



## SHENKMAN CAPITAL MANAGEMENT, INC.

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

*September 28, 2017*

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**This Brochure provides information about the qualifications and business practices of SHENKMAN CAPITAL MANAGEMENT, INC., an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”) and its Relying Advisers. If you have any questions about the contents of this brochure, please contact us at (212) 867-9090 and/or [legal@shenkmancapital.com](mailto:legal@shenkmancapital.com). This information has not been approved or verified by the SEC or by any state securities authority.**

**Additional information about SHENKMAN CAPITAL MANAGEMENT, INC. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.**

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## **ITEM 2: MATERIAL CHANGES**

We last filed an annual update to this Brochure on September 27, 2016 and have not updated this Brochure since that annual update.

While this update to our Brochure contains changes and updates to certain information, we feel that the following are the only material changes since the last annual update of this Brochure:

- In Item 10.A of this Brochure, we have included additional disclosure of new Financial Industry Affiliates, Romark CLO Advisors LLC ("RCLO"), and Romark CLO Ventures LLC ("RV"). RCLO and RV are each under common control with Shenkman Capital Management, Inc. and RCLO is a relying adviser of Shenkman Capital Management, Inc.
- Although this does not reflect a material change to the Brochure, we would like to note that since the date of the last annual update to the Brochure Serge Todorovich has been designated as Chief Compliance Officer.

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## **ITEM 4:      ADVISORY BUSINESS**

### **A. BACKGROUND**

SHENKMAN CAPITAL MANAGEMENT, INC. (referred to herein as “Shenkman,” “we,” “us” and “our”) is a global investment advisory firm founded by Mark R. Shenkman in 1985. Mark R. Shenkman, as trustee of the Mark R. Shenkman Revocable Trust, is the principal owner of Shenkman. Shenkman is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration with the SEC does not imply a certain level of skill or training.

### **B. OUR SERVICES**

Since its inception in 1985, Shenkman’s business has been dedicated to researching and investing across the entire capital structure of highly leveraged companies (e.g., high yield companies). Our strategy is based upon rigorous, bottom-up, proprietary credit analysis. We seek to invest in higher quality debt of lower rated companies with strong and/or improving financial characteristics, while seeking to avoid those with a greater probability of default. Our investment philosophy is predicated on the following four core principles:

- Preserving Capital
- Allowing the Compounding of Interest Income to Drive Risk-Adjusted Returns
- Minimizing Defaults
- Utilizing Proprietary Credit Analytics

Our decision-making process is based on a structured and disciplined bottom-up investment process. Our Credit Analysts use proprietary tools and models that incorporate both quantitative and qualitative factors to determine the creditworthiness of potential investments. The analytical process includes a thorough review of issuers using public information, financial statements and one-on-one meetings with senior management. We also focus on relative value within the capital structure, covenants, management track record, and a comparative industry analysis. We do not rely on published ratings. Instead, we utilize our internally developed and proprietary credit score system, which we believe is more reflective of an issuer’s credit worthiness than published ratings.

Our investment strategies include: U.S., European and Global high yield bonds, U.S. and Global short duration high yield bonds, leveraged loans, U.S. and Global convertible securities, opportunistic credit, energy opportunistic, multi-strategy, and structured credit. All of our investment strategies (or derivations thereof) are available through a separate account platform and certain of these investment strategies are also available through commingled investment vehicles, including mutual funds for which we act as adviser or sub-adviser (each a “Mutual Fund”), private funds, Collateralized Loan Obligations (“CLOs”) and UCITS funds (each, a “Sponsored Fund” and, collectively “Sponsored Funds”).

The descriptions set forth herein and elsewhere in this document of specific advisory services that we offer to our clients, and investment strategies pursued and investments made by us on behalf of our clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client’s investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

### **C. TAILORED ADVICE AND CLIENT RESTRICTIONS**

We manage client assets on a discretionary basis and seek to tailor our investment services to meet our clients’ objectives. Our clients may impose restrictions or limitations on the types of investments we make for their accounts, which include limitations by asset class, credit rating, industry/sector and other restrictions. Shenkman (or an affiliate) also serves as general partner or investment manager to Sponsored Funds. These funds have investment guidelines that are not subject to the specific requirements of their underlying investors (unless otherwise specified). The offering documents for our Sponsored Funds contain more detailed information about the funds, including descriptions of their investment restrictions.

We and our Sponsored Funds have in the past and may from time-to-time in the future agree to supplements, clarifications, or variations of the terms of a Sponsored Fund's offering, subscription, or organizational documents in “side letters” or similar agreements.

## **D. WRAP FEE PROGRAMS**

Shenkman does not sponsor any wrap fee programs, although we provide portfolio management services to client accounts that participate in third-party wrap fee programs (“Wrap Fee Accounts”). Subject to differences in investment objectives, guidelines, and trading restrictions, we manage Wrap Fee Accounts substantially the same as we manage other client accounts within the same strategy. For instance, due to regulatory restrictions, most Wrap Fee Accounts are not eligible to purchase certain Rule 144A securities that most of our other separately managed accounts are eligible to buy. The value of Wrap Fee Accounts is also below our stated account size minimums; consequently, the weighting of investments in Wrap Fee Accounts may differ from the weighting of investments in our other separately managed accounts. We receive a portion of the wrap program sponsor’s wrap fee for our services.

## **E. ASSETS UNDER MANAGEMENT**

As of July 31, 2017, Shenkman managed over \$29.2 billion of client assets calculated on the basis of regulatory assets under management, all on a discretionary basis.

## **ITEM 5. FEES AND COMPENSATION**

### **A. HOW WE ARE COMPENSATED**

**Asset-Based Fees.** Shenkman charges asset-based management fees based on the value of the client’s assets under management. Our standard management fees generally range from 0.350% to 1.000% of assets under management, depending on the strategy involved and the vehicle in which the assets are held (e.g., a separately managed account or commingled fund). We also negotiate fee arrangements with certain separately managed account clients and investors in Sponsored Funds based on their specific facts and circumstances, including the amount of assets to be placed under management, related accounts under management, portfolio style, account composition, reporting requirements, and other factors. We may also aggregate related accounts when calculating management fees. We also receive an asset-based management fee for the services we provide to each Sponsored Fund, which are described in the offering materials for each of those funds.

**Performance-Based Fees.** We receive performance-based compensation from certain Sponsored Funds. The fees applicable to the Sponsored Funds are set forth and described in the offering materials for each of those funds. In addition, from time-to-time and consistent with applicable laws and regulations, including Rule 205-3 under the Advisers Act, we receive performance-based fees in addition to (or in lieu of) asset-based management fees from certain of our separate account clients as provided for in their respective advisory agreements. Performance fees generally range from 10% to 20% of returns and may be subject to performance hurdles, loss carry forwards, or other restrictions. Please see “Item 6: Performance-Based Fees and Side-by-Side Management” below for more information regarding performance-based fees.

### **B. BILLING AND DEDUCTION OF FEES**

Asset-based management fees are generally charged in arrears on a monthly, quarterly or annual basis based on the total market value of the assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the last day of the month or quarter or at year-end (as applicable). Performance-based fees are typically payable annually in arrears based upon the amount by which the client’s investment returns for the year exceed a high water mark and/or a specified rate of return. The specific manner in which we charge our fees for separate account clients is set out in a written agreement with each client. The specific manner in which fees are charged to investors in our Sponsored Funds are described in the offering materials for each of those funds.

We do not deduct advisory fees from client accounts (except in limited situations when specifically instructed by a client). We typically send an invoice to clients or their custodians on a quarterly, monthly or annual basis (as applicable). In certain cases, a client will send payment to us based upon its custodian’s calculation of the fee amount due. We direct the custodians of our Sponsored Funds to deduct our asset-based fees and any performance fees.

### **C. OTHER FEES AND EXPENSES**

Fees and expenses that clients are responsible for may vary materially among clients based on the specific advisory agreements or offering materials applicable to each client account or Sponsored Fund. Please review such documents for precise information relating to the fees and expenses borne by a specific client account or Sponsored Fund. In addition to paying asset-based management fees and performance-based compensation, clients and Sponsored Funds may be responsible for, subject to the terms of the applicable advisory or organizational agreements, without limitation: (i) legal, accounting (including, without limitation, third-party accounting services and accounting software) and other professional

fees and expenses (including, without limitation, third-party valuation services) which Shenkman reasonably believes are required or advisable to be incurred (A) in order to protect the assets of client accounts or Sponsored Funds (including participation on formal and informal creditor committees and participation in litigation), (B) in connection with the purchase or sale or maintenance of any investment, or (C) related to compliance with applicable law or regulation (including the costs of required regulatory or self-regulatory filings made in connection with the Account or its assets); (ii) the pro rata share of expenses of any entity in which the client account or Sponsored Fund invests (including the investment entity's management fees or incentive fees); (iii) investment expenses such as, but not limited to, brokerage commissions, interest on margin accounts and other indebtedness, borrowing charges on investments sold short, administrator, custodial and bank services fees, withholding and transfer taxes, clearing and settlement charges; (iv) research expenses (including the cost of research services and products used by the Investment Manager such as Bloomberg, Intex, Kanerai and other live market feeds and online research); (v) trading and investment related technology software costs or additional programming, such as portfolio, order and risk management systems; (vi) shareholder proxy voting services; (vii) travel expenses incurred in connection with research and investments (whether consummated or not), including investment-related travel expenses of consultants, directors and experts; (viii) interest expenses, taxes, duties and other governmental charges, transfer and registration fees or similar expenses, other portfolio expenses, sales and use taxes; (ix) certain transaction-related expenses, including expenses associated with participation on creditor committees and outside counsel fees directly related to a transaction or investment; (x) other expenses related to the purchase, sale or transmittal of investments (including legal expenses incurred to enforce rights in respect of any investment and including any expenses incurred in connection with the organization and operation of vehicles formed to hold all or a portion of a client's interests (including, in the case of Sponsored Funds, ownership of feeder funds in master funds)). In addition, expenses related to the formation and operation of Sponsored Funds and any extraordinary expenses as shall be determined by Shenkman in its sole discretion. Each Sponsored Fund that invests in a "master fund" indirectly bears the portfolio and other expenses of such master fund (including, without limitation, the types of expenses described above and the fees and expenses of such master fund's administrator) pro rata based on the Sponsored Fund's interest in such master fund. However, expenses incurred by any such master fund particular to a specific Sponsored Fund or investment vehicle are borne directly by the applicable Sponsored Fund or investment vehicle, respectively, and are not shared by the other investors in the applicable master fund.

#### **D. ADVANCE FEES**

In accordance with the applicable advisory agreement or offering materials, asset-based fees are generally paid in arrears on a monthly, quarterly or annual basis and performance-based compensation is typically paid annually in arrears. Upon the specific request of a client, however, we may receive our fees up to six months in advance (i.e., prepaid fees). Prepaid fees would be refunded to the client, on a pro rata basis, if we did not provide services for the entire period for which the prepaid fee corresponded.

#### **E. SALES BASED COMPENSATION**

Neither Shenkman nor any of its team members accepts additional compensation for the sale of securities or other investment products.

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

As discussed above in "Item 5: Fees and Compensation," and consistent with Rule 205-3 under the Advisers Act, we may receive performance-based fees or a combination of performance-based and asset-based fees from separate account clients and Sponsored Funds. The investment returns on which performance-based compensation is calculated may include unrealized appreciation and depreciation of investments that may not ultimately be realized. Certain client accounts and Sponsored Funds may have higher asset-based fees or more favorable performance-based compensation arrangements than other accounts or Sponsored Funds. Performance-based compensation may also create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of such compensation. Consequently, to the extent we manage accounts that are charged performance-based compensation and accounts that are charged only an asset-based fee (i.e., a non-performance-based fee), a potential conflict of interest exists because we may have greater incentive to favor performance-based fee accounts when allocating investment opportunities as well as in the amount of time and resources we devote to those accounts.

We have adopted and implemented policies and procedures intended to address these potential conflicts of interest, including trade allocation and aggregation policies. Our allocation policy seeks to allocate investment opportunities among client accounts fairly over time, and our order aggregation policy generally requires that clients participate in aggregated orders on an average price basis. Our Compliance Department actively monitors trading activity and we have automated

controls within our order management system to monitor that all investments in each client account comply with the investment guidelines and risk parameters of such account. Please see “Item 16: Investment Discretion” and “Item 12: Brokerage Practices” below for more information on our allocation and aggregation policies and procedures.

Shenkman carefully evaluates the allocation of limited investment opportunities. We take many factors into account when making allocation determinations, including (but not limited to):

- client's investment objective, strategies, guidelines and restrictions;
- specific instructions from the client;
- client's risk profile;
- client's tax status;
- any legal or regulatory restrictions placed on a client's portfolio (e.g., ERISA);
- size of client portfolio;
- total portfolio invested position;
- nature of the security to be allocated;
- size of available position;
- the effect of the purchase or sale upon the diversification of the client's portfolio (including issue, issuer, industry and other concentration parameters);
- the results of the application of proprietary analytical tools to a client's portfolio
- the investment's proprietary credit score and/or collateral manager score
- supply or demand for a security at a given price level;
- current market conditions;
- timing of cash flows and account liquidity;
- cash balances; and
- any other factors relevant to a fair allocation of investments.

We are not obligated to place any particular order or enter into any particular transaction for any client, even if the order or transaction is of a character that might be suitable for the client. There can be no assurance that a particular investment opportunity that comes to our attention will be allocated to any particular client account. Investments acquired by Shenkman for its clients through the new issue market and secondary offerings are allocated pursuant to the procedures set forth in our allocation policy. The policy generally provides that allocations of new issues are determined after considering the factors described above with respect to general allocations of securities. In all cases, we seek to resolve any conflicts of interest in good faith and in accordance with our fiduciary duties. Additionally, if a trade error or breach of investment guidelines or restrictions occurs, we seek to ensure that all affected clients are treated fairly. In accordance with our trade error policy and procedures, a member of the Compliance Department reviews the relevant facts and circumstances to determine an appropriate course of action. We have discretion to resolve each trade error in any appropriate manner that is consistent with the obligation to treat all clients fairly. We are responsible for our own trade errors and will reimburse client account for losses suffered due to our trade errors. We are not, however, responsible for the errors of other persons, including third party brokers and custodians. If a trade error results in a gain to a client account, it will be corrected and the gain will remain in the appropriate client account.

From time-to-time, circumstances may arise when we need to reallocate an investment to another client account after its initial allocation but before the settlement date, provided that such client account had demand for the investment. For instance, an order that did not satisfy the client's investment guidelines but was not blocked by our trade order management system or a trade that was inadvertently allocated to the wrong account may need to be reallocated to another client account. A member of our Compliance Department must review each request to reallocate an investment to determine if a reallocation is warranted under the circumstances. To the extent it is determined that an investment should be reallocated, it is typically reallocated at the original transaction price even if it is reallocated on a date that is after the original trade date. The original transaction price may be higher or lower than the price at which we could purchase (or sell) that investment on the reallocation date.

Additionally, our Compliance Manual contains a Code of Ethics that sets out general standards of conduct and ethics to which all of our team members must adhere. Shenkman's Compliance Department conducts annual compliance “teach-ins,” which all team members are required to attend. The Code of Ethics is reviewed at these teach-ins, and team members are reminded of their duty to treat all of our clients fairly at all times. All of our team members are also required to read the Code of Ethics each year and sign an Acknowledgement of Compliance.

In addition to the foregoing, we are responsible for calculating asset-based and performance-based fees for certain client accounts and Sponsored Funds. A conflict of interest may arise in these circumstances because we receive an asset-based advisory fee and/or performance-based compensation based on our determination of the value of the assets we manage. In these circumstances, we price the assets in good faith in accordance with our internal pricing policy.

Under this pricing policy, bonds, convertibles and other securities are generally priced at the “mid” between the bid and ask prices we receive from a third-party pricing service, and bank loans are generally priced at the bid price we receive from a third-party pricing service.

Our Traders and, as applicable, Portfolio Managers review month-end prices and may recommend that a price be modified when they believe the price provided by the third-party pricing service provider is not representative of an investment’s market value. All proposed modifications to month-end pricing must be consistent with our month-end pricing review procedures and reviewed by our Compliance Department.

## **ITEM 7: TYPES OF CLIENTS**

We provide portfolio management services to a wide variety of clients, including:

- corporations
- corporate ERISA plans
- public pension plans
- Taft-Hartley plans
- religious and charitable organizations
- endowments and foundations
- insurance companies
- mutual funds
- pooled investment vehicles, including Sponsored Funds
- government entities and government-sponsored entities
- family offices and high net worth individuals
- wrap fee programs

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. METHODS OF ANALYSIS AND INVESTMENT STRATEGIES**

#### **Methods of Analysis**

Our investment management services are focused on the leveraged finance market. In addition to the four core principles we discuss under “Item 4: Advisory Business” (i.e., preserving capital, allowing the compounding of interest income to drive risk-adjusted returns, minimizing defaults, and utilizing proprietary credit analytics), our investment philosophy is based on the following six pillars:

- I. Bottom-up, Fundamental Credit Analysis
- II. Broad Diversification
- III. Direct Communication with Issuer’s Management
- IV. Credit Committee; Disciplined Approach
- V. Monitoring Credits on a Systematic Basis
- VI. Comprehensive Reporting and Risk Control Systems

We seek to consistently apply a risk-averse philosophy based on bottom-up fundamental credit analysis across all market environments. Our investment philosophy centers on the basic tenet that comprehensive, fundamental credit research is the key to realizing above-average returns over a full market cycle. We believe this core principle is essential to properly manage the inherently higher credit risk associated with below investment-grade assets. Our analytical process requires a thorough examination of each issuer using public information and discussions with its



management and third parties. This process includes using our proprietary tools to analyze historical and projected operating performance and trends, including liquidity, cash flow and a working capital analysis, as well as a stress test of the issuer's income statement.

We provide advice and management with respect to all segments of the capital structure of leveraged companies. Our services relate to registered securities and securities not registered under the U.S. Securities Act of 1933 (including, but not limited to, securities issued pursuant to Rule 144A and Regulation S promulgated under that Act). Depending on the investment strategy employed, we may invest in U.S. dollar denominated and non-U.S. dollar denominated investment grade and below-investment grade fixed-income and equity securities, including notes, bonds (cash pay, zero coupon and toggle), convertible securities (bonds and preferred stock), yankee bonds, bonds with attached warrants, non-convertible preferred stock and other equity securities, U.S. Treasury and agency issues, and leveraged loans made to corporate borrowers, including term loans, bridge loans, delayed draw term loans, revolving loans and letter of credit facilities. We also provide advice and management with respect to: (i) defaulted and distressed bonds and other securities and obligations; (ii) defaulted and distressed leveraged loans; and (iii) equity and debt securities issued by CLOs.

From time-to-time, we may also invest in derivative or synthetic securities that derive their value from an underlying security or instrument, and may engage in "Total Rate of Return" swap transactions. We may also provide advice and management with respect to equity securities issued by highly leveraged companies and investment grade companies, as well as put and call options. We may enter into short positions, employ straddles, spreads and other combinations of put and call options and may use options or other derivatives, instruments and techniques for hedging purposes or to implement a strategy where we do not believe an investment in the underlying instrument is feasible or in the best interests of our clients. We may also engage in foreign exchange currency transactions to hedge the underlying portfolio, or a specific share class in a Sponsored Fund, against declines in the value of certain investments and/or share classes as a result of changes in currency exchange rates.

**Investing in securities involves the risk of loss, including loss of principal, which clients should be prepared to bear.**

### **Investment Strategies**

Our current investment strategies, which are described in more detail below, include: (i) U.S. High Yield Bond; (ii) European High Yield Bond; (iii) Global High Yield Bond; (iv) U.S. Short Duration High Yield Bond; (v) Global Short Duration High Yield Bond; (vi) Leveraged Loan; (vii) U.S. Convertible Securities; (viii) Global Convertible Securities; (ix) Opportunistic Credit; (x) Energy Opportunistic; (xi) Multi-Strategy; and (xii) Structured Credit. All of our clients may invest in one or more of these investment strategies. In addition to these investment strategies, we also provide our clients with customized solutions designed to meet their specific investment objectives.

#### **➤ *U.S. High Yield Bond Strategy***

The investment objective of our U.S. high yield bond strategy is to maximize risk-adjusted returns (i.e., current income and capital preservation) by primarily investing in U.S. dollar-denominated debt securities of U.S. and non-U.S. corporate issuers that have a below-investment grade rating or credit profile. We primarily invest in senior secured, senior unsecured, senior subordinated, subordinated, cash pay, pay-in-kind, zero coupon and toggle bonds.

#### **➤ *European High Yield Bond Strategy***

The investment objective of our European high yield bond strategy is to maximize risk-adjusted returns by primarily investing in debt securities of European and other non-U.S. corporate issuers that have a below-investment grade rating or credit profile. We primarily invest in senior secured, senior unsecured, senior subordinated, subordinated, cash pay, pay-in-kind, zero coupon and toggle bonds denominated in Euros or other non-U.S. dollar currencies.

#### **➤ *Global High Yield Bond Strategy***

The investment objective of our global high yield bond strategy is to maximize risk-adjusted returns by primarily investing in debt securities of U.S., European and other non-U.S. corporate issuers that have a below-investment grade rating or credit profile. This strategy combines and applies the strategies and proprietary analytical tools of our U.S. and European high yield bond strategies in one diversified portfolio. We primarily invest in senior secured, senior

unsecured, senior subordinated, subordinated, cash pay, pay-in-kind, zero coupon and toggle bonds denominated in U.S. dollars, Euros and other currencies.

➤ ***U.S. Short Duration High Yield Bond Strategy***

The investment objective of our U.S. short duration high yield bond strategy is to maximize risk-adjusted returns by primarily investing in a portfolio of U.S. dollar-denominated short duration debt securities of corporate issuers that have a below-investment grade rating or credit profile. In general, the majority of the portfolio consists of securities with a remaining maturity of five years or less while the overall portfolio typically has an average duration of three years or less. We primarily invest in U.S. dollar-denominated debt securities of U.S. and non-U.S. corporate issuers, including senior secured, senior unsecured, senior subordinated, subordinated, cash pay, pay-in-kind, zero coupon and toggle bonds.

➤ ***Global Short Duration High Yield Bond Strategy***

The investment objective of our global short duration high yield bond strategy is to maximize risk-adjusted returns by primarily investing in a portfolio of short duration debt securities of U.S., European and other non-U.S. highly leveraged companies. In general, the majority of the portfolio consists of securities with a remaining maturity of five years or less while the overall portfolio typically has an average duration of three years or less. We primarily invest in debt securities of U.S. and non-U.S. corporate issuers, including senior secured, senior unsecured, senior subordinated, subordinated, cash pay, pay-in-kind, zero coupon and toggle bonds. These securities may be denominated in U.S. dollars, Euros and other currencies.

➤ ***Leveraged Loan Strategy***

The investment objective of our leveraged loan strategy is to maximize risk-adjusted returns by primarily investing in institutional tranches of secured and unsecured loans of U.S. and non-U.S. corporate borrowers that have a below-investment grade rating or credit profile. We primarily invest in first lien term loans, second lien term loans, bridge loans, letters of credit, synthetic letters of credit, delayed draw term loans and revolving loans. These loans may be denominated in U.S. dollars, Euros and other currencies.

➤ ***U.S. Convertible Securities Strategies – Core and Investment Grade***

The investment objective of both our core and investment grade convertible securities strategies is to maximize risk-adjusted returns by primarily investing in U.S. dollar denominated convertible securities issued by leveraged companies, including issuers that have a below-investment grade rating or credit profile. Our investment grade convertible strategy seeks to maintain an overall minimum weighted average of BBB-/Baa3 or above. For both strategies, we primarily invest in convertible debt and convertible preferred securities denominated in U.S. dollars. For certain accounts, we also may purchase convertible securities while simultaneously short selling the issuer's underlying stocks in an attempt to both maximize returns and reduce risk.

➤ ***Global Convertible Securities Strategy***

The investment objective of our global convertible securities strategy is to maximize risk-adjusted returns by primarily investing in convertible securities issued by U.S., European and other non-U.S. corporate issuers that have a below-investment grade rating or credit profile. We primarily invest in convertible debt and convertible preferred securities denominated in U.S. dollars, Euro and other currencies. For certain accounts, we may also purchase convertible securities while simultaneously short selling the issuer's underlying stocks in an attempt to both maximize returns and reduce risk.

➤ ***Opportunistic Credit Strategy***

The investment objective of our opportunistic credit strategy is to maximize total returns through a value oriented strategy focused on event driven situations across the corporate credit spectrum, including high-yield, stressed, distressed and special situation investments. Under this strategy we seek to identify securities or other assets that we believe have been mispriced by the market or that otherwise represent what we believe to be attractive returns relative to other comparable investments. We may invest in a wide range of publicly- and privately-issued securities and debt

obligations of U.S. and non-U.S. corporate issuers including: (i) notes and bonds, including, senior secured, senior unsecured, senior subordinated, subordinated, cash pay, pay-in-kind, zero coupon and toggle; (ii) performing and non-performing floating rate loans and participations, including secured and unsecured loans, first lien term loans, second lien term loans, third lien term loans, bridge loans, letters of credit, synthetic letters of credit, delayed draw term loans and revolvers; (iii) convertible securities, including convertible preferred securities, mandatory and convertible debt; (iv) equity securities, including common stock, preferred stock, stock units, warrants and options on equity securities; (v) trade claims, receivables, trust certificates and asset backed securities; (vi) mezzanine financing and other privately-placed investments; and (vii) derivative transactions and credit-linked securities, including total return swaps, credit default swaps, and credit-linked notes.

➤ ***Energy Opportunistic Strategy***

The investment objective of our energy opportunistic strategy is to generate high current income and provide the opportunity for capital appreciation by primarily investing in U.S. dollar-denominated fixed income securities and syndicated bank loans of Oil & Gas companies. Under this strategy, we invest primarily in securities of U.S. and non-U.S. exploration and production companies and energy service companies (e.g., contract drillers, supply vessels, land service providers and geophysical/seismic data providers), including senior secured, senior unsecured, senior subordinated, subordinated, cash pay and zero coupon, convertible bonds and secured and unsecured loans, first lien term loans, second lien term loans, bridge loans, delayed draw term loans, revolving loans and letter of credit facilities.

➤ ***Multi-Strategy***

The investment objective of our multi-strategy is to maximize total returns by investing primarily in securities and debt obligations of highly leveraged companies. This strategy combines and applies the strategies and proprietary analytical tools of our high yield bond, leveraged loan, convertible securities and Opportunistic Credit strategies in one diversified portfolio. Investments are allocated among these four strategies based upon changing market conditions and our view of relative value opportunities. At the request of a client, we may also allocate capital among two or more of our strategies and invest capital on an indirect basis through two or more of our Sponsored Funds based upon changing market conditions and Shenkman's view of relative value opportunities.

➤ ***Structured Credit Strategy***

The investment objective of our structured credit strategy is to maximize risk-adjusted returns by primarily investing in the U.S. dollar-denominated debt and equity securities issued by CLOs. Our approach to this strategy includes an analysis of: (i) the skill and reputation of CLO managers; (ii) the structural features of an individual CLO transaction; and (iii) the characteristics of the underlying collateral owned by the CLO.

## **B. MATERIAL RISKS OF INVESTMENT STRATEGIES**

*Clients should understand that all investment strategies and the investments made pursuant to them involve the risk of loss, including the potential loss of the entire investment. The investment performance and success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a client's investments will fluctuate due to market conditions and other factors. The following is a list of the material risks Shenkman believes are associated with its investment strategies; it does not purport to be a complete enumeration or explanation of all such risks.*

**Nature of Investments.** Shenkman has broad discretion in making investments for our clients. These investments primarily consist of loans, bonds and convertible securities issued by highly leveraged (i.e., "high yield") companies and debt and equity securities issued by CLOs. Each of these investments may have significant risks as a result of business, financial, market or legal uncertainties. Client accounts may also hold other long and short positions. Client investments may also include unit securities that consist of a debt security and a warrant in the issuing company. There can be no assurance that we will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the value of client investments. No guarantee or representation is made that our investment objectives will be achieved.

**Diversification and Concentration.** Shenkman may select investments for its clients that are concentrated in a limited number or types of instruments. In addition, client portfolios may become significantly concentrated in investments related to a single or a limited number of issuers, industries, sectors, markets, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose clients to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

**Lack of Control.** On behalf of its clients, Shenkman invests in debt instruments and equity securities of companies that it does not control, which a client may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which Shenkman does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the clients' interests. In addition, clients may share control over certain investments with co-investors, which may make it more difficult for Shenkman to implement its investment approach or exit the investment when it otherwise would. The occurrence of any of the foregoing could have a material adverse effect on client portfolios.

**Hedging Transactions.** Shenkman may cause its clients to utilize a variety of financial instruments (including options and derivatives), both for investment purposes and (to the extent desired) for risk management purposes in order to: (i) protect against possible changes in the market value of a client's investment portfolio resulting from fluctuations in the securities or commodities markets and changes in interest rates; (ii) protect the unrealized gains in the value of a client's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in a client's portfolio; (v) hedge the interest rate or currency exchange rate on any of a client's liabilities or assets; (vi) protect against any increase in the price of any securities or commodities Shenkman anticipates purchasing on behalf of a client at a later date; or (vii) for any other reason that Shenkman deems appropriate.

The success of Shenkman's hedging is subject to Shenkman's ability to correctly assess the degree of correlation between the performance of the instruments used to hedge and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when Shenkman hedges a client's portfolio positions is also subject to Shenkman's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While Shenkman may cause a client to enter into certain hedging transactions, like currency hedging, to seek to reduce risk, such transactions may result in a poorer overall performance for the client than if it had not engaged in any such hedging transactions. For a variety of reasons, Shenkman may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a client from achieving the intended hedge or expose a client to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the client's portfolio holdings.

**Fundamental Analysis.** Certain trading decisions made by Shenkman may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data is inaccurate or that other market participants have developed, based on such data, trading strategies similar to Shenkman's trading strategies, Shenkman may not be able to realize its clients' investment goals. In addition, fundamental market information is subject to interpretation. To the extent that Shenkman misinterprets the meaning of certain data, client portfolios may incur losses.

**General Global Economic and Market Conditions.** The success of Shenkman's activities on behalf of its clients will be affected by general economic and market conditions within the U.S. and globally, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws and regulations (including laws relating to taxation), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the clients' investments. Volatility or illiquidity could impair the client portfolios' profitability or result in losses. Client portfolios may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

**Governmental Interventions.** Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on Shenkman's strategies.

**Potential Interest Rate Increases.** The United States is experiencing historically low interest rate levels. However, the continued recovery of the U.S. economy and recent and potential future changes in U.S. government policy, including the deleveraging of the U.S. Federal Reserve Board's balance sheet, increase the risk that interest rates will rise in the near future. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by client portfolios to decrease, which may result in substantial withdrawals from certain Sponsored Funds, which, in turn, force such funds to liquidate such securities at disadvantageous prices negatively impacting the performance of such funds.

**Dealer Market Making.** The value of clients' fixed-income investments will be affected by general fixed-income market conditions, such as the volatility and liquidity of the fixed-income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed-income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed-income market, which could impair clients' profitability or result in losses.

**Prepayment Risk.** The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact client portfolios. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that Shenkman may have constructed for these investments, resulting in a loss to a client's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

**Distressed Situations.** Shenkman may invest client assets in, or client assets may become, "distressed situations" (i.e., private claims and obligations of entities experiencing significant financial difficulties, such as loan participations and assignments, trade claims and similar instruments), which may expose clients to significant risks. Among the risks inherent from being invested in entities experiencing significant financial or business difficulties is that it is frequently difficult to obtain information as to the true condition of such issuers. Distressed investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. Furthermore, the market for distressed securities and instruments is generally thinner and less active than other markets, which can adversely affect the prices at which distressed securities can be sold.

In investing in distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses. In addition, funding a plan of reorganization involves additional risks, including risks associated with equity ownership in the reorganized entity. Moreover, investments in distressed situations may, at times, expose client portfolios to collection risk (especially if sovereign or municipal debt is involved).

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to clients of the security in respect to which such distribution was made.

**Committee Participation.** Shenkman, acting on behalf of its clients may, from time-to-time, seek representation on formal or informal creditors' committees, equity committees or other groups to ensure preservation or enhancement of its clients' position as a creditor or equity holder. A member of any such committee or group may owe certain obligations to all investors that the committee represents that are similarly situated. If the member of such committee or group concludes that the obligations owed to other investors as a committee or group member conflict with the duties owed to its clients, general fiduciary principles may require such member to resign from that committee or group, thus denying the clients any benefits from participation on the committee or group. In addition, if Shenkman or a client is represented on a committee or group, such entity may become an "insider" for purposes of federal securities laws and may, therefore, be restricted or prohibited from trading in the securities of such company, including any securities it already owns. Specifically, participation in restructuring activities frequently provides the participant with material non-public information that may restrict Shenkman's ability to trade in any of the company's securities on its clients' behalf. Determination of whether information is material and non-public and how long such information restricts trading is a matter of considerable uncertainty and judgment. Furthermore, participation on such committees may result in clients incurring expenses, including legal fees.

**Bankruptcy Claims.** Bankruptcy claims, which are amounts owed to creditors of companies that are debtors in pending bankruptcy cases, typically are illiquid and generally do not pay interest. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, the debt of companies in financial reorganization may be adversely affected by an erosion of the issuer's fundamental values. Accordingly, there can be no guarantee that the debtor will ever be able to satisfy the obligation on a bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of clients. Furthermore, there are instances where creditors lose their priority or are recharacterized as equity if, for example, they have exercised excessive control over management or engaged in misconduct that harms other creditors. In those cases where a client, by virtue of such action, is found to exercise "domination and control" of a debtor, the client may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equityholders were harmed by the client.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and clients; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a client's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Shenkman, on behalf of its clients, may elect to serve on creditors' committees, equityholders' committees or other groups to ensure preservation or enhancement of the client's positions as a creditor or equityholder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. Shenkman may resign from that committee or group for any reason, including, for example, if Shenkman concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to its clients. In such case, clients may not realize the benefits, if any, of participation on the committee or group. In addition, if a client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

Shenkman may cause its clients to 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. Additionally, the claim may be disallowed or subordinated if the

bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by clients.

**Equitable Subordination.** Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) 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, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) 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”). If Shenkman causes its clients to engage in such conduct, such clients may be subject to claims from creditors of an obligor that debt held by the clients should be equitably subordinated.

**Liquidity Risk.** Shenkman invests client assets in loans, bonds or other instruments that are thinly-traded or for which no market exists. The financial markets have experienced and may, in the future, experience substantial fluctuations in prices for these investments and limited liquidity for such instruments. During periods of limited liquidity and higher price volatility, Shenkman’s ability to acquire or dispose of investments at a price and time that we deem advantageous may be severely impaired, and may also inhibit us from taking advantage of market opportunities. Some investments may also have a limited trading market (or none) under any market conditions. Illiquid investments may trade at a discount from comparable, more liquid investments. The impact of low liquidity on the global credit markets may adversely affect our portfolio management flexibility and ultimately, our ability to achieve our clients’ performance objectives. Additionally, bank loans generally are subject to legal or contractual restrictions on resale, may trade infrequently, and their value may be impaired when we need to liquidate such loans. Bonds generally trade only in the over-the-counter market rather than an organized exchange and may be more difficult to purchase or sell at a fair price, which could have a negative impact on performance.

**Interest Rate Risk.** When interest rates decline, the value of a portfolio invested in fixed-rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a portfolio investment in fixed-rate obligations can be expected to decline. Although the value of client investments will vary, Shenkman expects the client investments in floating rate loans to minimize fluctuations in value as a result of changes in market interest rates. However, because floating rates on loans only reset periodically, changes in prevailing interest rates can still be expected to cause some fluctuation in the value of client portfolios. Similarly, it is likely there will be less governmental action in the near future to maintain low interest rates. The negative impact on fixed income securities from the resulting rate increases for that and other reasons could be swift and significant, which could cause a decline in the value of the clients' portfolios. Other economic factors (such as large downward movement in stock prices, a disparity in supply and demand of certain securities or market conditions that reduce liquidity) can also adversely impact the markets for loans and other debt obligations. Rating downgrades of holdings or their issuers will generally reduce the value of such holdings.

**Non-U.S. Issuers.** Shenkman invests client assets in loans, bonds or other instruments of companies domiciled or operating outside of the United States. Investing in loans, bonds or other instruments of non-U.S. companies involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of U.S. companies, including: political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, restrictions on repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on the payment of dividends, interest, capital gains or other income; the small size of the financial markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility and costs associated with currency conversion; high transaction costs; and certain government policies that may restrict our investment opportunities. In addition, accounting and financial reporting standards that prevail in non-U.S. countries generally are not equivalent to United States standards and, consequently, less information may be available to investors in companies located outside the United States than is available to investors in companies located in the United States. Generally, there is also less regulation of the financial markets than there is in the United States. These risks may be even greater for investments in developing or emerging market countries.

**Purchasing Initial Issuances or Initial Public Offerings.** Shenkman purchases on behalf of its clients securities or loans of companies in initial issuances or initial public offerings (or shortly thereafter). Special risks associated with these securities or loans may include a limited amount of the offering available for trading, unseasoned trading, lack of investor knowledge of the company and limited operating history. These factors may contribute to substantial price volatility for these investments. The

limited amount of the offering available for trading in these investments may make it more difficult for the Shenkman to buy or sell significant amounts of the investment without an unfavorable impact on prevailing market prices. In addition, some companies undertaking an initial issuance or initial public offering are involved in relatively new industries or lines of business that may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them.

**Currency Risk.** Shenkman invests client assets in investments denominated in currencies other than the base currency of the client account or Sponsored Fund. Currency exchange rates can be extremely volatile and if a currency hedge is not entered into, an investment may lose value due to fluctuations in the rate of exchange entirely apart from the quality or performance of the investment itself. A currency hedge may be entered into in an effort to protect against fluctuations in exchange rates. It is not possible, however, to hedge fully or perfectly against currency fluctuations affecting the value of an investment denominated in any particular currency and the client may still have losses as a result of the investment or hedge losing value.

**Small and Medium Capitalization Companies.** Shenkman may invest client assets in the loans, bonds or other instruments of companies with small- to medium-sized market capitalizations. While we believe these investments often provide significant potential for appreciation, they also involve higher risks in some respects than do investments in larger companies, including more volatility than large-capitalization investments and a higher risk of bankruptcy or insolvency. In addition, due to thin trading in the investments of some small-capitalization companies, an investment in those companies may be illiquid.

**Short Selling.** Investments for certain client accounts and Sponsored Funds may include short positions. A short sale involves the sale of a security or other instrument that is not owned. To make delivery to the buyer, the instrument must be borrowed with an obligation to deliver the instrument to the lender of such instrument and to pay any dividend or interest payable on the instrument until it is returned to that lender. A short sale creates the risk of a theoretically unlimited loss because the price of the underlying instrument could theoretically increase without limit, which would then increase the cost to the client of buying the instrument to cover the short position. Additionally, if we do not have the ability to borrow securities or other instruments sold short, we could be “bought in” (i.e., forced to repurchase the instruments in the open market to return to the lender). There can also be no assurance that the instruments necessary to cover a short position will be available for purchase at or near the prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, the occurrence of a “short-squeeze” (the inability to maintain a “borrow” on securities) could force us to cover a short position and realize an investment loss.

**Leverage/Margin Borrowing.** If authorized by a client account or Sponsored Fund, Shenkman may create leverage on behalf of a client account or Sponsored Fund through the use of margin transactions, explicit borrowings, short sale positions and derivative instruments. While the use of leverage can substantially improve the return on invested capital, it may also increase the adverse impact to which the portfolio of a client or Sponsored Fund may be subject. Accordingly, any event that adversely affects the value of an investment, either directly or indirectly, would be magnified to the extent that leverage is employed. The cumulative effect of the use of leverage, directly or indirectly, in a market that moves adversely to the investments of the entity employing leverage would result in a loss to the client account or Sponsored Fund that would be greater than if leverage were not employed.

Additionally, in an unsettled credit environment, Shenkman may find it difficult or impossible to obtain leverage with respect to a particular client account or Sponsored Fund to the extent authorized by such client or Sponsored Fund. In such event, Shenkman could find it difficult to implement its strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in Shenkman being forced to unwind positions quickly and at prices below what Shenkman deems to be fair value for the positions. In addition, if securities pledged to a broker to secure a margin account decline in value, or should the broker increase its margin maintenance requirements (i.e., reduce the percentage of a position that can be financed), then the applicable client account or Sponsored Fund could be subject to a “margin call,” pursuant to which Shenkman (on behalf of the client account) must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value.

**Energy Sector Concentration Risk.** Investments in our energy opportunistic strategy are highly concentrated in the energy sector. Consequently, there is a risk that investments will be subject to more rapid change in value than would be the case for other strategies that maintain a wide diversification among securities or industry sectors. The value of a portfolio invested pursuant to this strategy is also vulnerable to factors affecting the energy and natural resources industries, such as increasing regulation of the energy and natural resources sectors by both the U.S. and other governmental entities, geopolitical and weather-related events, developments in the energy and natural resources sectors and conservation incentives. Increased energy and natural resources regulations may, among other things, increase compliance costs and



affect business opportunities for the companies in which we invest. Consequently, the investment objective of the energy opportunist strategy may be difficult to achieve.

**Arbitrage Transactions.** Shenkman may implement arbitrage strategies for certain client accounts that attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. If the requisite elements of an arbitrage strategy are not properly analyzed or executed, or unexpected events or price movements intervene, losses can occur. Moreover, arbitrage strategies often depend upon identifying favorable “spreads,” which can also be identified, reduced or eliminated by other market participants.

**Portfolio Turnover.** Shenkman’s investment strategies may involve frequent trading, which may result in higher transaction costs and charges to client accounts and ordinary income or short term capital gain treatment as opposed to long term capital gain treatment for U.S. federal income tax purposes..

**Counterparty Risk.** Shenkman expects to cause its clients to establish relationships to obtain financing, derivative execution, derivative intermediation and prime brokerage services that permit Shenkman to trade on behalf of its clients in any variety of markets or asset classes over time. However, there can be no assurance that clients will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit Shenkman’s trading activities, create losses, preclude its clients from engaging in certain transactions or prevent its clients from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on a client’s business due to the client’s reliance on such counterparties.

Shenkman may cause its clients to effect transactions in the “over-the-counter” or “OTC” derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, Shenkman causes its clients to enter into contracts directly with dealer counterparties, which may expose such clients to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, clients may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if Shenkman had caused such clients to enter into contracts with multiple counterparties. Certain OTC derivative contracts require that clients post collateral.

If there is a default by a counterparty, under most normal circumstances clients will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the client’s portfolio being less than if Shenkman had not caused such client to enter into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of a client’s securities from such counterparty or the payment of claims therefor may be significantly delayed and Shenkman may recover substantially less on behalf of the client than the full value of the securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether a client may terminate its agreement with an insolvent counterparty.

Collateral that Shenkman causes a client to post to its counterparties that is not segregated with a third-party custodian may not have the benefit of customer-protected “segregation” of such funds. In the event that a counterparty were to become insolvent, such a client may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

In addition, Shenkman may cause a client to use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to a client’s assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on a client and its assets. Investors in a Fund should assume that the insolvency of any such counterparty would result in significant delays in recovering the Fund’s securities from or the payment of claims therefor by such counterparty and a loss to the Fund, which could be material.

**Competition; Availability of Investments.** Certain markets in which Shenkman invests client assets are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that Shenkman will be able to identify or successfully pursue attractive investment opportunities in such environments.

**Volatility Risk.** A client's investment program may involve the purchase and sale of relatively volatile securities and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such securities and/or markets can adversely affect the value of investments held by client portfolios.

**Credit Ratings.** In general, the credit rating assigned by a nationally recognized rating agency to a security represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of such securities. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. clients may incur losses if Shenkman makes investments based on credit ratings that subsequently change in a way not favorable to such clients' investment objectives. In addition, Shenkman will make investment decisions irrespective of credit ratings or may disagree with published credit ratings and such determinations may cause clients to incur losses if Shenkman's credit determinations are contrary to or inconsistent with those published ratings (e.g., Shenkman may avoid issues whose published ratings are higher than Shenkman believes is appropriate and/or Shenkman may invest in issues whose published credit ratings are lower than Shenkman believes is appropriate).

**Co-Investments with Third Parties.** Clients may co-invest with third parties through joint ventures or other entities. Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of the client or is in a position to take (or block) action in a manner contrary to the applicable client's investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

**Litigation Risk.** Some of the tactics that Shenkman may use involve litigation. clients could be a party to lawsuits either initiated by it, or by a company in which such clients invest, other shareholders of such company, or U.S. federal, state and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the applicable clients.

**Currency Exchange Exposure.** Shenkman invests client assets in investments denominated in currencies other than the U.S. dollar. Shenkman, however, values its clients' investments in U.S. dollars. Shenkman may or may not seek to hedge its clients' non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that instruments suitable for hedging currency or market shifts will be available at the time when Shenkman wishes to use them, or that hedging techniques employed by Shenkman will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of clients' positions denominated in currencies other than the U.S. dollar will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

**Capital Structure Arbitrage.** The success of Shenkman's capital structure arbitrage strategy depends upon Shenkman's ability to identify and exploit the relationships between movements in different securities within an issuer's capital structure (including, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. There can be no assurance that Shenkman will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which Shenkman will seek to invest on behalf of its clients will reduce the scope for Shenkman's investment strategies. In the event that the perceived mispricings underlying the clients' positions fail to materialize, these investment strategies could be unsuccessful or result in losses.

## **C. RISKS ASSOCIATED WITH PARTICULAR TYPES OF SECURITIES**

We do not recommend a particular type of investment instrument to our clients, but rather, we recommend and invest in multiple investment instruments. Given the broad discretion we have in managing the client accounts and Sponsored Funds, any one or

more of the risks listed in the previous section may be incurred by our clients.

However, because it may be useful in understanding our investment program, set forth below is a non-exclusive list of certain risks related to securities and other instruments that may be utilized within our client portfolios:

**High Yield Debt Securities and High Yield Bank Loans.** Shenkman primarily invests client assets in debt securities and bank loans that are rated below investment-grade by one or more nationally recognized statistical rating organizations or are unrated but considered to be of comparable credit quality to obligations rated below investment-grade (“High Yield Securities”). High Yield Securities have greater credit and liquidity risk than more highly rated debt obligations and are generally unsecured and may be subordinate to other obligations of the issuer. The lower rating of High Yield Securities reflects a greater possibility that adverse changes in the financial condition of the issuer or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the issuer to make payments of principal and interest.

Many issuers of High Yield Securities are highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. Overall declines in the below investment-grade bond and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity. Further, bankruptcy and similar laws applicable to issuers of the High Yield Securities may limit the amount of any recovery in respect of the High Yield Securities if the issuer is insolvent, and may also adversely affect the timing of any such recovery to which our clients’ may be entitled. High Yield Securities have historically experienced greater default rates than has been the case for investment-grade securities.

**Debt Securities.** Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer’s ability to make timely payment of interest and principal in accordance with the terms of the obligations.

**Corporate Debt.** Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, Shenkman may cause its clients to pay interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to a client in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, clients may experience substantial losses.

**Mezzanine Debt.** Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of Shenkman to influence a company’s affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for more senior instruments. In the event of the insolvency of a portfolio company of a client or similar event, the client’s debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

**Stressed Debt.** Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

**Illiquid Securities.** High Yield Securities may be more likely to have little or no liquidity compared to other types of assets. High Yield Securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such securities. Valuation of such securities may be difficult or uncertain because there may be limited information available about the issuers of such securities. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and Shenkman may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Shenkman may not be able to readily dispose of such illiquid investments for its client portfolios and, in some cases, may be contractually prohibited from disposing of such

investments for a specified period of time. As a result, client portfolios may be required to hold such securities despite adverse price movements. Even those markets which Shenkman expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

**Zero-Coupon and Deferred Interest Bonds.** Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

**Non-Performing Nature of Debt.** Certain loans may be non-performing or 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 loans. By their nature, these investments will involve a high degree of risk. Such non-performing loans ("NPLs") may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of the principal of the loan and/or the deferral of payments. Commercial and industrial loans in workout and/or restructuring modes and the bankruptcy or insolvency laws of non-U.S. jurisdictions are subject to additional potential liabilities, which may exceed the value of the client's original investment. For example, borrowers often resist foreclosure on collateral by asserting numerous claims, counterclaims and defenses against the holder of loans, including lender liability claims and defenses, in an effort to delay or prevent foreclosure. Even assuming that the collateral securing each loan provides adequate security for the loans, substantial delays could be encountered in connection with the liquidation of NPLs. In the event of a default by a borrower, these restrictions as well as the ability of the borrower to file for bankruptcy protection, among other things, may impede the ability to foreclose on or sell the collateral or to obtain net liquidation proceeds sufficient to repay all amounts due on the related loan. In addition, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Under certain circumstances, payments to a client and (in the case of Sponsored Funds) distributions by the applicable fund to the participating investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Troubled Origination.** When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

**Convertible Securities.** Shenkman may invest client assets in convertible securities, which are bonds, debentures, notes, preferred stock or other securities that may be converted or exchanged into the common stock of the same or a different issuer. The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). 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 an 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. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the market value of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value measured by the extent to which investors place value on the rights to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity. A convertible security may also be subject to redemption at the option of the issuer at a pre-established price. If a convertible security held in a client account is called for redemption, Shenkman will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party, which could have an adverse impact on Shenkman's ability to achieve its investment objective.

**Equity Securities.** Shenkman may purchase equity securities or sell them short. 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. The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, client portfolios may suffer losses if it invests in equity instruments of

issuers whose performance diverges from Shenkman's expectations or if equity markets generally move in a single direction and Shenkman has not caused its clients to hedge against such a general move. Clients also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

**Preferred Securities.** Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments. Preferred securities generally will decline in price or fail to make dividend payments when due because the issuer of the security experiences a decline in its financial status. Certain preferred securities carry provisions that allow an issuer under certain circumstances to skip distributions (in the case of "non-cumulative" preferred securities) or defer distributions (in the case of "cumulative" preferred securities). In certain circumstances, an issuer may redeem its preferred securities prior to a specified date in the event of certain tax or legal changes or at the issuer's call, and the investor may not be able to reinvest the proceeds at comparable rates of return. Preferred securities typically do not provide any voting rights, except in cases where dividends are in arrears for a specified number of periods.

**Investments in Unlisted Securities and Private Loans.** Shenkman causes its clients to invest in unlisted securities and private loans of U.S. and non-U.S. companies on an unlimited basis. Because these unlisted securities and private loans trade through the over-the-counter market, it may take longer to liquidate these positions than would be the case for securities that trade on a public exchange or it may not be possible to liquidate these positions. Although these investments may be resold in privately negotiated transactions, the prices realized on these sales could be less than those originally paid by clients. Further, companies whose securities are not registered with the SEC may not be subject to public disclosure and other investor protection requirements applicable to public companies (*i.e.*, companies whose securities are registered with the SEC for public distribution).

**Loan Assignments and Participations.** Client investments may include investments in secured and unsecured corporate loans acquired primarily through assignment. When Shenkman buys a loan for a client through an assignment, the client becomes a direct lender to the issuer of such loan, is granted rights under the loan agreement, and assumes only the credit risk associated with the issuer. Loan participations, on the other hand, represent only a right to participate in the repayment of the loan by the corporate borrower. In purchasing participations, clients will have a contractual relationship only with the selling institution, and not the borrower. This means that the client assumes the credit risk of both the borrower and the selling institution. Additionally, clients generally will have no right to directly enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor will it have the right to object to certain changes to the loan agreement agreed to by the selling institution.

In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the states thereof, clients may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the secured loan. Consequently, clients may be subject to the credit risk of the selling institution as well as of the borrower. Moreover, clients may not directly benefit from the collateral, if any, supporting the related loan and may not be subject to any rights of set-off the borrower has against the selling institution. Certain loans (whether acquired by an assignment or loan participation) may also be governed by the laws of a jurisdiction other than a United States jurisdiction, which may present additional risks as regards the characterization under such laws of such assignment or participation in the event of the insolvency of the selling institution or the borrower.

**Loan Investments.** Shenkman's success in the area of loan investing will depend, in part, on its ability to originate or obtain loans on advantageous terms. In purchasing loans, clients will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors. The following is a non-exhaustive description of the types of loans that clients may invest in:

**Leveraged Loans.** "Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may be performing poorly when a client acquires them. There is no assurance that Shenkman will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. A client may lose its entire investment or may be required to accept cash, property or securities with a value less than the client's original investment and/or may be required to accept payment over an extended period of time.

**Hung Loans.** The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and

lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by a client will reflect a discounted price that should allow Shenkman to achieve a positive return for a client on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (e.g., in the case of a loan relating to a leveraged buyout (“LBO”), the financial condition of the target), global and macro-economic conditions (e.g., monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, it is possible that loans purchased by a client will suffer significant impairments in value as a result of events not predicted by Shenkman. Shenkman may also face difficulties in disposing of or leveraging such loans, or in doing so without incurring losses for its clients. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

**Bank Loans.** Bank loans are subject to unique risks, including: (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; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of Shenkman to directly enforce a client’s rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the client.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

**Second Lien Loans.** Shenkman may cause its clients to invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products 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 that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This 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. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not contract further.

**Bridge Loans.** It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by Shenkman, there may be an adverse effect upon the ability of Shenkman to manage the assets of its clients in accordance with its models and projections or an adverse effect upon its clients’ performance and ability to make distributions.

**Debtor-in-Possession (“DIP”) Loans.** Loans to companies that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code, as amended, are most often asset-based, 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. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor’s capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, 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.

**Fraud Associated with Loans.** Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of Shenkman to cause its clients to perfect or effectuate a lien on the collateral securing the loan. Clients will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Collateral Loan Obligations (CLOs).** Shenkman may invest client assets in CLOs, which involve the securitization of leveraged loans and other leveraged instruments. Consequently, an investment in CLOs is subject to the risks of its underlying investments, which may be magnified as a result of a CLO typically being issued in a highly leveraged transaction. CLOs are also subject to credit, liquidity and interest rate risks and generally are limited recourse obligations. Additionally, holders of the notes issued by a CLO must rely solely on distributions of cash flows for the payment of principal and interest on their particular notes. If distributions of cash flows are insufficient to make full payment on a particular note, no other assets are available from which to pay any deficiencies. The amounts available to a CLO to make those payments may be further reduced by the expenses of the CLO, including management fees and performance fees. Moreover, if economic conditions are unfavorable, or there is not a sufficient volume of new CLO transactions or other sources of funding, the underlying loans may either be extended or the borrowers may default. This may negatively impact the value of existing CLOs, particularly the lower-rated mezzanine tranches and subordinated tranches. In addition, the performance of a security issued by a CLO will be affected by a variety of factors, including its priority in the CLO’s capital structure and the characteristics of the underlying loans. A rapid change in the rate of defaults may also have a material adverse effect on a security issued by a CLO.

Additionally, there may not be a secondary market for the securities issued by CLOs, and none may develop. Consequently, the securities issued by CLOs may not be readily marketable. To the extent that any secondary market does exist for the securities, the price at which they may be sold could be at a discount (which may be substantial) from the market value of the investment and significant delays could occur in the actual sale of those securities. In addition, securities issued by CLOs are usually subject to certain transfer restrictions that may further limit their liquidity, and various regulatory requirements may restrict a potential investor’s ability to purchase those securities or make such an investment unattractive to them. An investment in securities issued by CLOs is designed for long-term investors so investors must be prepared to bear the risk of holding them until their stated maturity.

**Sovereign Debt.** Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued (“Sovereign Debt”), including securities that Shenkman believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer’s (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer’s ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

**ABS and MBS Generally.** The investment characteristics of asset-backed securities (“ABS”) and mortgage-backed securities (“MBS”), whether issued by U.S. or non-U.S. issuers, differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

**ABS and MBS Subordinated Securities.** Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued

with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

**ABS.** ABS are not secured by an interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of U.S. federal and state, or other non-U.S. consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

**Regulation in the Derivatives Industry.** There are many rules related to derivatives that may negatively impact clients such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared OTC instruments and mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps, are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance obligations of Shenkman, and increase the amount of time that Shenkman spends on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to clients.

These rules are operationally and technologically burdensome for Shenkman. These compliance obligations require employee training and use of technology, and there are operational risks borne by Shenkman in implementing procedures to comply with many of these additional obligations.

These regulations may also result in Shenkman forgoing the use of certain trading counterparties (such as broker-dealers and futures commission merchants ("FCM") or other counterparties, as the use of other parties may be more efficient for Shenkman from a regulatory perspective. However, this could limit Shenkman's trading activities, create losses, preclude Shenkman from engaging in certain transactions or prevent Shenkman from trading at optimal rates and terms.

Many of these requirements were implemented pursuant to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation or "EMIR") and similar regulations globally. In the United States, the Dodd-Frank Act divides the regulatory responsibility for derivatives between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The CFTC has regulatory authority over "swaps" and the SEC has regulatory authority over "security-based swaps." EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps and EMIR regulations, that are still in the proposal stage or are expected to be introduced in the future.

The following describes derivatives regulations that may have the most significant impact on clients:

**Swap Agreements.** If authorized by a client, Shenkman may engage in swap transactions on behalf of clients. Most swap agreements entered into on behalf of a client account would calculate the obligations of the parties to the agreement on a "net" basis. Consequently, the client's obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "net amount"). Whether **Shenkman's** use of swap agreements is successful in furthering its investment objective will depend on our ability to correctly predict whether certain types of investments



are likely to produce greater returns than other investments. The client will bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap counterparty.

**Reporting.** Most swap transactions have become subject to anonymous “real-time reporting,” meaning that information relating to transactions entered into by Shenkman on behalf of its clients will become visible to the market in ways that may harm Shenkman’s ability to enter into additional transactions for its clients at comparable prices or could enable competitors to “front-run” or replicate Shenkman’s strategies.

**Central Clearing.** In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing requirements have been implemented as part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012 affecting certain interest rate and credit default swaps. It is expected that the CFTC and the SEC will introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for a client in many respects (for instance, they may reduce the counterparty risk to the dealers to which the client would be exposed under non-cleared derivatives), the client could be exposed to new risks, such as the risk that an increasing percentage of derivatives will be required to be standardized and/or cleared through central clearinghouses, and as a result the client may not be able to hedge its risks or express an investment view as well as it would using customizable derivatives available in the over-the-counter markets. Shenkman may have to split its clients’ derivatives portfolios between centrally cleared and over-the-counter derivatives, which may result in operational inefficiencies and an inability to offset risk between centrally cleared and over-the-counter positions, and which could lead to increased costs.

Another risk is that a client may be subject to more onerous and more frequent (daily or even intraday) margin calls from both Shenkman’s FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts, where the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject clients to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on client portfolios. Clearinghouses also limit the collateral that they will accept to cash, U.S. Treasury bonds and, in some cases, other highly rated sovereign and private debt instruments, which may require clients to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to such clients. In addition, clearinghouses may not allow Shenkman to portfolio-margin its clients’ positions, which may increase the applicable clients’ costs.

Although standardized clearing for derivatives is intended to reduce risk (for instance, it may reduce the counterparty risk to the dealers to which a client would be exposed under OTC derivatives), it does not eliminate risk. Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse and Shenkman’s FCM, subjecting clients to the risk that the assets of the FCM are insufficient to satisfy all of the FCM’s payment obligations, leading to a payment default. The failure of a clearinghouse or FCM could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on FCMs during a financial crisis, which could lead FCMs to default and thus worsen the crisis.

**Swap Execution Facilities.** In addition to the central clearing requirement, certain swap transactions are now required to trade on regulated electronic platforms such as swap execution facilities (“SEFs”), which will require clients to subject themselves to regulation by these venues and subject clients to the jurisdiction of the CFTC.

The EU regulatory framework governing derivatives is set not only by EMIR but also a legislative package known as a recast of the Markets in Financial Instruments Directive (“MIFID II”). Among other things, MIFID II will require transactions in derivatives to be executed on regulated trading venues. MIFID II has not yet been implemented into the local law of EU member states and as such it is currently difficult to assess a full impact of such regulatory reforms on a client. Similarly, the SEC has yet to finalize rules related to security-based swap execution facilities.

It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading on these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively

expensive for clients to obtain tailored swap products to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of the new regulations.

**Margin Requirements for Non-Cleared Swaps.** New rules issued by U.S., EU and other regulators globally (the “Margin Rules”) impose various margin requirements on all swaps that are not centrally cleared, including the establishment of minimum amounts of initial margin that must be posted, and, in some cases, the mandatory segregation of initial margin with a third-party custodian. Although the Margin Rules are intended to increase the stability of the derivatives market, the overall amount of margin that clients will be required to post to swap counterparties may increase by a material amount, and as a result Shenkman may not be able to deploy its clients’ capital as effectively. Additionally, to the extent that the clients are required to segregate initial margin with a third party custodian, additional costs will be incurred by such clients.

**Call Options.** The seller (writer) of a call option which is covered (e.g., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

**Put Options.** The seller (writer) of a put option which is covered (e.g., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

**Index or Index Options.** The value of an index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular security, whether clients will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

**Index Futures.** The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, shareholders may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by Shenkman on behalf of its clients is also subject to Shenkman’s ability to correctly predict movements in the direction of the market.

**Credit Default Swaps.** Credit default swaps can be used to implement Shenkman’s view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, a client may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the client to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. Shenkman may also cause its clients to buy credit default protection with respect to a referenced entity if, in Shenkman’s judgment, there is a high likelihood of credit deterioration. In such instance, the applicable clients will pay a premium regardless of whether there is a credit event.

**Exotic Options.** Exotic options are typically, but not always, traded over-the-counter (“OTC”). OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. Client portfolios may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and

valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset's price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be "path dependent". This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

## **ITEM 9: DISCIPLINARY INFORMATION**

There are no disciplinary events to disclose.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. INVESTMENT ADVISER AFFILIATES**

- Shenkman is the parent company of Shenkman Capital Management Ltd ("Shenkman UK"), a private limited company incorporated in England and Wales that is authorized and regulated by the U.K. Financial Conduct Authority ("FCA"). Shenkman UK provides trade execution, research and other services to Shenkman within the scope of its FCA permissions.
- Shenkman is the parent company of Shenkman Investments, LLC and an affiliate of Shenkman Capital Management, L.L.C., two Delaware limited liability companies, each of which serves as the general partner and investment adviser (or an equivalent role) to certain Sponsored Funds.
- Shenkman is under common control with each of: (i) Romark Credit Advisors LP, a Delaware limited partnership, which was formed upon the conversion of Romark Credit Advisors LLC from a Delaware limited liability company into a Delaware limited partnership ("RCA"), (ii) Romark CLO Ventures LLC, a Delaware limited liability company ("RV"), and (iii) Romark CLO Advisors LLC, a Delaware limited liability company ("RCLO"). RCA owns a majority interest in RV, and RV, in turn, directly wholly owns RCLO. RCLO's primary business is to sponsor and provide portfolio management services to CLOs.

RCLO and RCA have entered into an agreement (the "Staff and Services Agreement") whereby RCA provides (or arranges for the provision of) certain personnel, facilities and systems to RCLO in connection with RCLO's operations by providing various middle and back-office services, including credit research, compliance support and general risk analysis, operations, administrative and other services.

RCA additionally has entered into an inter-company agreement with Shenkman pursuant to which Shenkman will, among other things, provide credit research to RCA. Such credit research is then provided on behalf of RCA to RCLO under the Staff and Services Agreement.

Each of RCA and RCLO is a relying adviser of Shenkman.

- All policies and procedures described herein apply to each of Shenkman’s adviser affiliates. Any team member that may perform services for any of Shenkman’s adviser affiliates is subject to Shenkman’s compliance policies and procedures. Please refer to “Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” for additional information.

## **B. BUSINESS RELATIONSHIPS WITH CERTAIN RELATED PERSONS**

- Shenkman serves as investment adviser or sub-adviser to Mutual Funds
- Shenkman serves as investment manager of certain Sponsored Funds for which a related person may act as general partner or in a similar capacity
- Shenkman serves as collateral manager to CLOs established prior to September 1, 2017
- Shenkman serves as investment manager and promoter of UCITS funds
- RCLO may serve as collateral manager and/or sub-advisor to CLOs established after September 1, 2017

Related persons of Shenkman may have a substantial interest in a Sponsored Fund. Conflicts of interest may arise as to the allocation of investment opportunities among Sponsored Funds and our other clients. We maintain policies and procedures designed to ensure that all of our clients are treated fairly over time and that no client account receives preferential treatment in the allocation of investment opportunities. See “Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” and “Item 16: Investment Discretion” below for additional information.

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

### **A. CODE OF ETHICS AND PERSONAL TRADING**

As part of an overall internal compliance program, Shenkman has adopted a Code of Ethics and Policies Governing Personal Securities Transactions (the “Code of Ethics”) that imposes standards of business conduct, including standards and procedures for the detection and prevention of inappropriate personal securities transactions by our team members, and addresses other situations involving potential conflicts of interest. The Code of Ethics is intended to ensure that the personal securities transactions of persons subject to it are conducted in accordance with the following principles: (i) the duty at all times to place the interests of clients first; (ii) the requirement that all personal securities transactions be conducted consistent with the Code of Ethics and in such a manner as to avoid any actual or potential conflict of interest or any abuse of an individual’s responsibility and position of trust; (iii) the fundamental standard that our team members not take inappropriate advantage of their positions; and (iv) the duty at all times to comply with applicable state and federal securities laws. Our Code of Ethics requires team members to obtain pre-approval for personal securities transactions, except with respect to transactions involving municipal bonds, mutual funds for which Shenkman does not serve as investment adviser or sub-adviser, closed-end funds, exchange traded funds, or exchange traded notes. We permit our team members to engage in personal securities trading but do not allow them to purchase high yield or “cross over” (i.e., rated investment grade by one rating agency and below investment grade by another rating agency) bonds or loans or to trade any securities of an issuer that is on our list of approved issuers (the “Approved List”) or an issuer whose securities or loans are otherwise owned by our client accounts or Sponsored Funds. If granted, an approval is generally valid until the close of business on the next business day after such approval is granted. The Code of Ethics also includes a prohibition on insider trading and (with certain limited exceptions) requires reporting of personal securities accounts, transactions and/or holdings to our Chief Compliance Officer.

Existing and prospective clients may obtain a copy of our Code of Ethics by sending a written request via e-mail to [legal@shenkmancapital.com](mailto:legal@shenkmancapital.com) or by calling (212) 867-9090.

### **B. PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

As discussed above in “Item 10: Other Financial Industry Activities and Affiliations,” Shenkman (or a related person) acts as general partner or investment adviser to Sponsored Funds for which we receive asset-based management fees and/or performance-based compensation. We may also invest client assets in one or more of these Sponsored Funds, which creates a potential conflict of interest because we may have an incentive to recommend securities transactions to clients based on our own financial interests, rather than solely the interests of our clients. We seek to address this conflict of

interest by waiving the asset-based management fees and any performance-based compensation payable at the Sponsored Fund level for assets invested in a private fund (or an appropriate rebate is provided to the client) and by not charging a management fee at the account level on assets invested in a Mutual Fund. Additionally, in an effort to ensure that the decision to invest client assets into a Sponsored Fund is made on an independent basis, we only invest client assets in a Sponsored Fund to the extent the client grants us specific authority to do so. Moreover, each of those clients is provided with a copy of the relevant offering materials and must complete and execute the subscription document for each fund before we invest the clients' assets in that Sponsored Fund.

### **C. INVESTING IN THE SAME SECURITIES AS CLIENTS**

Shenkman, its adviser affiliates and its team members may invest in the same securities (or related securities, e.g., warrants, options or futures) that we recommend to clients. This presents a conflict where, because of the information we have, Shenkman and its team members are in a position to trade in a manner that could adversely affect clients (e.g., place our own trades before or after client trades are executed in order to benefit from any price movements due to the clients' trades). In addition to affecting our objectivity, clients may also be harmed by adversely affecting the price at which the clients' trades are executed. In an effort to minimize this conflict, as set forth above, we generally prohibit our team members from purchasing high yield or "cross over" (i.e., rated investment grade by one rating agency and below investment grade by another rating agency) bonds or loans or to trade any securities of an issuer that is on our Approved List or an issuer whose securities or loans are otherwise owned by our client accounts or Sponsored Funds. We require our team members to pre-clear their personal securities transactions with our Compliance Department. Personal trading requests are denied if they could be reasonably expected to have any adverse economic impact on a client. In addition, our Code of Ethics prohibits us and our team members from trading in any securities on our Restricted List (i.e., a list of issuers concerning which we may be in possession of material non-public information). Our team members also provide or arrange electronic feeds of brokerage statements that contain details of each personal securities transaction in which they engage and an annual certification of such transactions.

### **D. OTHER ACTIVITIES**

It should be noted that Shenkman's services to its clients are not exclusive. Our team members and affiliates may effect transactions for their own accounts and for the accounts of other clients that may differ or be opposite from the advice given, or the time or nature of action taken, with respect to a particular client account. Also, it may not always be possible for the same investment positions to be taken or liquidated at the same time or at the same price. Shenkman also acts as investment adviser to companies that have, or may in the future have, non-investment grade rated (i.e., high yield) securities outstanding. We may purchase these securities for other client accounts. However, we are not obligated to purchase or sell or recommend for purchase or sale for client accounts any security or other asset that we and our team members and affiliates may purchase or sell for their own accounts or for the account of any other client.

Additionally, Shenkman and its affiliates may make investments for clients that they conclude are inappropriate for some or all of their other clients. For instance, Shenkman may take short positions in the equity securities of certain issuers for clients, while at the same time other securities and/or leveraged loans of that issuer are acquired or held long in other client accounts. Conversely, Shenkman may take long positions in the securities of certain issuers for a client account, while at the same time other securities and/or leveraged loans of that issuer are held short in or have been sold out of other client accounts.

Moreover, Shenkman invests in all segments of the capital structure of high yield issuers on behalf of its clients and is not precluded from investing in securities of a company held in some of our client accounts, even if such positions may be adverse. Accordingly, on behalf of one or more clients, we or our affiliates may hold different investments of the same issuer that have different priorities; for example, certain clients may hold senior or subordinated rights relative to other clients, or vice versa. This may present a conflict of interest because any action that we were to take on behalf of the issuer's senior instrument, for instance, could have an adverse effect on the issuer's junior instrument, and vice versa, particularly in distressed or default situations. To the extent we, our affiliates or any of our team members were to serve on a formal or informal creditor or similar committee on behalf of a client, such conflicts of interest may be exacerbated. We have adopted procedures and controls reasonably designed to identify and address such a conflict.

As a result of the foregoing, Shenkman and our team members and affiliates may have conflicts of interests in allocating investments among client accounts. We seek to address this conflict by allocating investment opportunities among client accounts in a manner that we determine is fair and equitable under the circumstances and in accordance with our

policies and procedures regarding trade allocations. Please see “Item 16: Investment Discretion” below for further information on Shenkman’s allocation policy and procedures.

In certain circumstances, we may also possess certain confidential or material, non-public information that, if disclosed, might be material to a decision to buy, sell or hold a security. In these instances, we are prohibited from communicating such information to our clients or using it for a client’s benefit and we add the issuer’s name to our Restricted List. We and our team members are prohibited from purchasing securities on the Restricted List, whether for discretionary client accounts or personal trading accounts. In these circumstances, we have no responsibility or liability to the client for not disclosing such information to the client (or the fact that we possess such information), or not using such information for the client’s benefit, as a result of following our policies and procedures or applicable law.

## **ITEM 12: BROKERAGE PRACTICES**

### **A. FACTORS FOR SELECTING BROKER-DEALERS FOR CLIENT TRANSACTIONS**

#### **1. Broker Selection; Research and Soft Dollars**

The advisory contract between each client and Shenkman typically gives us broad authority to select brokers. We maintain an “Approved Broker List” and, as a general matter, only trade with brokers on our Approved Broker List. We consider a variety of factors in determining whether to include a particular broker on this list, including:

- whether the broker has a dedicated trading desk for the assets intended to be transacted with the broker (e.g., a high yield bond, convertible or leveraged loan desk (as applicable));
- the financial stability and reputation of the broker;
- the type, frequency and severity of disciplinary or enforcement actions against the broker;
- current market conditions
- overall pricing levels and, if applicable, the broker’s commission rates;
- the willingness of the broker to commit capital and make a market in the relevant securities or investments;
- research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis), custodial or other services provided by a broker that could be expected to enhance our general portfolio management capabilities;
- the ability to handle difficult trades;
- the operational facilities of the brokers and/or dealers involved (including back office efficiency); and
- the ability to handle a block order for securities and distribution capabilities.

Prior to being added to our Approved Broker List, a member of our Compliance Department reviews the broker’s FOCUS Report and disciplinary history, as applicable. The Approved Brokers List is reviewed at least annually by both our Compliance and Trading Departments.

Our policies and procedures regarding brokerage allocation and execution are reasonably designed to achieve best execution under the circumstances. In seeking best execution, we typically consider the full range of each broker’s services, including, but not limited to, the efficiency of execution, ability to handle large and/or complex orders, competitive rates, price, capital commitment to a particular issue, research capabilities, generation of investment ideas, market knowledge, settlement capabilities, confidentiality, financial responsibility and responsiveness. Nonetheless, acquiring certain issues of high yield securities and leveraged loans may require that we use the particular broker (sometimes only one) that is willing to commit capital to a given issue. In selecting brokers to execute transactions and determining the reasonableness of their compensation, we are not required to solicit competitive bids and do not have an obligation to seek the lowest available commission cost or price.

We do not participate in any “soft dollar” arrangements. Nevertheless, we may receive, without cost and unrelated to the execution of securities transactions, a broad range of research services from brokers, including information on the economy, industries, securities and individual companies, statistical information, market data, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information that may affect the economy and/or security prices. Subject to our best execution policy described above, we may from time-to-time allocate securities transactions to these brokerage firms. The research, information and services furnished by these brokers are useful in varying degrees and may be used in servicing all of our client accounts. Some of these services

may be used by Shenkman in connection with accounts that paid no commissions to the broker providing such services. No formula has been established for the allocation of business to such brokers. We may also pay brokers and their affiliates for certain specialized data and services, such as benchmark information, that are also unrelated to the execution of securities transactions.

## **2. Brokerage for Client Referrals**

From time-to-time, we may have formal or informal arrangements in place with brokers and/or affiliates of brokers who may market our products or otherwise make our products available to their respective clients. In certain circumstances, we may compensate these brokers or their affiliates in connection with these arrangements. We may also execute securities transactions through brokers who, or who have affiliates who, market our products or otherwise make our products available to clients. This practice creates a potential conflict of interest because we may have an incentive to select or recommend a broker based on our interest in receiving client referrals. In selecting or recommending broker, Shenkman does not consider whether we receive client referrals from that broker or any of its affiliates. Moreover, the allocation of transactions to brokers who (or that have affiliates who) market our products or otherwise make our products available to their clients is subject at all times to our obligation to obtain best execution under the circumstances.

## **3. Directed Brokerage**

In certain instances, clients may instruct Shenkman to participate in directed brokerage arrangements for their accounts. A client who directs us to use a particular broker (or prohibits us from trading with certain brokers) to effect transactions should consider whether that direction could result in certain costs or disadvantages to it. Such costs may include higher brokerage commissions (because Shenkman may not be able to aggregate orders to reduce transaction costs), less favorable execution of transactions, and the potential for exclusion from the client's portfolio of certain investments due to the inability of the particular broker to provide adequate price and execution for all types of transactions. By permitting clients to direct us to execute their trades through a specified broker (or prohibits us from trading with certain brokers), we may not make any attempt to negotiate prices or commissions on behalf of the client and, as a result, in some transactions the client may pay materially disparate spreads or commissions than those clients who do not direct the execution of their trades. Clients that direct Shenkman to execute their trades through a specified broker (or prohibits us from trading with certain brokers) may also lose the ability to negotiate volume discounts on aggregated orders that may otherwise be available to our other clients.

## **B. ORDER AGGREGATION**

We maintain a general practice of aggregating client trade orders for execution in order to achieve more favorable execution prices for clients by buying or selling investments in greater quantity. Any initial allocations made prior to an order being placed, will be subject to adjustment depending upon the actual amount purchased or sold (e.g., partially-filled orders), and taking into account round lot sizes and, if a sale transaction, remaining position size by account. Aggregated orders are typically allocated among client accounts based upon an average price, with all other transaction costs, if any, shared among the client accounts on an equitable basis. Once an order is executed, investment opportunities are allocated among client accounts with similar investment objectives fairly over time. Please see "Item 16: Investment Discretion" below for further information on Shenkman's allocation policy and procedures.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **A. REGULAR REVIEW**

Portfolio Managers communicate throughout the day with members of our trading and research team to review the status of portfolio investments and to provide instructions and guidance concerning pending transactions for designated client accounts. A review of each client account is conducted by a designated Portfolio Manager daily and, on a periodic basis, by the Co-Chief Investment Officers (Mark R. Shenkman and Justin W. Slatky) or a Senior Portfolio Manager. Additionally, the Compliance Department reviews client accounts for compliance with each client's investment guidelines and restrictions. Compliance reviews are performed on a daily basis.

## **B. AD HOC REVIEW**

Changes in our outlook for the economy, the market, an individual investment or investment guideline may trigger a review of a client's account in addition to the regular account reviews discussed above.

## **C. CLIENT REPORTING**

Each separately managed account client receives (or has the opportunity to receive) the following regular written reports: (i) a monthly Market Perspective Letter that discusses the markets and industry trends; (ii) confirmations of all purchases and sales for its account; and (iii) monthly statements of investments held in the account, specifically setting forth the type of instrument, accrued income, book yield, current market yield and market value of the portfolio (including unrealized gains and losses, if any). Clients typically obtain their monthly account statements through a secure, password protected portal on our website. Daily portfolio reporting may also be made available through this portal.

Investors in our Sponsored Funds (other than Mutual Funds or UCITS) are generally provided with quarterly unaudited account statements and annual audited financial statements within 120 days after the fund's fiscal year-end and, if applicable, tax information. Investors in our UCITS and Mutual Funds are provided with a monthly "fund fact sheet" that discusses the fund's monthly performance returns and also includes statistical information regarding the fund's portfolio of investments and semi-annual and annual reports in accordance with applicable regulations.

We also offer regular conference calls, in-person meetings and monthly account update letters to our clients and consider ad hoc and customized reporting requests.

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

### **A. ECONOMIC BENEFITS FROM THIRD PARTIES**

From time-to-time, brokers may provide our team members with non-monetary items, such as promotional items (e.g., coffee mugs, calendars, or gift baskets), meals, tickets to sporting and other entertainment events and access to certain industry related conferences. We generally do not consider these items to be compensation; rather, it is our experience that they are provided to establish better working relationships. Nonetheless, receipt of these items does have the potential to create a conflict of interest. In an effort to mitigate this potential, we maintain a policy that team members are only permitted to attend a business entertainment event hosted by a broker if the broker also attends the event. Team members are required to disclose all broker entertainment events to our Compliance Department and, in certain instances, obtain prior approval. Our Compliance Department maintains a list of these activities and periodically reviews this list against subsequent trading activity. The receipt of all other items must fall within "normal business practice" and must not be excessive in value. This means that team members are generally prohibited from accepting any item from a broker that is greater than \$100 in value. Team members are required to notify the Compliance Department of gifts received from clients, broker/dealers or service providers. Shenkman also has policies and procedures in place designed to monitor and prohibit, as applicable, political contributions that our team members might make to persons holding or seeking elected office.

### **B. THIRD-PARTY REFERRALS**

We have referral arrangements in place with unaffiliated third parties pursuant to which we compensate them for referring new clients to us. The compensation typically includes a percentage of the asset-based management fee paid to us by the referred client. Clients do not bear the cost of any referral fees. Potential clients are typically required to acknowledge in writing that they have been informed of the referral arrangement, including the type and amount of compensation.

## **ITEM 15: CUSTODY**

We do not maintain custody of separate account client assets. We may, however, be deemed to have custody of client assets for purposes of the Advisers Act if we deduct our advisory fees directly from a client's account. As previously disclosed in "Item 5: Fees and Compensation" above, in limited circumstances, a client may direct us to deduct advisory fees from its account. Because the clients' custodians would not calculate or review the amount of the fee deducted, these clients are urged to carefully review their custodial statements and compare them to any account statement that we may send.



We may also be deemed to have custody of the assets of our Sponsored Funds. The financial statements of these funds are audited at least annually by an independent public accountant that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board. We distribute these audited financial statements (prepared in accordance with generally accepted accounting principles) to the investors in the applicable Sponsored Funds within 120 days of the fund's fiscal year end.

## **ITEM 16: INVESTMENT DISCRETION**

We manage all of our clients' assets on a discretionary basis. Prior to managing those assets, we enter into a written agreement that sets forth the scope of our discretion. Unless otherwise instructed or directed by a client, we have the authority to determine: (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities as set forth in the applicable investment management agreement and any written investment guidelines); and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, timing of subscriptions and redemptions, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. Additionally, when we act on behalf of a Sponsored Fund, or in our capacity as general partner or investment adviser to a Sponsored Fund, our authority to select the identity and amount of securities to be bought or sold is limited by that fund's offering documents. We do not employ leverage or margin unless authorized to do so by the client or a Sponsored Fund's offering documents.

We may also exercise our discretion to execute cross trades (i.e., the simultaneous purchase and sale of an investment from one client account to another) between different client accounts (including Sponsored Funds). Cross trades may be executed for different client accounts on the same or a different day on which we trade in the same investment for other client accounts. We usually execute cross trades directly among eligible client accounts but in certain cases may use a broker to effect the trade. "Direct" cross trades benefit clients on both sides of the trade by eliminating the need to pay a spread, mark-up or commission to a broker. In these instances, the purchase price generally reflects the mean of the bid and ask prices as quoted to us by a third-party pricing service. If a broker is needed for the trade, the security is sold to a broker selected by Shenkman and then sold by that broker to the other client account(s) at the mean of the bid and ask prices plus a fee not greater than one quarter of a point (i.e., \$0.25 per \$100 principal amount). These "broker" cross trades may still benefit clients on both sides of the trade because the "selling client" sells the security for more than the bid price (i.e., the price it would have received in the open market) and the "buying client" purchases the security at less than the ask price (i.e., the price it would have paid in the open market). In each instance, we act in good faith and seek to ensure that the cross trades are fair and in the best interests of all participating client accounts. We do not receive any fees in connection with cross trades. If a Mutual Fund participates in the cross trade, it must be executed in accordance with the requirements of Rule 17a-7 under the Investment Company Act of 1940. If a UCITS fund participates in the cross trade, it must be executed in accordance with that fund's policy and procedures. Additionally, to the extent Shenkman executes cross trades on behalf of clients that are subject to the Employee Retirement Income Security Act of 1974, as amended, such transactions must be conducted in accordance with the applicable requirements of that law.

## **ITEM 17: VOTING CLIENT SECURITIES**

### **A. SHENKMAN'S PROXY VOTING AUTHORITY**

Our investment management agreements typically grant us authority to vote proxies on behalf of our separate account clients. The offering documents for our Sponsored Funds also typically grant us authority to vote their proxies.

In the case of equity investments, we maintain a Proxy Voting Policy and Procedures in accordance with Rule 206(4)-6 of the Advisers Act. To the extent we have been granted discretion to vote the proxies of our clients, we seek to vote them in their best interests and in accordance with our Proxy Voting Policy and Procedures. We are usually provided with proxy voting materials from the custodians for our client accounts and we vote all proxies after carefully considering all proxy solicitation materials and other information and facts we deem relevant. If we determine that our Proxy Voting Policy does not adequately address a material conflict of interest, we provide the affected client with copies of all proxy solicitation materials we receive and notify the client of the actual or potential conflict of interest and of our intended response to the proxy request. We then request that the client consent to our intended response to the proxy request. If we receive the client's consent, we respond to the proxy request accordingly. If the client does not consent to our intended response, we respond to the proxy request as directed by the client.

In the case of bonds, loans or other instruments, we also take action that we deem appropriate and in the best interests of our clients with respect to other corporate actions, except to the extent otherwise required by the agreement with a client. These actions may include, for example, responding to exchanges, tender offers or consents, bankruptcy claims and class action claims. From time to time, we may also submit proof of claims in connection with class action lawsuits; however, we generally do not instruct or give advice to clients on whether or not to participate as a member of any class action lawsuit.

Each client may obtain a copy of our Proxy Voting Policy and Procedures and a record of how we voted its proxies by contacting us via email at [legal@shenkmancapital.com](mailto:legal@shenkmancapital.com) or by calling (212) 867-9090.

#### **B. CLIENT PROXY VOTING AUTHORITY**

If a client does not give us authority to vote its proxies, we consult with that client to determine the appropriate course of action to be taken in accordance with the client's preference and instructions.

#### **ITEM 18: FINANCIAL INFORMATION**

Shenkman has never filed for bankruptcy and we have no financial commitments that are likely to impair our ability to meet our contractual commitments to our clients.

## NOTICE OF PRIVACY POLICY

As a valued client of SHENKMAN CAPITAL MANAGEMENT, INC. and as required by federal law and regulations, we are providing this notice to you so that you know what kind of information we collect about you and the circumstances in which that information may be disclosed to third parties. We are committed to handling information regarding our clients, investors, and former clients and investors in a responsible manner. Accordingly, we do not disclose non-public personal information about our clients, investors, and former clients and investors to third parties other than as described below.

We collect information about you (such as your name, address, social security number or tax identification number, assets, investment experience, transaction history, wire transfer instructions and income or revenue) from our discussions with you, from documents that you may deliver to us and in the course of providing services to you. We may use this information to provide services to you, to open an account for you, to process a transaction for your account, to respond to court orders or legal and regulatory investigations or otherwise in furtherance of our business. In order to best serve you and effect transactions for your account, we may provide your personal information to our affiliates and to firms that assist us in serving you and have a need for such information, such as a broker or fund administrator. We may also disclose such information to service providers and financial institutions with which we have joint marketing arrangements (i.e., a formal agreement between nonaffiliated financial companies that together market financial products or services to you, such as placement agents). We require each third party service provider and financial institution with which we have joint marketing arrangements to protect the confidentiality of your information and to use the information only for the purposes for which we disclose the information to them. We do not otherwise provide information about you to outside firms, organizations or individuals except to our attorneys, accountants and auditors and as permitted by law. These sharing practices are consistent with Federal privacy and related laws, and in general, our use of your personal information for these purposes under such laws may not be limited. We note that the federal privacy laws only give you the right to limit the certain types of information sharing that we generally do not engage in (e.g., sharing with our affiliates certain information relating to your transaction history or creditworthiness for their use in marketing to you, or sharing any personal information with non-affiliates for them to market to you).

Our team members are also required to protect the confidentiality of your non-public personal information and to comply with our established policies. They may access your personal information only when there is an appropriate reason to do so, such as to administer our services. We maintain physical, electronic and procedural safeguards that comply with federal standards to guard your personal information.

This privacy notice relates to the policy and practices of SHENKMAN CAPITAL MANAGEMENT, INC., Shenkman Capital Management, Ltd, Shenkman Capital Management, L.L.C., Shenkman Investments, LLC, Romark Credit Advisors, LP, Romark CLO Ventures LLC, Romark CLO Advisors LLC and each of the private investment funds advised by them, including (without limitation) Primus High Yield Bond Fund, L.P., Primus High Yield Bond Fund Ltd., Gamma Convertible Fund, L.P., Credos Floating Rate Fund, L.P., Credos Floating Rate Fund, Ltd., Brevis High Income Fund, L.P., Four Points Multi-Strategy Fund, L.P., Four Points Multi-Strategy Fund, Inc., Flag Point Convertible Fund, L.P., Shenkman Energy Opportunity Fund, L.P., Shenkman Energy Opportunity Fund Ltd., Shenkman Structured Credit Fund, L.P., Westbrook CLO, Ltd., Slater Mill Loan Fund, L.P., Brookside Mill CLO Ltd, Sudbury Mill CLO Ltd, Washington Mill CLO Ltd., Adams Mill CLO Ltd., Jackson Mill CLO Ltd., and Jefferson Mill CLO Ltd.

If you have any questions about this Privacy Notice, please call us at (212) 867-9090 or e-mail us at [legal@shenkmancapital.com](mailto:legal@shenkmancapital.com).