



Deerfield Capital Management LLC  
Part 2A of Form ADV  
The Brochure

250 Park Avenue  
Fourth Floor  
New York, NY 10177  
[www.cific.com](http://www.cific.com)

Updated: March 2017

This brochure (the “**Brochure**”) provides information about the qualifications and business practices of Deerfield Capital Management LLC (“**DCM**”) and is delivered to you pursuant to Rule 204-3 under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). If you have any questions about the Brochure’s contents, please contact Julian Weldon, DCM’s Chief Compliance Officer (“**CCO**”), at [jweldon@cific.com](mailto:jweldon@cific.com) or (212) 624-4513. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or any state securities authority. Additional information about DCM is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). DCM’s registration with the SEC as an investment adviser does not imply a certain level of skill or training.

This Brochure is necessarily general in nature and qualified in its entirety by the offering memorandum or other disclosure document for the DCM program in which you are invested or considering for investment, which you should carefully read before investing or making other investment decisions regarding the program.

When this Brochure refers to “clients,” it is referring only to direct clients and not, in the case of clients that are commingled investment vehicles, to the investors in those vehicles.

Any statements herein that are not historical facts are based on current expectations, speak only as of the date of the first page, and are susceptible to various risks and uncertainties. The actual results of investment programs may differ materially from results that might be inferred from such forward-looking statements. Many factors could cause such differences, including dislocations in credit markets, liquidity and volatility in those markets, changes in interest rates or the general economy, changes in governmental regulations or taxation rates, the availability of investment opportunities, and the degree and nature of competition. New risks and uncertainties, which cannot be predicted, may occur. DCM assumes no obligation to update any forward-looking statements except as required by federal securities laws.

The information herein is current as of the date hereof. The delivery of this Brochure after that date does not imply that the Brochure is current as of that later date.

**Item 2. Material Changes**

This document is annual update of DCM's Brochure. It amends and restates the Brochure dated March 2016.

The following is a summary of the material changes since the last annual update of our Brochure in March 2016.

Item 4 was revised to reflect a change in control of the Advisers.

### Item 3. Table of Contents

Item 1. Cover Page.....	1
Item 2. Material Changes.....	3
Item 3. Table of Contents.....	4
Item 4. Advisory Business.....	5
Item 5. Fees and Compensation.....	7
Item 6. Performance Based Fees and Side-by-Side Management.....	8
Item 7. Types of Clients.....	9
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9. Disciplinary Information.....	17
Item 10. Other Financial Industry Activities and Affiliations.....	17
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	18
Item 12. Brokerage Practices.....	20
Item 13. Review of Accounts.....	21
Item 14. Client Referrals and Other Compensation.....	22
Item 15. Custody.....	22
Item 16. Investment Discretion.....	22
Item 17. Voting Client Securities.....	22
Item 18. Financial Information.....	23

## Item 4. Advisory Business

### Ownership and Structure

DCM and its affiliated investment advisers, CIFIC Asset Management LLC (“**CIFIC**”), CIFIC CLO Management LLC (“**CLO Manager**”), Columbus Nova Credit Investments Management, LLC (“**CNCIM**”), CypressTree Investment Management, LLC (“**CypressTree**”) and CIFIC Parthenon Loan Funding GP LLC are indirect wholly-owned subsidiaries of CIFIC LLC. This Brochure refers to the five advisers collectively as the “**Advisers**.”

On November 21, 2016 (the “**Effective Date**”), pursuant to an Agreement and Plan of Merger dated August 19, 2016 (the “**Merger Agreement**”), among CIFIC LLC, F.A.B. Holdings I LP (“**Parent**”) and CIFIC Acquisition, LLC, a wholly owned subsidiary of Parent (“**Merger Sub**”) and in accordance with the laws of the State of Delaware, Merger Sub was merged with and into CIFIC LLC (the “**Merger**”), with CIFIC LLC surviving the Merger as a wholly owned subsidiary of Parent.

Stephen Vaccaro, the Advisers’ Chief Investment Officer, and Oliver Wriedt serve as Co-Chief Executive Officers.

The Advisers’ employees are involved in the portfolio management and related servicing of all or most of the Advisers’ clients and the Advisers share all investment management functions, including a single Investment Research team, a single Portfolio Management team and a single Trading team (see Item 13) and a joint Code of Ethics (see Item 11). The Advisers will provide each client with Brochure Supplements containing the names and experience for the principal members of the Investment Research team and Portfolio Management team.

In addition to DCM, CIFIC is separately registered with the SEC as an investment adviser. You can obtain a copy of CIFIC’s Brochure by contacting the CCO at 212-624-1200. CypressTree, CNCIM and Parthenon are registered with the SEC as “relying advisers” on CIFIC’s Form ADV and therefore CIFIC’s Brochure also serves as the Brochure for CLO Manager, CypressTree, CNCIM and other relying advisers as listed in CIFIC’s Form ADV Part 1A.

### General description of advisory business

The Advisers are predominantly in the U.S. corporate and structured credit asset management business. The Advisers employ an investment approach that includes a disciplined assessment of fundamental credit, appropriateness of capital structure, collateral protection and loan agreement terms. In addition, the Advisers utilize internally-developed risk ratings based on individual obligor assessment without undue reliance on credit rating agencies, diversified investment portfolios by avoiding concentration imbalances, on-going active portfolio management and utilization of industry best practices and proprietary tools. As part of ongoing portfolio management, the Advisers continuously re-assess and adjust the investments held by each client by identifying relative value differentials, market inefficiencies and technical imbalances.

The substantial majority of the Advisers' clients are pooled investment vehicles that are collateralized loan obligation funds ("CLOs") where the fund invests principally in senior secured corporate loans ("SSCLs"). In addition, the Advisers manage certain open and closed-end funds and accounts that invest in corporate loans, CLO warehouses, CLO bonds and CLO equity. Finally, DCM manages certain other pooled investment vehicles that invest in corporate bonds and asset-backed securities and that are collateralized debt obligation vehicles ("CDOs"). Certain of the Advisers also manage other private investment funds and managed accounts. CIFIC has been in the advisory business since 2005 and DCM since 1993.

#### Principal owners

DCM is 100% directly owned by CIFIC Capital HoldCo LLC, which is an indirect subsidiary of CIFIC LLC. Each Adviser is owned 100% indirectly by CIFIC LLC, formerly a public company listed on the NASDAQ Stock Market under the "CIFIC" symbol.

On the Effective Date, CIFIC LLC was acquired by F.A.B. Holdings I LP ("**F.A.B. Holdings**"), which is owned by F.A.B. Financial Investments LP ("**F.A.B. Financial**") and certain members of CIFIC management. F.A.B. Financial is wholly-owned by Supreme Universal Holdings Ltd. and Hamad Bin Khalifa Al-Thani is the sole member. The general partner of both F.A.B. Holdings and F.A.B. Financial is F.A.B. Financial Investments GP Limited.

#### Type of advisory services that are offered

The Advisers are in the corporate and structured credit asset management business combining credit practices of banks and asset managers. They serve as the investment manager primarily for (i) various CLOs and other investment funds, including private investment funds, and, in the case of DCM, certain CDOs (collectively, "**funds**"), and (ii) other loan-based and structured credit-based products and accounts (collectively, "**other accounts**"). Additionally, CIFIC provides sub-advisory services to other investment advisers (together with the funds and other accounts, the "**client accounts**"), and accordingly provides investment supervisory services to each client account. The Advisers invest the client accounts' assets primarily in (a) SSCLs and equivalent exposures in the primary and secondary markets and (b) CLO warehouses, CLO bonds and CLO equity.

The Advisers currently have discretionary trading authority over the client accounts they manage, except for certain of the client accounts for which they provide only limited services.

#### How advisory services are tailored to clients' needs

The Advisers tailor their advisory services to the individual needs of their client accounts. Generally, at the time a client account is structured and opened, there is discussion between the Adviser and the client account, and those that invest in the client account, regarding the investment strategy and risk, investment restrictions and investment structure and on other aspects of the Advisers' management of the client account's portfolios.

### Amount of client assets under management (“AUM”)

As of December 31, 2016: (a) CIFIC, CypressTree, CNCIM and Parthenon together managed \$12,631,924,929 of client assets on a discretionary basis and \$519,532,610 of client assets on a non-discretionary basis and (b) DCM managed \$976,853,701 of client assets on a discretionary basis.<sup>1</sup> Total AUM of the Advisers was \$14,128,419,571 at December 31, 2016.

### Other

The Advisers do not currently engage in business activities other than investment management and other ancillary activities related thereto. The Advisers do not currently provide financial planning or similar services nor participate in wrap fee programs.

CIFIC LLC’s website, [www.CIFIC.com](http://www.CIFIC.com), contains additional information about the Advisers that may be useful to you.

### **Item 5. Fees and Compensation**

The Advisers’ fees are negotiable and typically include, in the case of CLOs and CDOs, a senior management fee, a subordinated management fee and incentive management fees. Fees are not required to be paid in advance and we do not have a set fee schedule. Specific fee rates and the methodology for calculating fees are agreed to at the time a particular client account is established, are described in each client account’s investment advisory agreement, and remain for the life of the client account. The fees are typically determined and paid quarterly, (other than incentive management fees, which are paid only following satisfaction of certain investment performance criteria), and generally calculated as a percentage of AUM or the net asset value for the particular client account. However, once a client account is established, fees for the life of such client account are not negotiable, but an Adviser may in its discretion waive or reduce all or part of its fees. The Advisers may also waive or reduce all or part of their fees for employees of the Advisers.

The Advisers’ fees are described in each client account’s offering document (if applicable) and other constituent documents of such client account, which are finalized when the client account is established. Fees are determined periodically (typically quarterly in arrears) by the client account’s administrator and/or custodian, with the exception of some client accounts that require the Advisers to calculate the fees (based on the specific fee rates and methodology in each client account’s constituent documents), and paid by the administrator and/or custodian on behalf of the client account to the Adviser. Fees are deducted from client assets by the administrator, custodian and/or Adviser (as applicable).

In accordance with the negotiated terms of the Advisers’ investment advisory agreements with clients, the applicable client accounts generally reimburse the Advisers from time to time for certain out-of-pocket expenses related to the services provided by the Advisers and third parties to the relevant client account. Among other things, clients may reimburse the Advisers for fees

---

<sup>1</sup> AUM of CIFIC, CypressTree, CNCIM and Parthenon are combined because CypressTree, CNCIM and Parthenon are registered with the SEC as investment advisers as “relying advisers” on CIFIC’s Form ADV.

and expenses relating to establishing the account, accountants, rating agencies, loan pricing services, software providers, custodial fees, commissions, trade settlement fees, legal and consultant fees and expenses, research, software or information technology fees and expenses of the Advisers primarily related to the provision of services to the client account, exchange fees, bank service fees, income withholding or transfer taxes, expenses related to proposed transactions that are not ultimately executed, and fees of other service providers. A service provider may be affiliated with the Advisers, in which case the Advisers use commercially reasonable efforts to ensure that the services are on terms that are no less favorable than would apply in an arms-length transaction. Expenses are allocated among client accounts quarterly, typically based on each client account's AUM for the previous quarter. Such allocations may not necessarily be on a pro rata basis and a client may bear more than its pro rata share of expenses. Expenses payable by a client may be more or less than the allocation of expenses by other comparable investment advisers.

The Advisers' clients generally pay other fees and expenses in connection with the Advisers' advisory services relating to the establishment or ongoing operation of the relevant client account. The types of such fees and expenses depend on the nature of the client account. The additional fees and expenses may include those of a trustee, custodian, collateral administrator, administrator, accountants, lawyers, rating agencies, and regulators. If the client account is an investment fund, the additional fees may include certain of the above fees and also securities brokerage commissions and fees of directors, auditors and consultants. Clients will also in effect bear the costs of bid/ask spreads or other markup typically charged by loan and securities dealers on transactions.

If an Adviser charges your account a performance incentive fee, it may have an incentive to trade the account more aggressively and/or take more risk in relation to the account assets than in the absence of a performance incentive fee.

#### **Item 6. Performance Based Fees and Side-by-Side Management**

In addition to base management fees, the Advisers' fees may include performance incentive fees. Performance incentive fees are measured and paid periodically, and are determined typically based on: (a) an additional percentage of AUM after the client account reaches a performance hurdle, and/or (b) a specified percentage of remaining investment proceeds above a separate performance hurdle. In the case of CLOs and CDOs, the performance hurdles for these calculations are determined based on proceeds from the fund investments resulting in the fund residual interest tranche investors (i.e., the "equity" investors in the fund) receiving a cash-on-cash return or an internal rate of return ("IRR") above specified percentages on their net invested capital. Performance incentive fees may also apply to non-CLO and CDO client accounts and may or may not have a structure similar to the performance incentive fees that apply to CLO or CDO client accounts.

When the Advisers manage client accounts with similar strategies (which thus might "compete" with each other for investment opportunities or otherwise), those client accounts may be charged different types and/or levels of fees. For example, some of the client accounts may be charged only a base management fee and others also a performance incentive fee. A portfolio manager for



certain client accounts with similar strategies has and may receive performance-based compensation from the Advisers with respect to some of the client accounts but not others.

The Advisers may have an incentive to favor the client account that is also charged a performance incentive fee (or the portfolio managers for the client accounts may have an incentive with respect to the client accounts for which they receive performance-based compensation from us). The Advisers have addressed this potential conflict mainly by following their policies regarding equitable allocation of investment opportunities and transaction executions among similar-strategy client accounts.

## **Item 7. Types of Clients**

The Advisers primarily provide investment management services to pooled investment vehicles that are CLOs and to private funds and investors that invest in corporate and structured credit. CIFIC also provides investment advice to other types of investors, generally through separately managed accounts or non-CLO private investment funds, and DCM also provides investment management services to CDOs.

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

### Methods of the Advisers' investment analysis

The Advisers are U.S. CLO, corporate and structured credit managers that strive to provide best-in-class processes and controls and transparency to investors by combining best credit practices of banks and asset managers. The Advisers employ an underwriting process focused on the fundamental value of investment opportunities, typically strive to maintain diversified portfolios (depending on a client account's particular investment objectives) and re-assess and rebalance portfolios through relative value analysis and trading.

With respect to loan-based funds and accounts, while client account investment objectives differ, typically the Advisers focus on loan repayment by borrowers, in contrast to dependency on investment sales as a primary risk management tool, as well as disciplined portfolio diversification and overlays of relative value and portfolio rebalancing to enhance the risk profile of a particular client account. To those ends, the Advisers typically seek loans with robust recovery values. Rather than relying on the views of rating agencies or implied signals from market prices, the Advisers' credit analysis focuses on industry, the relevant borrower's business, management capabilities, debt service capacity, legal structure, collateral value and use of proceeds.

With respect to client that invest in CLO securities, while client account investment objectives differ, typically the Advisers focus on a fundamental credit analysis of the underlying portfolios, overlaying relative value, manager liquidity, diversification and portfolio rebalancing to enhance the risk profile of a particular client account. Rather than relying on the views of rating agencies or implied signals from market prices, the Advisers use their knowledge of the underlying collateral portfolios and CLO structures to select CLO investments with solid credit attributes.

The Advisers' fundamentals-based investing strategy incorporates an overlay of relative value trading and portfolio rebalancing to reassess investments in client accounts. In so doing, the Advisers seek to identify relative value differentials, market inefficiencies and technical imbalances in order to arbitrage differences between expected recovery rates and market prices, to build loss reserves, and to take defensive or other actions.

The Advisers typically sell loans and/or CLO securities when more attractive investments can be purchased at comparable price points to optimize portfolio composition and target performance. In addition, the Advisers have dedicated "Special Situations" investment professionals who manage any loan workouts and defaults. Within their diligent, detail-oriented management process, the Advisers also prioritize concentration and correlation avoidance and re-assess investments relative to the target investment criteria of each client account.

The Advisers invest predominantly in SSCLs. The client accounts they currently manage are primarily CLOs, as well as private investment funds and other loan-based client accounts, that invest in SSCLs, with limited investments in senior unsecured or senior subordinated term loans, and, in each case, participations in the foregoing. Most of these loans have been originated by banks and other financial institutions.

The Advisers and their affiliates also may invest in CLO debt and equity securities and warehouses, including those of CLOs and warehouses managed by one or more of the Advisers. DCM also manages certain CDOs that invest in asset-backed securities (securities for which the underlying collateral consists of assets such as credit card receivables, home equity loans, leases, commercial mortgage loans and debt obligations) and corporate bonds (investment grade and non-investment grade—i.e., high-yield—debt securities of companies domiciled in the U.S. and certain non-U.S. countries).

The Advisers may also invest in other financial instruments, such as government securities, interest rate and credit default swaps, interest rate or other options, futures or forwards, mortgage-backed securities, distressed securities, foreign exchange, structured finance obligations (such as collateralized bond obligations, collateralized loan obligations, and collateralized debt obligations), CLO equity and subordinated debt and mezzanine loans.

Interests in funds managed by the Advisers are offered to investors pursuant to disclosure documents that contain detailed information about the risks of investing in the funds, including the risks relating to the securities issued to investors by the funds and those relating to the underlying assets held by the funds. With respect to each fund the Advisers manage, the summary of fund investment risks in this Brochure is qualified in its entirety by the disclosure document for the particular fund. You should carefully review each fund's offering circular before investing in the fund or making an investment decision to buy, sell or hold the securities issued by the fund.

#### Methods of the Advisers' investment strategies

The Advisers' investment strategies generally involve those described in "Methods of the Advisers' investment analysis" above, as well as modeling and stress testing of investment

portfolios, portfolio diversification across issuers and industries, and ongoing risk monitoring of portfolio holdings. The Advisers may in some cases seek enhanced returns through tactical or opportunistic trading that seeks to capitalize on pricing inefficiencies with respect to the rating, credit quality and/or seniority in the issuer's capital structure of the related loan or other credit product.

The Advisers also may employ leverage in managing client accounts. CLOs and CDOs are levered investment vehicles and other client accounts may or may not employ leverage depending on a particular client account's investment objectives.

### General investment risks

All investing in securities involves risk of loss that you should be prepared to bear. The securities the Advisers invest in are subject to credit, liquidity, interest rate and exchange rate risks, general economic conditions, operational risks, structural risks, the condition of financial markets, political events, developments or trends in any particular industry, changes in prevailing interest rates and periods of adverse performance. Please see the relevant offering memorandum or other disclosure document for the CIFIC program in which you are invested or considering for investment for a more detailed discussion of risks.

### Risks of the Advisers' investment analysis methods

The Advisers consider the material risks of their investment analysis methods to include the unpredictability of general economic, financial, industry and issuer-specific conditions; and lack of sufficient financial information.

### Risks of investing in client accounts

The material risks of investing in CLOs and CDOs generally consist of those relating to the securities issued to investors by the CLOs and CDOs and the underlying SSCLs and other investments held by the CLOs and CDOs. The former risks are typically the lack of liquidity of the interests, their subordination to more senior interests in the CLO's or CDO's capital structure, the limited recourse nature of the interests, and the uncertainty of the CLO or CDO making payments on the interests. The latter risks are described in more detail below.

### Risks of investing in SSCLs and other bank loans

#### *General*

The substantial majority of the investments managed by the Advisers are SSCLs, which are debt obligations that typically pay interest based upon floating rates. During periods of rising interest rates, the total payment obligations of the borrowers, issuers or obligors of floating rate debt will increase, perhaps significantly. This in turn could lead to an increase in default rates on such investments.

The investment risks of SSCLs and other bank loans include limited liquidity and secondary market support, the limited supply of some new issue bank loans, the possibility that earnings of the loan obligor may be insufficient to meet its debt service obligations, the declining creditworthiness and potential for insolvency of the obligor of bank loans during periods of economic downturn, spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received, and if subordinated, subordination to the prior claims of other loans or senior lenders. An economic downturn could severely disrupt the market for bank loans and adversely affect the value of outstanding bank loans and the ability of the obligors to repay principal and pay interest. SSCLs are rated below investment grade and thus have greater credit and liquidity risk than investment grade obligations.

### *Allocations*

In allocating limited supply new issue SSCLs among client accounts that are eligible to invest in them, the Advisers will endeavor, in their judgment and on an overall basis, to treat each client account in a manner the Advisers consider equitable in light of all relevant factors. These factors may include differences in investment objectives, guidelines and current investment strategies; the relative sizes, available cash, investment capacities and age/vintage of the client accounts (including whether a client account is in its “warehousing” or “ramp” phase or is or near the end of its reinvestment period); differences in contractual restrictions and requirements among the client accounts; efficient transaction sizes; whether certain accounts would receive a de minimis or odd lot allocation; tax, legal and regulatory considerations; and the relative positions of the client accounts in terms of portfolio ramping. For example, newly created client accounts (including warehouses, CLOs, managed accounts or any other investment product) typically go through an initial, temporary period in which they acquire more investments than usual. This period is generally referred to as the “ramp” or “ramping period”, and represents the period during which the account becomes fully-invested. The Advisers may over-allocate investment opportunities, particularly new issue SSCL opportunities, to a ramping client account.

### *Credit Risk / Defaults & Recoveries*

SSCLs may become non-performing for a variety of reasons and as a result may require substantial workout negotiations or restructuring that may include a substantial reduction in the interest rate, a substantial reduction of the principal or a substantial extension of the amortization or maturity date of the relevant loan. Any such event will likely cause a significant decrease in the interest collections on the relevant loan and or a significant decrease in the principal collections on the relevant loan.

If a default occurs with respect to an SSCL, and the holder of the SSCL sells or otherwise disposes of the SSCL, the proceeds of the sale or disposition will likely be less than the unpaid principal and interest thereon.

Historical information regarding default and recovery rates of SSCLs is limited. Actual default and recovery rates could vary significantly from historical observations. Historical information on the market value volatility of SSCLs is limited, and SSCLs could be subject to market

volatility not apparent from historical volatility studies. Such volatility could be significant at times.

#### *Co-lenders / Liquidity*

The SSCL investor (i.e. typically one of our client accounts) generally will purchase an assignment of, or a participation in, an SSCL issued under a loan facility to which more than one lender is a party. These loan facilities are most often administered by agent lenders on behalf of the lenders pursuant to a loan agreement. Consequently, the SSCL investor may be outvoted by a majority or supermajority of the lenders under such loan agreement in relation to consents and/or amendments thereunder.

Due to the unique and customized nature of a loan and the private syndication of a loan, certain syndicated loans may not be purchased or sold as easily as publicly traded securities, and the trading volume in the syndicated loan market has been small relative to the market for high-yield bonds. Trading in loans is subject to delays due to their unique and customized nature, and transfers may require extensive documentation, the payment of significant fees and the consent of an agent bank or the underlying obligor. In addition, the investor may incur additional expenses to the extent it is required to seek recovery upon a default or to participate in the restructuring of a loan.

#### *Seniority*

Some bank loans in which the Advisers invest on behalf of the client accounts may be second-lien loans, junior loans or subordinated loans, which are typically subject to intercreditor arrangements, which may prohibit or restrict the ability of the investor to exercise rights against the obligor with respect to their liens, if any, to challenge any exercise of remedies against the collateral by the first lien lenders with respect to their first liens, to challenge the enforceability or priority of the first liens on the collateral, and to exercise certain other secured creditor rights, both before and during a default or bankruptcy of the obligor.

During a bankruptcy of the obligor, the holder of a junior loan may have to give advance consent to any use of cash collateral approved by the first lien creditors, sales of collateral approved by the first lien lenders and the bankruptcy court, and debtor-in-possession financings.

#### *Prepayment & Reinvestment Risk*

Bank loans are generally prepayable in whole or in part at any time at the option of the obligor thereof at par plus accrued unpaid interest thereon. Prepayments may be caused by a variety of factors which are often difficult to predict. Consequently, there exists a risk that bank loans purchased at a price greater than par may experience a capital loss as a result of such a prepayment. Additionally, proceeds from bank loans that are prepaid may be reinvested at a lower rate than the original investment.

### *Lender Liability*

In recent years, a number of judicial decisions in the U.S. have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories. Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the obligor or has assumed a degree of control over the obligor that creates a fiduciary duty owed to the obligor or its other creditors or shareholders. Because of the nature of bank loans, the investor could be subject to allegations of lender liability made against it as part of a group of lenders and may be liable for pro rata liabilities of the agent or lead lender.

### Risks of investing in high-yield (“HY”) bonds

While the Advisers primarily invest in SSCLs, certain of the funds they manage may invest from time to time in HY bonds.

HY bonds are rated below investment grade and thus have greater credit and liquidity risk than investment grade obligations. Recent regulatory rule-making has further impacted liquidity in the HY bond market. HY bonds typically pay a fixed rate of interest and are generally unsecured and may be subordinated to other obligations of the issuer. The lower ratings of HY obligations reflect a greater possibility that adverse changes in the financial condition of the issuer or in general economic conditions may impair the ability of the issuer to make payments of principal and interest.

Risks of HY bonds also include limited liability and secondary market support, substantial market price volatility resulting from changes in prevailing interest rates, subordination to the prior claims of banks and other senior lenders, the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the investor to reinvest premature redemption proceeds in lower-yielding bonds, the possibility that earnings of the issuer may be insufficient to meet its debt service, and the declining creditworthiness and potential for insolvency of the issuer during periods of rising interest rates or economic downturn.

An economic downturn or an increase in interest rates could severely disrupt the market for HY bonds and adversely affect the value of outstanding HY bonds and the ability of the issuers thereof to repay principal and interest. The market for both investment grade and HY bonds is not liquid at all times and for all issuers. Particular issues of bonds may be concentrated in the hands of only a few investors, many of such bonds are not registered under securities laws and most are not listed, and market-making activity, if any, may cease.

### Risk of investing in structured finance obligations (“SFOs”)

While the Advisers primarily invest in SSCLs, certain of the client accounts they manage may invest from time to time in SFOs. SFOs may entail various unique risks, such as prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on an SFO changes based on multiples of changes

in interest rates or inversely to changes in interest rates). In addition, the performance of an SFO will be affected by a variety of factors, including its priority in the capital structure of the obligor, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

#### Risk of investing in synthetic obligations (“SOs”)

While the Advisers primarily invest in SSCLs, certain of the client accounts they manage hold a limited number of SOs. Investments in SOs (the reference obligations of which may themselves be loan collateral debt obligations, SFOs or high yield collateral debt obligations) present risks in addition to those resulting from direct purchases of the reference obligations (“ROs”) underlying such SOs. With respect to each SO, the issuer will usually have a contractual relationship only with the counterparty of the SO and not the obligor of the applicable RO.

The issuer of the applicable SO generally will have no right directly to enforce compliance by the obligor of the applicable RO with the terms of the RO nor any rights of set-off against the obligor (and may be subject to set-off rights exercised by the obligor against the counterparty or another person or entity), nor have any voting or other consensual rights of ownership with respect to the RO.

The SO investor will not directly benefit from any collateral supporting the RO and will not have the benefit of the remedies that would normally be available to a holder of such RO. In an insolvency of the SO issuer, the SO investor will be treated as a general creditor of the SO issuer, and will not have any claim with respect to the relevant RO. Consequently, the SO investor will be subject to the credit risk of the SO issuer as well as that of the relevant RO obligor.

#### Risks of Investing in CLO Equity and Subordinated Debt Tranches

While the Advisers primarily invest in SSCLs, certain of the client accounts they manage invest in CLO equity and subordinated debt tranches (“**CLO Securities**”). CLO Securities rank behind all of the CLO issuer’s secured creditors, including the holders of the secured notes. If distributions on and sale proceeds from the CLO collateral are insufficient to make payments in full on the CLO Securities, no other amounts will be available for the payment of such deficiency. Any such deficiency or default will reduce the value of the client account’s investment in any such CLO Securities.

#### Risks of Investing in Mezzanine Debt

While the Advisers primarily invest in SSCLs, certain of the client accounts they manage may invest in mezzanine debt. Mezzanine debt is subordinated and may be unsecured and made in companies whose capital structures have significant indebtedness ranking ahead of the mezzanine debt, all or a significant portion of which may be secured. Subordinated debt instruments will rank behind the borrower’s senior indebtedness. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to a borrower, the applicable client

account will participate with all other holders of such borrower's indebtedness in the assets remaining after the borrower has paid all of its senior and/or secured (to the extent of the collateral securing such obligation) indebtedness. A borrower may not have sufficient funds to pay all of its creditors and the applicable client account may receive nothing, or less, ratably, than the holders of senior and/or secured indebtedness of such borrower or the holders of indebtedness that is not subordinated. Moreover, the ability of the applicable client account to influence a borrower's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors.

### Risks of Investing in CLO Warehouses

While the Advisers primarily invest in SSCLs, certain of the client accounts they manage invest in CLO warehouses. There can be no assurance that a CLO related to such warehouse investments will be consummated. In the event a planned CLO is not consummated, the warehouse investors may be responsible for either holding or disposing of the warehoused assets. Because leverage is typically utilized in warehouses, the potential risk of loss will be increased for the warehouse investors. This could expose the applicable client account to losses, including in some cases a complete loss of all capital invested in the warehouse investment. In the event the CLO related to such warehouse is not consummated, the applicable client account will bear the risk of loss on the underlying assets of the warehouse. Warehouse investments are generally illiquid.

### Risk of Loss

All investing involves a risk of loss and may not be suitable for all investors.

### Cybersecurity Risk

The Advisers, as well as their third-party service providers, rely in part on electronic systems and devices to maintain substantial computerized data to conduct their business. Such electronic systems may be subject to a variety of possible cybersecurity incidents, including the introduction of malicious programs into the network or a server (e.g., viruses, worms, Trojan horses, e-mail bombs, etc.) and unauthorized electronic or physical access and use of confidential information.

The Advisers maintain policies and procedures on cybersecurity, and have certain technical and physical safeguards in place that are intended to protect against cyber-attacks. Additionally, the Advisers take reasonable steps to select and retain third-party service providers that take appropriate security measures to protect confidential information. Nevertheless, despite reasonable precautions, the risk remains that cybersecurity incidents could potentially occur, and may result in unauthorized access to sensitive information about the Advisers or their clients or investors and/or financial losses to a client or investor.

The Advisers will seek to notify affected clients and investors of any known cybersecurity incident that may pose a substantial risk of exposing confidential personal data about such clients or investors to unintended parties or cause a financial loss to the client or investor.



## **Item 9. Disciplinary Information**

Item 9 requires the disclosure of any legal or disciplinary event that is material to a client's or prospective client's evaluation of DCM's advisory business or the integrity of its management. While DCM does not view the following disciplinary event as material to it, please note that in February 2011, Deerfield Capital Corp. (prior to a merger involving Deerfield Capital Corp. and Commercial Industrial Finance Corp. in April 2011, pursuant to which CIFIC and DCM became affiliates), without admitting or denying the allegations or findings, consented to the SEC's issuance of a final order making findings and imposing a cease and desist order from violating specified books and records and internal control provisions of the Securities Exchange Act of 1934 and rules thereunder (namely, Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) and Rules 12b-20, 13a-1, and 13a-13), disgorgement and related payment of prejudgment interest. The SEC's disciplinary action related to Deerfield Capital Corp.'s accounting treatment for three sets of mortgage-securities transactions that it conducted approximately ten years ago. None of the CIFIC, DCM or the other Advisers or their current management persons were alleged by the SEC to have engaged in any violation.

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

None of the Advisers is registered as a securities broker-dealer.

### Conflicts of Interest

As noted above, the Advisers are affiliated with each other (and with CIFIC LLC), as each of them is a wholly-owned indirect subsidiary of CIFIC LLC. The Advisers' affiliations with each other might create conflicts of interest for clients.

### *Allocations*

There might be an incentive, as among the Advisers, to favor certain client accounts over others, for example in allocating limited supply new issue bank loans (see Items 6 and 8) among client accounts. Most new client accounts are expected to be managed by CIFIC and/or under the "CIFIC" brand. The Company may have an incentive to favor "CIFIC" branded accounts over those managed by, or branded under, the other Advisers.

### *Brokers*

The Advisers have relationships with various banks and other financial institutions, largely as a result of the Advisers' transacting with these institutions in the purchase and sale of investments for client accounts and in connection with placing securities in funds managed by the Advisers (such as CLOs). The Advisers may have an incentive to engage in these transactions with particular institutions if they have referred prospective clients to the Advisers.

### *Material Nonpublic Information*

There may be instances where the Advisers may be restricted from trading certain investments for clients because they are in possession of material nonpublic information. There may be other instances where the Adviser chooses not to receive material nonpublic information that other market participants may have received.

### *Client Investments in other Adviser Clients*

Certain of the Advisers' "**Related Persons**" (i.e. entities under common control with the Advisers) may be general partners or managers of investment-related entities, but the Advisers' clients are not currently solicited to invest in those entities, although the Advisers may solicit such investment in the future. Certain of the Advisers' clients invest in vehicles that are affiliated with the Adviser.

Please see the relevant offering memorandum or other disclosure document for the CIFIC program in which you are invested or considering for investment for a more detailed discussion of conflicts of interest.

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

### Code of Ethics

The Advisers have a joint Code of Ethics (the "**Code**") that is a guide to the legal and ethical behavior of their officers and employees. You may obtain a copy of the Code from the CCO.

The Code addresses the general responsibilities of the officers and employees; standards of business conduct, avoidance of conflicts of interest, reporting of personal securities transactions, the reporting of violations of the Code, any other policy of the Advisers or applicable law, political contributions; protection of confidential information; maintenance of data security, equal opportunity for Adviser employees, prohibitions on workplace harassment, proper use of Adviser property, recording of conversations and recordkeeping.

### Participation or interest in client transactions

The Advisers or their Related Persons may recommend that clients buy securities in which the Advisers have a material financial interest, in that they may recommend that clients invest in an investment fund that they manage, or that they may be an investor in, and in which they thus have a financial interest. The Advisers would recommend the investment only if they considered it in the applicable client's best interest to make the investment.

The Advisers or their Related Persons may invest in the same or related investments that they recommend to clients, for example, as noted above, they may be investors in investment funds that they recommend to clients and/or may own similar investments directly. The Advisers do not consider this to involve a conflict of interest, as they believe that the investment by them or

their Related Persons in a client account that they recommend to clients helps to align the Advisers' interests with those of their clients.

The Advisers or their Related Persons may recommend investments to clients at or about the same time that they buy or sell the same securities for their own account, for example, as noted above, they may recommend that clients invest in an investment fund or in investments that the Advisers manage at or about the same time that they invest in the fund and/or investment directly. The price at which the Advisers invest in an investment fund managed by them may be greater or less than the price at which the applicable client account invests in such investment fund. The Advisers do not consider this to involve a conflict of interest.

The Advisers or their Related Persons may cause an account in which the Advisers or such persons have a material ownership or other financial interest to engage in principal trades with a client account in accordance with the Advisers' policies and the Advisers Act.. The Advisers would effectuate such trades only if they considered them to be in the best interests of the client account, principally because they considered the trade desirable for the client account and the trade price to be no worse than they could have obtained for the client account in an open market transaction. The Advisers will generally disclose in the disclosure document for the client account that they may engage in such principal trades with the account.

The Advisers may, if authorized to do so pursuant to a particular client advisory agreement or by a particular client, execute cross transactions and agency cross transactions (collectively, "**Cross Transactions**") in accordance with the Advisers' policies and the Advisers Act. Cross Transactions include transactions between two separate client accounts managed by an Adviser. The Advisers believe that such Cross Transactions may enable it to purchase or sell an SSCL or other investment or a block of investments for each client account and possibly avoid or minimize transaction costs or unfavorable price movements. The Advisers believe that such transactions may provide meaningful benefits for its clients.

The Advisers have various policies and procedures setting forth the terms under which they may engage in principal trades and Cross Transactions, including that they be approved in advance by the CCO. Such principal trades and Cross Transactions could create a conflict of interest for the Advisers, in that they might have an incentive to favor an account from which they receive higher fees or in which they or their Related Persons have a financial interest over the client account that they arrange to buy securities from or sell securities to such proprietary account.

## Personal trading by Related Persons

The Advisers generally address conflicts that may arise in the personal trading of securities by their Related Persons through the Code and their review of the personal trading of their Related Persons who have access to pre-trade information about orders the Advisers place for client accounts. The Code contains general prohibitions on (and the Advisers review their Related Persons' reports of personal trading for) personal trading that would conflict with their clients' interests, "front running" of clients' transactions (purchasing securities in advance of causing client accounts to purchase the same securities), and that would involve the use of material non-public information.

In addition, certain "knowledgeable employees" directly and indirectly may have a beneficial ownership interest in CIFIC's funds.

## **Item 12. Brokerage Practices**

The Advisers may buy or sell loans through numerous agent banks for new issue loans and through numerous banks and other trading counterparties for secondary market loan trading. The Advisers have full discretion to determine their trading counterparties, but they typically trade with the trading counterparty offering the most favorable price (which in the case of SSCLs, is often the "agent" bank of the related SSCL). The Advisers' trading counterparties generally do not charge commissions, instead earning a return on the bid/ask spread of the securities that they trade. When considering the reasonableness of a bid/ask spread, the Advisers may consider an investment's yield, its availability through other agent banks and counterparties, and prevailing market conditions, among other things.

Additionally, the Advisers typically have authority to determine the broker or dealer to be used for the accounts they manage (to the extent relevant for a particular account), and the commission rate to be paid to brokers. The only limitations on their authority in this regard are those specifically agreed to with a particular client.

The factors the Advisers consider in determining the broker or dealer to be used and the reasonableness of the commission rate paid are mainly the quality of execution, the financial condition of the broker or dealer, and the overall quality of the broker or dealer's services, which may include services other than execution of a specific trade, such as general market or company research the broker or dealer provides to the Advisers or specific trading ideas. The research generated by a client's trading may be used for the benefit of other clients, and not all clients will benefit from all research obtained, but the Advisers do not have any "soft dollar" arrangements.

Certain brokers and dealers may introduce prospective clients to the Advisers or prospective investors to the investment funds they manage. This might give the Advisers an incentive to cause client accounts to use those firms as brokers and trade counterparties, whether or not they provide the lowest commission rate or the best transaction prices or terms.

## **Item 13. Review of Accounts**

### General

The Advisers' investment platform is comprised of three closely integrated but distinct functions: the Investment Research function, the Portfolio Management function and the Trading function. Members of each team typically meet daily. All fund investments (including both purchases and sales) are reviewed per an approval process that addresses credit acceptability approval, portfolio attractiveness approval and final investment approval.

### Investment Research

The Investment Research team analyzes current and potential investments, makes research recommendations and provides ongoing oversight of individual investment positions.

Investments are reviewed at least quarterly, upon significant news or events, and upon receipt of an amendment request or other specific action request with respect to a particular loan or other investment. The Investment Committee, which is chaired by the Chief Investment Officer, typically meets daily and ad hoc as necessary. The Investment Committee approves investments, establishes fund and firm-level risk limits and reviews financial and operating performance vs. plan, covenant compliance, collateral valuation, significant events, stress testing and portfolio optimization.

### Portfolio Management

Compliance with a client account's particular investment restrictions is the responsibility of the Portfolio Management team, which actively manages applicable client account investment guidelines, including collateral quality and coverage tests and concentration limitations in the case of CLOs and CDOs.

Typically, an independent custodian or administrator is responsible for preparing periodic reports and distributing them to our client accounts and investors in them. These reports contain information about the client accounts' payments to investors as well as information about the investments in such accounts. The Advisers also review the reports and reconcile their contents against the Advisers' own records.

### Other

The Advisers aggregate the purchase or sale of investments for various client accounts in an effort to achieve best execution for them.

The Advisers may prepare a monthly or quarterly letter and make other information available to investors in client accounts. This information supplements and explains information in the custodians'/administrators' reports. Separately managed account clients and investors in the private investment funds may also receive statements from a custodian and/or an investor letter

on a monthly or other periodic basis. Investors in the private investment funds also receive annual audited financial statements.

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

From time to time, the Advisers may compensate third parties in connection with referrals of prospective clients and investors. Such solicitation arrangements will seek to conform to Rule 206(4)-3 of the Advisers Act, to the extent applicable. Prospective investors will be informed of such arrangement if applicable and will not be assessed any additional fees. Additionally, in a typical placement arrangement, the funds generally pay the placement agent a percentage of the money raised by the placement agent or a percentage of the Adviser's revenue generated by the money raised by the placement agent.

The Advisers and their Related Persons have an agreement with General Electric Capital Corporation ("GECC"), providing for CIFIC to pay GECC a portion of the management fees in excess of a specified amount that CIFIC receives from clients referred to it by GECC.

#### **Item 15. Custody**

The Advisers do not currently have custody of client funds or securities (except by virtue of fee deducting authority or as the general partner of a private investment fund) but might do so in the future. In that case, and if a qualified custodian sends quarterly or more frequent account statements directly to clients, clients should carefully review those statements. If in addition an Adviser sends account statements to clients, clients should compare those statements to the custodian's account statement. In the case of the private funds in which there is custody by virtue of a CIFIC LLC entity being the general partner of the private fund, the private funds have engaged independent public accountants to audit the financial statements of the private funds and distribute those audited financial statements to the limited partners of the private funds within 120 days of the private fund's fiscal year end, or within 180 days for fund of funds.

#### **Item 16. Investment Discretion**

The Advisers generally have discretionary authorization with respect to the client accounts they manage, although the Advisers also have non-discretionary accounts. Before they assume discretionary authority, they enter into either an investment management or similar agreement with the client, or a limited power of attorney, establishing the authority and specifying any limitations on the authority. The Advisers' clients customarily limit the Advisers' discretionary authority through specific restrictions or requirements relating to the investing the Advisers may conduct for their accounts within such authority, such as restrictions on the types of instruments they may make for the account.

#### **Item 17. Voting Client Securities**

The Advisers have, and will accept, authority to vote client investments.

The Advisers' policies for voting investments held by client accounts are, in brief, as follows. The Advisers vote in a manner that they determine, in their discretion, is in the best interest of the clients and consistent with their duty of care and loyalty to their clients. The Advisers will generally vote for proposals that they believe maximize the value of the relevant investment. The factors they consider will vary from investment to investment and from client to client, and may include market information, liquidity, the debtor's financial situation, the industry, and client's investment guidelines and the remaining life of the relevant account (particularly in the case of CLOs).

Although the issue has not arisen to date, if the Advisers were ever to deem there to be a conflict between their interests and those of a client with respect to the voting of a client security, the Advisers would address the conflict by establishing a committee likely including the Chief Investment Officer and the CCO. For example, if a client account holds a defaulting bond whose issuer is negotiating financing with a financial institution with which the Advisers have a business relationship, the committee would review the voting action, and if it determines that no actual conflict is present it will approve the proxy vote.

You may (i) obtain information about how the Advisers voted investments held by client accounts, (ii) obtain a copy of the Advisers' proxy voting policies and procedures, (iii) direct the Advisers to vote in certain situations, in each case, by making a request in writing to the CCO.

#### **Item 18. Financial Information**

You may visit the Advisers' website, [www.CIFC.com](http://www.CIFC.com), to obtain significant additional information about the Advisers that is not in this Brochure. Additional information about DCM is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).