prime credit quality borrowers.
- **Commercial Mortgage Loans.** Commercial mortgage loans are generally secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with residential mortgage loans that are secured by single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property is dependent primarily upon the successful operation of such property. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. The liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related commercial mortgage loan, than would be the case if such commercial property were readily adaptable to other uses.
- **Defaults and Foreclosures on Mortgage Loans.** In the event of any default under a loan directly held by a fund client or a loan underlying a security held by a fund client, they will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the loan, which could have a material adverse effect on the fund clients' cash flow from operations. Other non-performing loans may require workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the original principal amount of such loans. Further, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such loans, replacement financing will not be available and such loans may not be repaid. The foreclosure process can be expensive and lengthy (which could have a substantial negative effect on a fund client's anticipated return on the foreclosed mortgage loan), and may be adversely affected by the operation of state law governing the foreclosure process as well as other creditor's rights provided in the governing loan instruments.
- **Governmental Actions Affecting Mortgage Foreclosures.** The federal government, state governments, consumer advocacy groups and others continue to urge mortgage servicers to be aggressive in modifying mortgage loans to avoid foreclosure. In addition, numerous laws, regulations and rules have been proposed recently by federal, state and local governmental authorities that, if enacted or adopted, could delay foreclosure, reduce or delay payments by homeowners, forgive debt, and increase prepayments due to the

availability of government-sponsored refinancing initiatives. Fund clients may have a substantial amount of capital invested in residential mortgage loans and could be adversely affected by such actions.

- **Predatory and Other Lending Laws.** Fund clients may be subject to liability for potential violations of predatory and other lending laws, which could adversely impact their results of operations, financial conditions and business. Failure of residential mortgage loan originators or servicers to comply with anti-predatory lending laws, to the extent any of their residential mortgage loans become part of a fund client's mortgage-related assets, could subject it, as assignees or purchasers 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 a fund client has no rights to indemnification or the sellers are unable to meet their indemnification obligations, the fund client could incur losses, which could adversely impact the fund client's results of operations, financial conditions and business.
- **Changes in Prepayment Rates.** Changes in prepayment rates could reduce the value of mortgage loans directly held by a fund client or underlying an investment of a fund client.
- **Higher Risk of Loss on Loans Secured by Non-Owner Occupied Properties.** Certain mortgage loans may be secured by residential properties where the occupant is not the owner. These mortgage loans may present a greater risk of loss because these borrowers may be more likely to default on a mortgage loan secured by non-owner-occupied property than a mortgage loan secured by a primary residence of a borrower.
- **Pools of Whole Loans.** In connection with the acquisition of whole loans, a fund client may be required to purchase other types of mortgage assets as part of an available pool of mortgage assets in order to acquire the desired whole loans. These other mortgage assets may include mortgage assets that subject the fund client to additional risks. Acquisition of less desirable mortgage assets may impair the performance of a fund client and reduce returns to investors.
- **Consumer Loans.** Fund clients expect to hold or (through its investments in asset-backed securities) be exposed to other consumer loans, including credit card receivables, automobile loans, or student loans. These consumer loans are subject to risks of prepayment, delinquency and default similar to those present in mortgage loans. Consumer loans may be backed by collateral (as in automobile loans) or they may be unsecured, exposing the fund client to default risk as an unsecured creditor of an individual consumer borrower.
- **Borrower Fraud.** Of paramount concern in originating or holding loans is the possibility of material misrepresentation or omission on the part of borrowers. Fund clients or their affiliates will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. In addition, the quality of a fund client's investments in non-performing loans, or in mortgage-backed securities or asset-backed securities is subject to the quality of the underwriting of the originators of such investments, the ability of the sponsors of such

investments to screen for such issues, and the accuracy of representations made by the underlying borrowers.

- **Effect of Changes in Interest Rates on Investments in Mortgage Loans.** A substantial portion of a fund client's investments may be in mortgage loans. Most mortgage loans, especially fixed rate mortgage loans, decline in value when long-term interest rates increase. In the case of adjustable rate mortgages, increases in interest rates can lead to increases in delinquencies and defaults as borrowers become less able to make their mortgage payments following payment resets. Declines in market value, if not offset by any corresponding gains on hedging instruments, may ultimately reduce earnings or result in losses to a fund client, which may negatively affect cash available for distribution to a fund client. A fund client could also realize immediate losses if the securities were sold.
- **Intellectual Property and Life Sciences Sector Investments.** Fund clients may invest in intellectual property ("IP"), pharmaceutical or health care related assets, including those pertaining to pharmaceutical products and franchise rights. Investment in such assets involves a high degree of business, financial, technology, regulatory and litigation risk that can result in substantial losses. Some of these risks relate to the assets themselves, while others relate to the products utilizing these assets and to the companies manufacturing or marketing these products. To the extent a related product (e.g., a new pharmaceutical product) has not yet received all applicable governmental approvals, there is a risk that the product will not obtain such approvals or, if obtained, may be revoked due to previously unknown or undisclosed side effects or complications. Further, government policies and regulations applicable to such assets may change in ways that adversely affect the duration and/or scope of IP protections, or adversely affect the companies' or related products' marketability. A fund client may also invest in companies or investment vehicles which own valuable IP, pharmaceutical or health care related assets. The companies which own such assets and/or manufacture and market the products related to such assets may have limited operating histories or insufficient management or marketing personnel. Certain of these companies and a fund client may become involved in lawsuits with respect to the assets the fund client owns and the exploitation of such assets acquired by a fund client may necessitate litigation. Additionally, a fund client may invest in IP rights or companies that own IP rights that are governed by non-U.S. jurisdictions. Non-U.S. jurisdictions may provide significantly less protection than the United States because they may have no IP laws, or if they do have IP laws, such laws may be inadequate or poorly enforced. There is also the risk that a company may not apply for protection in all of the non-U.S. jurisdictions where it does business.

Risks associated with Specialty Lending include:

- **Lack of Operating History** – The Specialty Lending funds are a recently-organized group of entities with limited prior operating history or track record.
- **No Assurance of Investment Return** – Specialty Lending's task of identifying and evaluating investment opportunities, managing such investments and realizing a significant return for investors is difficult. There is no assurance the Specialty Lending strategy will be able to invest its capital on attractive terms or generate returns for its investors. There may be little or no

near-term cash flow available to the investors of the Specialty Lending funds and there can be no assurance the Specialty Lending funds will make any distribution to their partners. There may be partial or complete maturities, sales, transfers or other dispositions of investments that may not result in a return of capital or the realization of gains for a number of years after an investment is made.

- **Reliance on the Board of Directors and on Crestline** – The Crestline Specialty Lending funds’ general partner entities have an independent board of directors (the “Board”) which is tasked with overseeing and executing on a broad variety of matters for the entities. The success of the Specialty Lending funds will depend upon their Board who will have overall supervision and control the business affairs of the Specialty Lending funds. Limited partners are not entitled to participate in the management of the Specialty Lending fund. The Board, however, will be obligated to devote only such time to the Specialty Lending funds’ affairs as may be reasonably necessary to conduct their business.
- **Difficulty of Locating Suitable Investments** – The success of the Specialty Lending strategy will depend, in part, on the ability to originate loans on advantageous terms. There can be no assurance the Specialty Lending funds will be able to identify a sufficient number of suitable investment opportunities to enable them to invest all of their committed capital in opportunities that satisfy their investment objectives or that such investment opportunities will lead to completed investments by the Specialty Lending funds. The activity of identifying, completing and realizing an attractive investment opportunity is highly competitive, requires a substantial amount of upfront work and may involve a high degree of uncertainty. The Specialty Lending funds compete for the origination and acquisition of loans with many other investors, some of which will have greater resources than Specialty Lending funds. Such competitors may include other private investment funds as well as financial institutions and other institutional investors. In addition, the availability of investment opportunities generally may be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Therefore, identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities may become more intense. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available to the Specialty Lending funds and adversely affecting the terms upon which their investments can be made. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.
- **Illiquidity of Interests** – No market for the interests in the Specialty Lending funds can be expected to develop and it may be difficult or impossible to transfer any such interests, even in an emergency. Interests may not be transferred without the consent of the Board, which may withhold its consent in its sole discretion. Because of such severe restrictions on withdrawals and transfers, an investment in the Specialty Lending funds is a relatively illiquid investment and involves a high degree of risk.
- **Asset Valuations** – A significant portion of the Specialty Lending funds’ investments are not in readily marketable securities for which prices are available from third parties. Independent quotations for such positions is not necessarily be available, and, where available, will not necessarily provide a reliable indication of current value. For an investment to constitute a

liquid asset, market quotations of its value must be available from two independent market makers. Such quotations will not assure the investment is as liquid as investments in the secondary market for more traditional investments, such as stocks and bonds. As a result, if the Specialty Lending funds are forced to sell investments prematurely, they may not be able to realize the potential underlying value of such investments, and, in some cases, may have to sell such investments at a loss.

- **Changes in the Law and Regulatory Environment** – Amendments to banking, lending and other relevant laws and regulations could alter an expected outcome or introduce greater uncertainty regarding the likely outcome of an investment situation or the availability of investment opportunities.

Risks associated with fund clients that invest with portfolio managers, as opposed to directly in securities include:

- **Dependence on Portfolio Managers** – Certain of Crestline's fund clients' assets are invested through portfolio managers either in underlying portfolio funds or as sub-advisers to segregated portfolios. The success of the fund clients depends upon Crestline's and the portfolio managers' ability to develop and implement investment strategies that achieve the fund clients' investment objectives.
- **Liquidity** – Some investments may lack liquidity due to the illiquid nature of the investment (such as private debt) as well as due to underlying private funds having the right to suspend payment of withdrawals under certain circumstances, as well as fund clients being subject to lock-ups, gates and redemption fees. In addition, certain underlying private funds invest in or hold illiquid securities.
- **General Economic Conditions** – General economic conditions may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets, which could lead to unexpected volatility or illiquidity.
- **Leverage** – Some underlying private funds and some fund clients employ leverage (direct or notional), which may increase the risk of loss.
- **Non U.S. Investments** – Some underlying private funds invest in securities, commodities and other financial instruments of non-U.S. corporations and governments that may be subject to political and economic instability.
- **Currency** – Some investments may be made in currencies other than U.S. dollars. Crestline may, depending on the circumstances, hedge a fund client's exposure to currency fluctuations between the U.S. dollar and other currencies, which may independently cause losses.
- **Special Situations** – Certain underlying private funds as well as certain Crestline fund clients may invest in companies involved in (or the target of) acquisition attempts or tender offers, or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any of the above types of special situations, the investment will be subject to the risk that the contemplated transaction either will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which could be less than the purchase price to the underlying private fund or fund clients of the security or other financial instrument in respect of which the distribution is received.



- **Equity Securities** – The investment portfolios of underlying private funds may include positions in shares of common stock and preferred stock and in convertible securities. The underlying private funds also may invest in depositary receipts relating to non-U.S. securities. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions and general economic environments.
- **New Issues** – The purchase of securities in an initial public offering involves unique risks due to the limited number of securities available for trading, lack of market familiarity with the issuer and unseasoned trading, which may result in increased price volatility. New issuer companies may be recently organized companies or in new industries that are evolving and are not understood by investors. Finally, the decreased market capitalization of a recently public company may result in Crestline's fund clients' trading materially impacting the available price of securities in the marketplace.
- **Private Investments in Startup Companies** – Investments in small capitalization and startup stocks involve greater risk than is customarily associated with larger, more established companies. However, smaller companies often have limited product lines, markets, or financial resources, and they may be dependent upon one-person management. These securities may have limited marketability and may be subject to more abrupt or erratic movements in price than securities of larger companies or the market averages in general.
- Certain of Crestline's clients may purchase equity, convertible securities, and fixed income obligations the disposition of which may be restricted under the Securities Act of 1933. Whether or not so restricted, the market to resell such securities may be illiquid. Therefore, such investments may be required to be held for a lengthy period of time or, if the client were forced to liquidate its position in such securities, the liquidation may be taken at a substantial discount to the underlying value or result in the entire loss of the value of such investment. In addition, a private transaction may also involve higher transaction costs.
- **Potential Illiquidity of Client Investments** – The market value of Crestline's clients' investments will fluctuate with, among other things, changes in market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the issuers of client investments. In addition, the lack of an established, liquid secondary market for some client investments may have an adverse effect on the market value of those client investments and on the client's ability to dispose of them. Partly as a result of the foregoing, as well as general market inefficiencies respecting companies in varying stages of reorganizations and/or recapitalizations, a portfolio valuation for the client may not necessarily be indicative of actual results or amounts to be realized by the client from its investments. Additionally, some client investments may be subject to certain other transfer restrictions that may contribute to illiquidity. Also, client investments constituting a control position will be subject to additional transfer restrictions under Federal securities and other laws by virtue of such control position that will further contribute to illiquidity. Therefore, no assurance can be given that, if the client decides to dispose of a particular investment, it will be able to dispose of such investment at the prevailing market price or at the desired time.

- **Short Sales** – Some underlying private funds may sell securities short. Selling securities short risks losing an amount greater than the proceeds received and, theoretically could result in unlimited losses.
- **Counterparty Creditworthiness** – An underlying private fund may hold assets in one or more accounts maintained for that fund by counterparties, including their prime brokers. There is a risk that any of those counterparties could become insolvent. The insolvency of counterparties will likely impair the operational capabilities or the assets of the underlying fund. The use by underlying private funds of counterparties located in various jurisdictions outside the United States heightens this risk because the laws applicable to those counterparties may have substantial limitations and uncertainties.
- **Operational Risk** – While Crestline’s diligence process is designed to discover potential sources of operational risk in a portfolio manager’s investment program before its fund clients invest, some sources of operational risk may not be discovered until after investment, especially when if the portfolio manager misrepresents its investment program, controls and/or returns and attempts to mislead Crestline’s diligence process.
- **Headline Risk** – Underlying funds may be subject to rapid redemption requests from their investors due to reports, whether or not correct, of potential losses or regulatory events. Those underlying funds may be forced to redeem their most liquid investments to satisfy those redemption requests. If the fund clients do not redeem their interests in those underlying funds early in the redemption process, their ability to redeem their investment would be adversely impacted due to the potentially decreased liquidity of the relevant underlying fund.
- **Dual Layers of Fees** – While Crestline attempts to identify underlying funds with substantial potential returns, the rate of return of its investments may be reduced by expenses, fees and allocations at the underlying fund and of the respective fund client.
- **Distressed Securities** – An underlying private fund may invest in “below investment grade” securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments, although they may also offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of those issuers.
- **Derivatives** – Derivative instruments, or derivatives, include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Since many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may not only result in the loss of the entire investment, but may also expose the investor to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The “beta” overlay process relies upon the use of derivatives and the foregoing risk factor is particularly applicable to any “beta” overlay program.

- **Restrictions on Transfers of Secondary Interests** – The secondary investment interests in which certain fund clients invest may be highly illiquid and typically subject the fund clients to significant restrictions on transfer, including a requirement for approval of the transfer by the general partner or the investment manager of the underlying private fund and rights of first refusal in favor of other investors. Completion of the transfer is often time-consuming and relatively difficult, as compared to a transfer of other securities.
- **Investments Longer Than Fund Term** – Client funds may make investments that may not be advantageously disposed of prior to the date the fund client will be wound up and dissolved, either by expiration of the fund client's term or otherwise. The fund client may have to sell, distribute, or otherwise dispose of fund client investments at a disadvantageous time. As a result, the fund client may sell, distribute, or otherwise dispose of fund client investments for a price which is less than the price that could have been obtained if the fund client investments were held for a longer period of time.
- **Activist Strategies** – Activist strategies intrinsically require the fund clients take contentious positions in underlying issuers, which may expose them to risks, especially changes to price due to market reaction. If successful, the director would likely result in limited liquidity.

Clients who engage the services of Crestline-Kirchner for distressed or turn-around situations may be exposed to certain risks to which clients that pursue a liquidation alternative would not be exposed. Such risks include:

- **Reinvestment of Distributable Capital** – Crestline-Kirchner generally uses cash and other available assets to fund further investments into previously underperforming assets in ways it perceives will maximize value. If the underperforming assets do not improve in value despite Crestline-Kirchner's efforts, the losses of the portfolio may increase.
- **Prolonged Investment Period** – The investment period for the illiquid investments in which Crestline-Kirchner specializes may be prolonged, during which business, economic and regulatory environment relating to a particular investment may substantially and adversely change and negatively impact the value of, or ability to liquidate, an asset.
- **Sources of Capital** – Other sources of capital, whether in debt or equity, which may be necessary to grow or restructure a portfolio company may not be available.
- **Dilutive Effect** – Any prolonged continuation of the relevant portfolio company or fund client absent liquidation may require additional debt or equity capital that may be dilutive to preexisting investors but subject to any equity preemptive rights of the preexisting investors,
- **Other General Business Risks** – Crestline-Kirchner clients will be subject related to continued operations and may not be able to achieve liquidity for their investments despite Crestline-Kirchner's efforts.

The investment strategies of Crestline Denali pose the following material risks to its fund clients under management and fund client investors:

- **Limited Liquidity** – There is limited ability to sell the fund clients' investments as secondary markets often do not exist and the ability to transfer ownership to another entity is restricted.

This risk may be heightened in times of economic downturn or in response to a specific economic event. In addition, loans to companies at the smaller end of the syndicated loan market trade less frequently than loans to larger companies and, in some instances, have no, or only a limited, trading market.

- **High Leverage** – The fund client is highly leveraged and this may result in situations where the interest expense due is greater than interest income collected. The more subordinate the investor, the greater risk of non-payment.
- **Credit** – A borrower may not make required principal or interest payment under its borrowing terms.
- **Interest rate and prepayment** – Companies are likely to prepay their outstanding loans during periods of declining interest rates. Proceeds received from prepayment may be reinvested in a lower yielding investment.
- **Non-investment grade investments** – Non-investment grade loans will have greater credit and liquidity risk than investment grade obligations and are more likely to be impaired during periods of economic downturn.
- **Risk retention rules** – Section 941 of the Dodd-Frank Act generally requires sponsors of asset-backed securities to retain not less than 5% of the credit risk of the assets collateralizing the asset-backed securities. Risk retention rules could limit the ability of a fund to issue additional notes or undertake any refinancings, re-pricings, or other amendment.

Other investment techniques that the underlying private funds may employ from time to time can, in certain circumstances, maximize the adverse impact of adverse market conditions or events to which the fund clients may be subject. In addition to the risks associated with Crestline's investment strategies and techniques, fund client investments are subject to other risks, including, but not limited to, regulatory risks and market risks. Investors in Crestline's fund clients should refer to the applicable fund client's governing documents for additional risks and further explanation of the above risks.

## **Disciplinary Information**

Crestline has no legal or disciplinary event to report.

## Other Financial Industry Activities and Affiliations

### Funds

Crestline serves as investment manager and/or general partner of the following private pooled investment funds and private managed accounts, excluding those no longer offered or in liquidation:

Crestline Partners, L.P.  
Crestline Opportunity Partners, L.P.  
Crestline Opportunity Fund II, L.P. (Class A and Class C)  
Crestline Offshore Opportunity Fund II, L.P. (Class A, Class B, Class C and Class D)  
Crestline Recovery Fund, L.P.  
Crestline Recovery Fund II, L.P.  
Crestline Recovery Fund III, L.P.  
Crestline 20/20 Offshore Trust  
Crestline Offshore Fund, Ltd.  
Crestline ERISA Fund, Ltd.  
Crestline OT Opportunity Fund, L.P.  
Crestline CDP Opportunity Fund, L.P.  
Crestline Offshore Recovery Fund, L.P.  
Crestline Offshore Recovery Fund II, L.P.  
Crestline Offshore Recovery Fund III, L.P.  
Crestline AK Permanent Fund, L.P. (Class A and Class B)  
Crestline AK Credit Opportunities Fund, L.P.  
AKDL, L.P.  
Crestline AK Opportunistic Fund, L.P.  
Crestline AK Advisory Investments, L.P.  
Blue Glacier Fund, L.P. (Class A, Class B and Class C)  
Trent River Offshore Limited (Class A and Class B)  
Special Offshore Ltd. E  
Crestline CS Fund, L.P.  
Concentrated Line Fund, L.P.  
Eli Lilly Retirement Plan Master Trust  
Lyster Watson Group Trust Conservative Alternative Fund  
Lyster Watson Distressed Opportunity Fund, L.P.  
Crestline Menlo Fund, L.P.  
Crestline Offshore Menlo Fund, L.P.  
Crestline Alpamayo Offshore Fund, L.P.  
Special PC Fund, L.P.  
Crestline Forty Fund, L.P.  
Crestline Summit (Onshore), L.P.  
Crestline Summit (Offshore), L.P.  
Crestline Summit Master, SPC – Healthcare – 1 SP  
Crestline Summit Master, SPC – Industrials 1 SP

Crestline Summit Master, SPC – Consumer 1 SP  
Crestline Summit Master, SPC - Financials 1 SP  
Crestline Summit Master, SPC - Technology 1 SP  
Crestline Summit Master, SPC –Telecom & Media 1 SP  
Crestline Specialty Lending, L.P.  
Crestline Specialty Lending (US), L.P.  
CK Pearl Fund Ltd  
CK Pearl Fund LP  
White Oak Strategic Master Fund, L.P.  
White Oak Strategic II SRV, L.P.  
White Oak Opportunity SRV, L.P.

Other institutional investor accounts managed by relying adviser, Crestline Canada, Inc.

As related entities, the above entities do not negotiate their terms on an arm's length basis with Crestline. Crestline fully discloses its fees to investors prior to their purchase of interests in the above fund clients.

Principal owners of Crestline have an indirect ownership interest in Crestline Denali Capital, L.P. (formerly known as Denali Capital LLC), an investment management firm specializing in the sourcing, investment, management and administration of non-investment grade bank loans. Because of the principals' ownership interest in Crestline Denali Capital, L.P., those related persons share in the fees, revenues or profits the investment manager generates. If a fund client advised by Crestline Management were to invest in a Crestline Denali fund client, the fund client would not be charged two layers of fees.

Certain principal owners of Crestline have a direct or indirect ownership interest in DC Funding Partners LLC, or DCF. Because of the principals' ownership interest in DCF, those related persons share in the fees, revenues or profits that the portfolio manager generates. Crestline does not currently permit any fund client to invest in DCF.

In limited circumstances, Crestline may establish and manage a new fund client that derives its initial funding from the spin-off of an existing fund client or that is seeded by an existing fund client, thereby creating the potential for a conflict of interest. Furthermore, Crestline may conduct a portion of the investment activities of certain fund clients by investing into another fund client with the desired investment strategy. In those circumstances, Crestline informs the investors in the existing fund client of the conflict and requests that they consent to the investment either directly or the investors consent via acceptance of the fund client's structure as part of their investment subscription. In addition, in such circumstances Crestline will waive the fees, either at the investing fund client level or will waive fees charged to a fund client by an affiliated underlying fund spun-off or seeded by a fund client so that investors in the seeding fund client are not charged two layers of fees.

DCF engages primarily in the management of offshore pooled investment vehicles and is primarily involved in the purchase and sale of debt obligations. Fund clients that invested in funds managed by DCF did so pursuant to the same terms and conditions applicable to unaffiliated investors therein.

Crestline may also recommend or cause a related party, Crestline-Kirchner, to be engaged by certain portfolio funds of its clients to provide consulting, diligence, valuation, successor general partner and other services. The above services would result in separate compensation to be paid to Crestline-Kirchner. Crestline believes the amounts Crestline-Kirchner charges for its services are comparable to other potential providers of similar services. To address the potential conflict of interest Crestline seeks to have independent governing bodies of the portfolio fund approve the retention of Crestline-Kirchner. From time to time, Crestline may, however, use direct investor action to replace the general partner of portfolio funds with Crestline-Kirchner or its affiliates and may vote the interests of its fund clients in favor of the replacement of a general partner with the Crestline-Kirchner affiliate. If the client documents do not permit the retention of a related party for the above services, Crestline may seek, and in some cases has sought, amendments to the governing documents of its portfolio funds to allow for the retention of Crestline-Kirchner.

Principal executive officers of Crestline are also associated with Bratton Capital Management, LP, or BCM, which is a firm that acts as the investment adviser and general partner to single family-office-related investments. Crestline and BCM are under common control. The principals of Crestline may provide advice to Crestline that is similar to the advice provided by BCM. Due to the different mandates of BCM clients versus Crestline clients the investments by BCM clients and Crestline clients are generally different. In circumstances where the investments are the same, Crestline clients receive priority with respect to such investments. Lastly, the principals are not obligated to acquire for any account any security that they believe, in their absolute discretion, is not suitable for the fund clients Crestline manages or clients of BCM.



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

Crestline acts as an investment manager to various fund clients. Crestline and certain of its related persons have invested their personal funds in these fund clients. Crestline may give advice and take action in the performance of its duties to its investors and fund clients that differs from the advice given, or the timing and nature of action taken, with respect to the accounts of its affiliates and/or other investors and fund clients.

### Code of Ethics and Personal Trading

To avoid any potential conflicts of interest involving personal trades, Crestline has adopted written trading policies and procedures code, or the Code of Ethics, for its employees that includes a formal code of ethics and insider trading policies and procedures. Crestline has adopted procedures that are designed to ensure compliance with the provisions of the Code of Ethics, including pre-approval of certain personal securities transactions as required by applicable regulations, initial, quarterly and annual holdings reports and affirmations of compliance, and regular reviews of holdings and transactions. Crestline will provide a copy of the Code of Ethics to any client or prospective client upon request.

Crestline may from time to time, when consistent with the investment mandate of that client, cause a fund client to invest all or any portion of its assets in another fund client managed by Crestline or in an investment product managed or advised by a portfolio manager in which Crestline or its related persons may have an ownership interest, thereby creating the potential for a conflict of interest. Crestline typically addresses the conflict of interests the above investment presents through client consent and by waiving one level of fees. For additional information regarding how Crestline addresses these conflicts, see “Other Financial Activities and Affiliations.”

As discussed in response to the section “Other Financial Industry Activities and Affiliations,” certain principal owners of Crestline have a direct ownership interest in Crestline Denali Capital, L.P. (“Crestline Denali”) and a direct or indirect ownership interest in DCF, a portfolio manager. It is not anticipated that Crestline would advise one or more of its fund clients to pursue an investment in a fund client managed by Crestline Denali. However, that investment could occur subsequent to investor disclosure and requisite approval. See the section entitled “Other Financial Industry Activities and Affiliations” for further discussion.

Crestline permits certain related parties (including knowledgeable employees) to invest in the same underlying private funds or other securities in which the fund clients invest. Permitting related persons to invest is subject to Crestline’s obligations to its fund clients and whether Crestline believes the investment is appropriate for those clients pursuant to their investment mandate. Crestline monitors such investments to ensure any investment capacity goes to the fund clients and only excess investment capacity is available to the related parties.

Crestline employees may benefit from educational events sponsored by industry service providers, such as prime brokers, administrators, law firms, audit firms, and other similar professional service firms.

## Brokerage Practices

Although Crestline rarely utilizes brokers or dealers in connection with its fund clients whose investment programs involve the allocation of assets to portfolio managers through a variety of underlying private funds (other than for purposes of administering cash balances held by the fund clients) Crestline will utilize brokers or dealers in connection with secondary market transactions and its “beta” solutions. There are no restrictions on Crestline’s authority to determine, without obtaining specific client consent, the brokers or dealers used for this purpose. Thus, to the extent these fund clients engage in transactions other than investments with portfolio managers, Crestline has the authority to determine the financial intermediaries to be used in connection with those transactions and to negotiate the amount of commission or other compensation to be paid to those intermediaries in connection with those transactions. In the limited circumstances in which these particular fund clients use broker-dealers, Crestline will consider a variety of factors including the overall ability of the broker-dealer to complete the trade and deliver securities as contemplated, the credit rating of the broker-dealer including the overall cost of the trade, including the cost of margin and any other factors deemed relevant at the time given market circumstances and goals of the trade. For these fund clients, Crestline negotiates the relevant compensation and seeks best execution for its clients and does not seek to obtain products or “soft dollars,” research or services other than transactional services from its intermediaries. Crestline periodically reviews arrangements with intermediaries to assess the quality of services provided by its intermediaries. Crestline has not engaged broker-dealers that act as clearing or executing brokers for any fund client to also act as placement or selling agents nor does it receive client referrals from those broker-dealers.

Additionally, Crestline uses brokers or dealers in connection with its segregated portfolio investment program (“separate managed accounts”). Crestline has the authority to combine purchase or sale orders on behalf of the separate managed account fund client and to allocate the securities or other assets so purchased or sold on an average-price basis or by any other method of fair allocation. Crestline also has the authority to pay brokerage commissions that may be in excess of the lowest rates available to brokers who execute transactions for the separate managed accounts and who supply, pay for or rebate the cost of brokerage, research or execution services utilized by the separate managed accounts and/or pay for or rebate a portion of the obligations of the separate managed account; provided that the selection of a broker shall be made on the basis of best execution, taking into consideration various factors, including commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions, the broker’s facilities, and the broker’s provision or payment of the costs of brokerage and research services that are of benefit to the separate managed account.

Each series of the separate managed account will be managed by a separate external manager who will select the broker to be used and the research and brokerage used, so long as the services satisfy the obligations of the safe harbor. The external manager will have the incentive to use soft dollars for research so that it will not have to pay for those services out of income. Given the structure of the separate managed account, it is possible that an external manager may use the research received due to the above soft dollars for the benefit of its other clients. In addition, Crestline, as a multi-manager platform may incur soft dollar credits which may be used for our own research purposes in managing the overall fund structure.

## **Review of Accounts**

In addition to the ongoing diligence described in “*Methods of Analysis, Investment Strategies and Risk of Loss*,” Crestline’s principals will review, on a monthly basis or more frequently (depending on market conditions or in special circumstances), its fund clients to ensure consistency with their objectives and restrictions. Fund clients and investors in those fund clients receive monthly unaudited performance reports related to the fund client in which they are invested, quarterly reports that include a discussion of investment performance along with data related to the relevant fund client, and annual audited financial statements of the relevant fund client. From time to time, due to investor needs or mandates certain investors in the fund clients request, and Crestline or another related person may agree to provide those investors more frequent more detailed, stylistically different, or additional (typically for regulatory purposes) reports of the fund clients’ portfolio holdings or performance. Crestline’s compliance department monitors each fund client’s investment activity to compare it to the fund client’s investment guidelines.

## **Client Referrals and Other Compensation**

From time to time, Crestline may enter into agreements with unaffiliated broker-dealers, investment advisers or solicitors, which are referred to collectively herein as Solicitors, regarding the solicitation and referral of potential clients for compensation. In addition, Crestline may enter into agreements with Solicitors regarding the solicitation and referral of investors in the fund clients for compensation.

Crestline pays a percentage of the management fee and/or performance-based compensation collected from the fund clients to Solicitors. Crestline will disclose the structure of any referral agreements, including the compensation, to the relevant investor in the fund clients and to the fund clients to the extent required by applicable law. The fact that Crestline may share with Solicitors a portion of the compensation it receives for investment management services will not result in Crestline charging any investor in the fund clients or in the fund clients a higher management fee rate or performance-based compensation rate than Crestline customarily charges investors in its fund clients for similar services, nor will Crestline charge a fund client or any investor in a fund client any other amount for the purpose of offsetting its cost of obtaining an account through a Solicitor. Different Solicitors may receive varying amounts of compensation for their services.

## **Custody**

Crestline delivers fund client investor audited financial statements for each fund client within 180 days of the fund client's calendar year end for fund of funds clients and within 120 days of calendar year end for other pooled clients. Crestline advises investors to carefully review their account statements and audited financial statements.

## **Investment Discretion**

Crestline accepts discretionary authority to manage each fund client and its assets. Crestline typically receives discretionary authority, including a power of attorney, through a limited partnership agreement, subscription agreement, investment management or similar agreement between Crestline and the applicable fund client. In all cases, however, Crestline exercises its discretion in a manner consistent with the stated investment objectives for the particular fund client.

## Voting Client Securities

When acting as a fund of hedge funds advisor, Crestline is rarely required to vote the securities of public or private corporations or other similar entities that its fund clients own. When it makes direct investments where Crestline needs to vote the securities that its fund clients hold, it is Crestline's policy to vote proxies in the interest of maximizing shareholder or investor value. To that end, Crestline will vote in a way that it believes, consistent with its fiduciary duty, will cause the issue to increase the most or decline the least in value. Crestline will consider both the short and long term implications of the proposal to be voted on when determining the optimal vote. In addition, from time to time certain of the fund clients may request that Crestline vote on their behalf, in their capacity as investors in the underlying private fund, on certain proposals, amendments, consents or resolutions with respect to an underlying private fund.

In voting the fund client's securities in an underlying fund in particular, Crestline's proxy voting policies and procedures generally require Crestline to vote all underlying fund securities in a manner that serves the best interest of the fund clients, taking into account relevant factors including:

- the impact on the value of or on the prospective returns of the underlying private fund or security;
- the attraction of additional capital to the underlying private fund or security; alignment of the portfolio manager's interests with the interests of the underlying private fund's or security's investors;
- the costs associated with the amendment or vote being solicited;
- the impact on the fund client's redemption or withdrawal rights;
- the continued or increased availability of information regarding the underlying private fund's portfolio;
- industry developments and business practices; and
- the consistency with the fund clients' stated investment objectives.

In general, Crestline segregates its votes relating to underlying funds into two categories:

- primarily administrative or routine matters on which a vote is requested; and
- non-recurring or extraordinary matters, such as a material change in the terms of the underlying private funds.

Absent a particular reason to the contrary, it is Crestline's general policy to vote in accordance with the recommendation of the underlying private fund's portfolio manager or the security's management on administrative or routine matters.

In the case of non-recurring or extraordinary matters, Crestline's investment committee considers the above votes on a case-by-case basis and has established procedures to ensure that its securities are voted and may seek the advice of independent third parties or committees to assist in voting. The approval of a majority of the members of the investment committee is necessary and Crestline votes its fund clients' securities as recommended by the investment committee (or by the independent third party or committee, if applicable).

The fund clients can vote their own securities but the investors in the fund clients generally may not direct the voting of securities held by the fund clients.

Investors may obtain a copy of the Proxy Policies and procedures and information on how each fund client voted its respective securities by contacting Crestline.



## **Financial Information**

Crestline has no financial commitment or condition that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.