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

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**Dated: March 31, 2017**

**This brochure provides information about the qualifications and business practices of Fifth Street Management LLC. If you have any questions about the contents of this brochure, please contact us at (203) 681-3600 or [legal@fifthstreetfinance.com](mailto:legal@fifthstreetfinance.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Fifth Street Management LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Being a “registered investment adviser” or describing ourselves as being “registered” does not imply a certain level of skill or training.**

**THIS BROCHURE DOES NOT CONSTITUTE AN OFFER TO SELL OR THE  
SOLICITATION OF AN OFFER TO BUY ANY SECURITY.**

## **Item 2 MATERIAL CHANGES**

The following is a summary of the material changes made to this Part 2A brochure since the most recent update, dated March 30, 2016:

- Information set forth in Item 9 has been removed on the basis that the cases were civil litigations and not required to be reported in item 9 of this brochure. Fifth Street does not believe these cases are material and since the most recent update, all cases have been settled.

Other changes were made to the brochure, which are not discussed in this summary of material changes. Consequently, we encourage you to read the brochure in its entirety.

A summary of any material changes to this and subsequent Brochures will be made available to you within 120 days of the close of our business' fiscal year. We may also provide you with additional updates or other disclosure information at other times during the year in the event of any material changes to our business.

You may request the most recent version of this brochure, by contacting us at (203) 681-3600 or [legal@fifthstreetfinance.com](mailto:legal@fifthstreetfinance.com). You may also obtain a copy by going to the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 3      TABLE OF CONTENTS**

<b><u>ITEM</u></b>	<b><u>PAGE</u></b>
<b>ITEM 1    COVER PAGE.....</b>	<b>1</b>
<b>ITEM 2    MATERIAL CHANGES.....</b>	<b>2</b>
<b>ITEM 3    TABLE OF CONTENTS.....</b>	<b>3</b>
<b>ITEM 4    ADVISORY BUSINESS .....</b>	<b>4</b>
<b>ITEM 5    FEES AND COMPENSATION .....</b>	<b>5</b>
<b>ITEM 6    PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>6</b>
<b>ITEM 7    TYPES OF CLIENTS .....</b>	<b>6</b>
<b>ITEM 8    METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF              LOSS .....</b>	<b>6</b>
<b>ITEM 9    DISCIPLINARY INFORMATION.....</b>	<b>25</b>
<b>ITEM 10   OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....</b>	<b>28</b>
<b>ITEM 11   CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND              PERSONAL TRADING .....</b>	<b>28</b>
<b>ITEM 12   BROKERAGE PRACTICES.....</b>	<b>29</b>
<b>ITEM 13   REVIEW OF ACCOUNTS .....</b>	<b>33</b>
<b>ITEM 14   CLIENT REFERRALS AND OTHER COMPENSATION .....</b>	<b>33</b>
<b>ITEM 15   CUSTODY .....</b>	<b>33</b>
<b>ITEM 16   INVESTMENT DISCRETION.....</b>	<b>33</b>
<b>ITEM 17   VOTING CLIENT SECURITIES.....</b>	<b>33</b>
<b>ITEM 18   FINANCIAL INFORMATION .....</b>	<b>34</b>
<b>ITEM 19   REQUIREMENTS FOR STATE REGISTERED ADVISERS .....</b>	<b>34</b>

#### **Item 4      ADVISORY BUSINESS**

Fifth Street Management LLC (“Fifth Street”) is a Delaware limited liability company formed in 2007 that is in the investment advisory and management business. Leonard M. Tannenbaum is the founder of Fifth Street.

Effective November 4, 2014 (the “Effective Date”), Fifth Street Asset Management Inc. (“FSAM”) completed its initial public offering of common stock (NASDAQ:FSAM). As part of the restructuring in connection with the initial public offering, FSAM became the general partner of Fifth Street Holdings L.P. (“Holdings”) and the proceeds of the initial public offering were used to repurchase interests in Holdings from certain minority holders. As of the Effective Date, Fifth Street is wholly owned by Holdings, and FSAM holds a minority interest in Holdings. The majority of interests in Holdings is held by employees of affiliates of Fifth Street, including Leonard M. Tannenbaum.

Fifth Street provides investment advice to a private fund and certain specialty finance companies operating as business development companies (“BDCs”). Currently, Fifth Street advises one private fund, Fifth Street Opportunities Fund, L.P. (formerly known as Fifth Street Credit Opportunities Fund, L.P.) (“FSOF”). Fifth Street also advises two BDCs, Fifth Street Finance Corp. (“FSC”) and Fifth Street Senior Floating Rate Corp. (“FSFR” and, together with FSC, the “Fifth Street BDCs”). In addition, FSFR serves as collateral manager to FS Senior Funding, Ltd. FSFR has retained Fifth Street to furnish collateral management sub-advisory services pursuant to a sub-collateral management agreement. In the future Fifth Street will provide investment advice to a separately managed account (“SMA”) with a large institutional investor who intends to purchase a minimum of \$50 million of middle-market loans in the SMA.

Fifth Street makes all investment decisions on behalf of clients, including, without limitation, identifying, reviewing and selecting investment opportunities for each client.

Fifth Street serves as investment manager of FSOF. The investment objective of FSOF is to generate income and long-term capital appreciation. Fifth Street intends to achieve this investment objective by primarily investing opportunistically in various credit-related instruments and in publicly-traded equity and equity-linked securities. Fifth Street’s investment approach with respect to FSOF is a “best ideas” approach, which is intended to limit the number of issuers in which FSOF invests and considers various liquidity, spread and financing risk factors. FSCO GP LLC (the “FSCO GP”), an affiliate of Fifth Street, serves as general partner of FSOF, and provides certain administrative and management services to FSOF. FSCO GP is also wholly owned by Holdings.

There can be no assurance that FSOF will achieve its investment objectives, and investment results may vary substantially.

Fifth Street currently does not provide investment advisory or management services to clients other than those set forth above, although it, or one or more affiliates, may do so in the future.

As of December 31, 2016, Fifth Street had approximately \$3,937,444,224 in regulatory assets under management (“RAUM”), all managed on a discretionary basis.

Please see Items 8 (Methods of Analysis, Investment Strategies and Risk of Loss), 10 (Other Financial Industry Activities and Affiliations) and 14 (Client Referrals and Other Compensation).

## **Item 5 FEES AND COMPENSATION**

### **FSOF**

#### **Management Fee**

Fifth Street receives a quarterly management fee from FSOF, calculated and payable in advance at an annualized rate ranging from 1.0% to 1.5% of the value of an investor’s investment in FSOF. Capital contributed or withdrawn from FSOF during a quarter is charged a ratable portion of the management fee for the period invested.

Fifth Street and/or FSCO GP may waive, reduce or rebate the management fee attributable to any interest held by or on behalf of any other party. Fifth Street, in its sole and absolute discretion, may also pay a portion of the management fee to certain investors in FSOF and/or other third parties.

#### **Performance Allocation**

FSCO GP is entitled to receive an annual performance allocation from FSOF, ranging from 15% to 20% of the increase in value of an investor’s investment, if any, subject to a loss carryover. Pursuant to the loss carryover, no performance allocation will be charged on an investor’s investment unless the value of such investment (net of any losses, for all years since admission) exceeds the higher of the following amounts: (i) the highest value of such investment through the close of any year since admission; and (ii) the value of such investor’s investment on the date of admission. The performance allocation is generally calculated and allocated at the end of each fiscal year or upon a withdrawal occurring prior to the end of any fiscal year. Withdrawals by an investor will result in a proportional reduction of any loss carryover.

FSCO GP may waive, reduce or rebate the performance allocation attributable to any investor in FSOF. FSCO GP, in its sole and absolute discretion, may also pay a portion of the performance allocation to certain investors in FSOF and/or other third parties.

#### **Other Expenses**

FSOF bears certain operating expenses, including, without limitation, the management fee, administrative expenses, custodial expenses, legal expenses, compliance and regulatory expenses, accounting expenses, audit and tax preparation expenses, interest, taxes, costs, offering expenses and all other expenses associated with the operation of FSOF. FSOF

also bears certain investment expenses associated with its investment program, including, without limitation, (i) brokerage and trading expenses, custodial fees, escrow expenses, insurance costs, third party research, interest and borrowing expenses, bank, broker and dealer service fees, consulting, advisory, investment banking and other professional fees, expenses relating to risk reporting services and trading management systems and all other research expenses (including, without limitation, travel expenses related to research); (ii) the fees and expenses charged by the BDCs that are managed by unaffiliated managers and in which FSOF invests (“Underlying BDCs”) and/or by such unaffiliated managers (“BDC Managers”); and (iii) any fees and expenses incurred in connection with any credit facility established by FSOF.

FSCO GP initially paid all of FSOF’s organizational expenses and will be reimbursed by FSOF. FSOF may amortize its organizational expenses for accounting purposes over a period of 60 months from the date it commences operations, or such other period of time as determined by FSCO GP, in its sole and absolute discretion.

### **General**

None of Fifth Street or its principals, members, managers, directors (or other persons occupying a similar status or performing similar functions), or employees (if any), or any other person who provides investment advice on Fifth Street’s behalf and is subject to Fifth Street’s supervision or control (collectively, “Supervised Persons”) accepts any compensation for the sale of securities or other investment products, including interests in FSOF.

Please see Items 6 (Performance-Based Fees and Side-By-Side Management), 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

### **Item 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Fifth Street manages FSOF, the SMA, and the Fifth Street BDCs, which are subject to asset-based management fees and performance-based fees (other than the SMA). Please see Item 5 (Fees and Compensation). Fifth Street does not currently manage any funds or other accounts that are subject to any other type of fee. However, Fifth Street may, in the future, manage additional funds or accounts with higher or lower fees, and different fee structures, than those applicable to FSOF, the SMA, or the Fifth Street BDCs.

### **Item 7 TYPES OF CLIENTS**

Currently, Fifth Street only advises FSOF and the Fifth Street BDCs, although it may provide investment advice to other clients in the future, including other pooled investment vehicles, the SMA, and other separately managed accounts.

An investor generally is required to subscribe for at least \$1 million of interests in FSOF.

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

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

Depending on conditions and trends in the securities markets and the economy in general, Fifth Street may use other methods of analysis than those described below. There can be no assurance that Fifth Street's methods of analysis will achieve profitable results.

## FSOF

The investment objective of FSOF is to generate income and long-term capital appreciation. Fifth Street intends to achieve the investment objective by primarily investing opportunistically in various credit-related instruments, including, without limitation, debt securities, instruments and obligations of U.S. and non-U.S. government, corporate and other non-governmental entities and issuers and preferred and convertible preferred securities that include fixed-income features, and in publicly-traded equity and equity-linked securities, including, without limitation, the equity securities of BDCs managed by unaffiliated investment managers. FSOF may invest in instruments and obligations directly or indirectly by investing in derivative or synthetic instruments, including, without limitation, credit default swaps and loan credit default swaps and may engage in currency trading. FSOF's investment program may include opportunistic investments in corporate structured credit, cash and synthetic collateralized loan obligations ("CLOs") and collateralized debt obligations ("CDOs") (e.g., bank and insurance trust preferred CDOs), cash and synthetic high-yield debt and leveraged loans, and non-mortgage asset-backed securities ("ABS"). FSOF may utilize other strategies or financial instruments as determined by Fifth Street, subject to the oversight of FSCO GP.

Fifth Street intends to develop FSOF's portfolio by using a "best ideas" approach, which is intended to limit the number of issuers in which FSOF invests and considers various liquidity, spread, and financing risk factors. Fifth Street intends to monitor asset and industry concentrations in the context of potential macroeconomic, cyclical, technological and regulatory headwinds, the weighting of positions within the portfolio as well as overlap of FSOF's long and short positions, and conduct a risk/reward analysis with respect to each potential investment. Fifth Street actively manages the liquidity and composition of assets to match short-term, medium-term, and long-term capital needs. Fifth Street intends to utilize its proprietary market, company, and industry knowledge as well as public information to monitor and identify market dislocations and mispriced assets due to a variety of market events, firm-specific catalyst events (such as M&A, refinancings, tenders, litigations, restructurings, and liquidations) and soft catalyst creations (such as management value creation/destruction, competition and legal, regulatory and accounting issues) in order to find the optimal investment opportunities for FSOF.

In seeking to achieve FSOF's investment objective, Fifth Street's process consists primarily of building portfolios of debt and equity tranches utilizing a sophisticated sourcing platform, in which it relies on its extensive network and knowledge of managers, relationships and tools to identify and screen unique and profitable opportunities for FSOF. Further, Fifth Street's established infrastructure is leveraged extensively to benefit FSOF. Fifth Street has specialized teams in healthcare, telecom, aircraft leasing, venture capital and distressed credits, along with its general investment team, providing unique sourcing opportunities and expertise.

Fifth Street uses an investment process which blends top-down and bottom-up analysis. From the bottom-up, the investment team intends to have frequent dialogues to discuss security

analysis and transaction evaluation, the focus of which includes, without limitation, yields, trading opportunities and volatility of the asset. With regard to the top-down approach, there are three components: (i) macro analysis whereby Fifth Street and its investment team look to have frequent dialogues discussing key macro items, including, without limitation, the economic outlook, financial and credit markets, the M&A environment and corporate valuation levels; (ii) cross-asset relative value analysis which consists of analyzing the credit spectrum for strong relative value opportunities; and (iii) active monitoring by the investment team of all major sectors within the high-yield universe.

### **Certain Risk Factors**

Fifth Street's intended investment strategy on behalf of FSOF involves a substantial risk of loss of capital. The foregoing contains certain of the material risks involved in the funds' investment strategies and does not purport to be complete. Investors should carefully review the applicable offering documents and consult with their own professional advisor(s) prior to making an investment.

### **FSOF**

*Risk of Loss.* An investment in FSOF is speculative and involves significant risk. The profitability of FSOF ultimately depends upon Fifth Street correctly assessing the future price movements of the securities, commodities and other financial instruments in which FSOF invests as well as the movement of interest rates. Such price movements may be volatile and are subject to numerous factors which are neither within the control of nor predictable by Fifth Street. Such factors include, without limitation, a wide range of economic, political, competitive, market, legal, operational and other conditions or events (including, without limitation, natural disasters, acts of terrorism or war) which may affect investments in general or a specific security, commodity or other financial instrument in which FSOF invests. There can be no assurance that Fifth Street will be successful in accurately predicting price movements. Accordingly, investors may incur substantial losses on their investments in FSOF, and it is possible that FSOF's performance will fluctuate substantially from period to period.

*Market Volatility.* As a general matter, the prices of certain of the assets in which FSOF will invest have recently exhibited high volatility in line with the heightened volatility and fluctuations of global capital markets. Price movements of these assets may be influenced by, among other things, interest rates, credit trends, changing supply and demand relationships, regulatory changes and fiscal and monetary programs and policies of governments. There can be no assurance that Fifth Street will be successful in accurately predicting price and interest rate movements despite efforts to identify and, if applicable, hedge such risks.

*Leverage.* FSOF retains the right to utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. While strategies, techniques and instruments that employ leverage increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. If FSOF uses leverage with respect to a position, any losses would be more pronounced than if leverage were not used, and a relatively small price



movement in a security or other financial instrument may result in immediate and substantial losses to FSOF, including, without limitation, losses in excess of the amount invested. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of FSOF. In addition, the lender or counterparty, as the case may be, may have a security interest in, or otherwise acquire, all or a portion of FSOF's assets. In the event that FSOF defaults under any such arrangement, such lender or counterparty may have the right to become or remain the owner of all or that portion of FSOF's assets secured pursuant to such arrangement. If such arrangement is terminated, FSOF's ability to meet its investment objective may be adversely impaired. FSOF will bear all of the costs and expenses incurred in connection therewith, including, without limitation, any interest expense charged on funds borrowed or otherwise accessed.

In addition, certain securities, commodities and other financial instruments which FSOF acquires may incorporate a certain, and sometimes high, degree of embedded leverage. Accordingly, even if not leveraged in the sense of being acquired with borrowings, FSOF may have highly leveraged exposure to certain securities, commodities and other financial instruments it acquires.

*General Credit Risks.* FSOF will seek to take advantage of opportunities in the distressed credit arena and may be exposed to losses resulting from default and foreclosure. While assets purchased by FSOF may be collateralized, FSOF may be exposed to losses resulting from default. Therefore, the value of the underlying collateral, the creditworthiness of the borrower(s) or other counterparty and the priority of the lien are each of great importance. FSOF cannot guarantee the adequacy of the protection of FSOF's investments, including, without limitation, the validity or enforceability of underlying loan and securities documents and the maintenance of anticipated priority and perfection of applicable security interests. Furthermore, FSOF cannot assure that claims may not be asserted that might interfere with enforcement of rights that are important to the value of a distressed asset. Liquidation proceeds upon sale of distressed assets may not satisfy the entire outstanding balance of principal and interest on a loan or security, resulting in a loss. Any costs or delays involved in the effectuation of the liquidation of the underlying collateral will further reduce the proceeds and thus increase the loss. Distressed credit assets may have large uncertainties or major risk exposures to adverse conditions, and certain of them may be considered to be predominantly speculative. Generally, such credit assets offer a potentially higher return, but involve greater volatility of price and greater risk of loss of income and investment. The market values of certain distressed credit assets also tend to be more sensitive to changes in economic conditions than non-distressed credit assets. Furthermore, if FSOF were to foreclose on those debt obligations and take possession of the related collateral, FSOF's activities with respect to such collateral could result in unrelated business taxable income for U.S. Federal income tax purposes, which could cause adverse U.S. Federal income tax consequences for U.S. tax-exempt persons.

*Distressed/Bankruptcy Investing.* FSOF may invest in unrated or "distressed" securities, i.e., securities of companies that are experiencing significant financial or business difficulties, including, without limitation, companies involved in debt restructurings, in bankruptcy or other reorganization and liquidation proceedings. FSOF may also purchase financial instruments of companies that have low credit quality, and purchase securities and loans that are in default. Although such investments may result in significant returns, they typically involve a high degree

of risk. Among the problems involved in investments in such issuers is the fact that it frequently may be difficult to obtain information as to the conditions of such issuers. Restructurings or reorganizations may fail to be completed or be substantially delayed and expected returns on their securities may never materialize. In addition, a significant period of time may pass between the time at which FSOF makes its investment in distressed securities and the time that any such reorganization is completed. During this period, it is unlikely that FSOF will receive any dividend, interest or other disbursements on the distressed securities; FSOF will be subject to significant uncertainty as to such successful completion and FSOF may be required to bear certain expenses to protect its interest in the course of negotiations surrounding any potential reorganization. Furthermore, nonperforming assets by their nature may prove uncollectible or not yield appreciable returns for considerable periods of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in such assets, loans or claims is unusually high. Information necessary to properly evaluate a distress situation may be difficult to obtain or be unavailable and the risks attendant to a transaction may not necessarily be identifiable or susceptible of considered analysis at the time of investment. There is no assurance that FSOF will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or rehabilitation of a distressed asset or adequate realization upon such assets and claims. FSOF's performance may be substantially impaired by unsuccessful distressed or low credit investments. Optimal returns on distress situations may often require active participation by Fifth Street in the transaction. While Fifth Street may on occasion seek representation or an active role in such matters, its commitments to various advisory activities may preclude extensive involvement and it may be unsuccessful in obtaining significant influence as to particular distressed investments.

*Liquidity.* Investments that are made by FSOF may lack liquidity or be thinly traded. This could present a problem in realizing the prices quoted and in effectively trading the position(s). FSOF may invest in less liquid investments which could result in significant loss in value should FSOF be forced to sell the less liquid investments as a result of rapidly changing market conditions or as a result of margin calls or other factors. In certain circumstances, FSOF may also be contractually prohibited from disposing of investments for a specified period of time. Accordingly, FSOF may be forced to sell its more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of less liquid investments.

The disposition of less liquid investments often requires more time and results in higher transaction costs than the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

*Concentration of Holdings.* At any given time, FSOF's assets may become highly concentrated within a particular company, industry, asset category, trading style or financial or economic market. In such event, FSOF's portfolio will be more susceptible to fluctuations in value resulting from adverse economic conditions affecting the performance of that particular company, industry, asset category, trading style or financial or economic market, than a less concentrated portfolio would be. As a result, if FSOF's investment portfolio becomes concentrated, its aggregate return may be volatile and may be affected substantially by the performance of only one or a few holdings. Fifth Street is not obligated to hedge FSOF's positions. Nonetheless, it is anticipated that FSOF would limit specific industry and company

concentration risk.

*Equity Securities.* FSOF will invest in equities and equity derivatives. The value of these instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, FSOF may suffer losses if it invests in equity instruments of issuers whose performance diverges from Fifth Street's expectations or if equity markets generally move in a single direction and FSOF has not hedged against such a general move. In its equity derivatives, FSOF is exposed to risks that issuers will not fulfill their contractual obligations to FSOF, such as, for example, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

*Investments in Undervalued Securities.* Fifth Street may seek to invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from FSOF's investments may not adequately compensate for the business and financial risks assumed. FSOF will make certain speculative investments in securities which Fifth Street believes to be undervalued, however, there are no assurances that the securities purchased will in fact be undervalued. In addition, FSOF may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of FSOF's assets would be committed to the securities purchased, thus possibly preventing FSOF from investing in other opportunities.

*Preferred and Hybrid Securities.* FSOF may invest in preferred stock and hybrid securities, which may have special risks. Preferred and hybrid securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If FSOF owns a preferred or hybrid security that is deferring its distributions, FSOF may be required to report income for tax purposes even though it has not yet received such income. Some preferred and hybrid securities are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid.

There is no assurance that dividends or distributions on non-cumulative preferred securities in which FSOF invests will be declared or otherwise made payable or paid. Preferred and hybrid securities are subordinated to bonds and other debt instruments in an issuer's capital structure in terms of priority to corporate income and liquidation payments and, therefore, will be subject to greater credit risk than more senior debt instruments. Because preferred stock and hybrids are generally junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of such instruments than senior debt securities with similarly stated yield characteristics. Preferred and hybrid securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.

*Convertible Securities.* FSOF may invest in convertible securities. Convertible fixed income securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. As with all fixed income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds

the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. Convertible securities rank senior to common stocks in an issuer's capital structure and consequently entail less risk than the issuer's common stock. FSOF may invest in convertible securities of any maturity and will determine whether to hold, sell or convert any security in which it has invested, depending upon Fifth Street's outlook for the market value for such security, the security into which it converts and/or other factors.

*Small and Medium-sized Companies.* FSOF may invest a portion of its assets in securities of medium, small and/or unseasoned companies with smaller market capitalization. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. Such companies may not be well-known to the investing public, may not have significant institutional ownership and may have cyclical, static or only moderate growth prospects. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, FSOF may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the lower trading volume of smaller company securities.

Smaller capitalization securities may be followed by relatively few securities analysts with the result that there tends to be less publicly available information concerning these securities compared to what is available for exchange-listed or larger companies. The securities of these companies may have limited trading volumes and may be subject to more abrupt or erratic market movements than the securities of larger, more established companies or the market averages in general, and FSOF may be required to deal with only a few market makers when purchasing and selling these securities. Transaction costs in smaller capitalization stocks may be higher than those for larger-capitalized companies. It is anticipated that FSOF would limit investments in smaller-capitalization companies and would generally require higher risk-reward ratios.

*Bank Loans.* FSOF intends to invest in bank loans and participations. These positions are typically illiquid and difficult to value. In addition, in the case of such trading, Fifth Street may come into possession of material non-public information relating to the borrower, preventing FSOF from trading in any securities of such issuer. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of FSOF to directly enforce its rights with respect to participations. Bank loans are privately negotiated transactions, each of which has individualized terms. Analyzing these transactions requires in-depth review of the relevant documents as well as in-depth analysis of the often precarious financial condition of the borrower. In analyzing each bank loan or participation, Fifth Street compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by FSOF.

*Loan Origination.* FSOF may participate in the origination of loans. From time to time, FSOF may offer to other funds or accounts managed by FSCO GP or Fifth Street, their respective affiliates and/or other investment managers, participations in and/or assignments or sales of loans (or interests therein) that FSOF has originated or purchased. Additionally, FSOF may offer such participations in and/or assignments or sales of loans (or interests therein) to other accounts managed by FSCO GP, Fifth Street, their respective affiliates or to non-affiliated entities. In determining the target amount to allocate to a particular loan origination, FSOF will take into consideration the fact that it anticipates selling, assigning or offering participations in such investment to third parties as described above. If FSOF is not successful in offering such participations, assignments or sales to third parties, FSOF will be forced to hold such excess until such time as it can be disposed. This may result in FSOF being “overweighted” with respect to a particular borrower.

*Fixed Income Securities.* FSOF may invest in bonds or other fixed income securities, including, without limitation, commercial paper and “higher yielding” (including, without limitation, non-investment grade and, therefore, higher risk) debt securities. FSOF will therefore be subject to credit, liquidity and interest rate risks. Higher-yielding debt securities are generally unsecured and may be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured on substantially all of the issuer’s assets. The lower rating of debt obligations in the higher-yielding sector reflects a greater probability that adverse changes in the financial condition of the issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal and interest. Non-investment grade debt securities may not be protected by financial covenants or limitations on additional indebtedness. In addition, evaluating credit risk for debt securities involves uncertainty. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

*Collateralized Debt Obligations.* FSOF may invest in CDOs, CLOs and other related instruments. The portfolio may consist of CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO mezzanine debt. CDO securities are subject to credit, liquidity and interest rate risks. The CDO equity and other tranches purchased by FSOF may be unrated or non-investment grade, which means that a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative. In addition, as a holder of CDO equity, FSOF will have limited remedies available upon the default of the CDO.

The value of the CDO securities owned by FSOF generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO (“CDO Collateral”), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDO securities must rely solely

on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDO securities, no other assets will be available for payment of the deficiency and following realization of the CDO securities, the obligations of such issuer to pay such deficiency generally will be extinguished.

Issuers of CDO securities will sometimes acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically becomes a lender under the credit agreement with respect to the loan or debt obligation; however, its rights can be more restricted than those of the assigning institution. In purchasing participations, an issuer of CDO securities will usually have a contractual relationship only with the selling institution, and not the borrower. The CDO generally will have neither the right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. The CDO may not directly benefit from the collateral supporting the related loan and may be subject to any rights of set-off the borrower has against 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, the CDO 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 loan. Consequently, the CDO may be subject to the credit risk of the selling institution as well as of the borrower.

*Asset-Backed Securities.* FSOF may invest in ABS. The investment characteristics of ABS 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. The frequency at which prepayments (including, without limitation, voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying ABS will be affected by a variety of factors including, without limitation, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Also, particular investment may underperform relative to hedges that a portfolio manager may have constructed for these investments, resulting in a loss.

Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures. Through CDOs, FSOF may invest in these and other types of ABS that may be developed in the future. ABS present certain risks that are not presented by mortgage-backed securities. Primarily, these securities do not have the benefit of the same security interest in the related collateral. There is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments.

ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference

rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

*Credit Default Swaps.* FSOF may enter into credit default swaps. A credit default swap is a contract between two parties which transfers the credit risk of an entity (the "Reference Entity") for a defined period whereby if there is a Credit Event then the seller of protection pays a predetermined amount to the buyer of protection. A "Credit Event" is commonly defined as the Reference Entity (a) failing to pay principal or interest on time, (b) restructuring its debt, (c) accelerating its debt, or (d) entering bankruptcy. The buyer of credit protection pays a premium to the seller of credit protection until the earlier of a Credit Event or the scheduled termination date of the credit default swap. Credit default swaps can be used to implement Fifth Street's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, FSOF may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of FSOF to make payments upon the occurrence of a Credit Event creates leveraged exposure to the credit risk of the referenced entity. FSOF may also buy credit default protection with respect to a reference entity if, in the judgment of Fifth Street, there is a high likelihood of credit deterioration. In such instance, FSOF will pay a premium regardless of whether there is a Credit Event. The credit default swap market in high-yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities creating the risk that the newer markets will be less liquid and it may be difficult to exit or enter into a particular transaction.

*Sovereign Debt.* FSOF may invest in debt securities issued by governments and their agencies, including, without limitation, governments of emerging markets. Investing in instruments of government issuers in emerging markets may involve significant economic and political risks. Holders of certain emerging market instruments may be requested to participate in the restructuring and rescheduling of these obligations and to extend further loans to their issuers. The interests of holders of emerging market instruments could be adversely affected in the course of restructuring arrangements. Sovereign debt rated below investment grade by a nationally recognized bond rating organization is regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations.

*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"). It is not anticipated that FSOF would engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of debt obligations, FSOF may be subject to claims from

creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

*Short Sales.* FSOF intends to sell securities short. Selling securities short risks losing an amount greater than the proceeds received. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. FSOF may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if FSOF is otherwise unable to borrow securities which are necessary to cover its positions. Although FSOF may utilize short selling as a hedging technique, short selling may also be used for speculative purposes.

*Options.* Fifth Street intends to utilize options in furtherance of its investment strategies. Option positions may include both long positions, where FSOF is the holder of put or call options, as well as short positions, where FSOF is the seller (writer) of an option. Although option techniques can increase investment return, they can also involve a higher level of risk compared with their underlying securities. For example, the expiration of unexercised long options effectively results in loss of the entire cost, or premium paid for the option. Conversely, the writing of an uncovered put or call option can involve, similar to short selling, a theoretically unlimited risk of an increase in FSOF's cost of selling or purchasing the underlying securities, commodities or other financial instruments in the event of exercise of the option.

*Non-U.S. Investments.* FSOF may invest a portion of its assets in non-U.S. securities and interests denominated in non-U.S. currencies and/or traded outside of the United States, including, without limitation, emerging market securities and interests. Such investments require consideration of certain risks not typically associated with investing in securities traded in the United States or other assets. Such risks include, among other things, unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation, confiscatory taxation and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States, and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies.

*Emerging Markets.* Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions, a greater likelihood of severe inflation, unstable currency, war and expropriation of personal property. In addition, FSOF's investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to



issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

*Swap Agreements.* FSOF has entered into and in the future intends to enter into one or more swaps, total return swaps and other derivative instruments with or through third parties. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease FSOF's exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. FSOF is not limited to any particular form of swap agreement if consistent with FSOF's investment objective and policies. Swap agreements tend to shift FSOF's investment exposure from one type of investment to another.

For example, if FSOF agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease FSOF's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of FSOF's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from FSOF. If a swap agreement calls for payments by FSOF, FSOF must be prepared to make such payments when due. This is only true in default and not part of mark-to-market. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by FSOF.

*Other Derivative Instruments.* FSOF may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of FSOF and legally permissible. Special risks may apply to instruments that are invested in by FSOF in the future that cannot be determined at this time or until such instruments are developed or invested in by FSOF. Certain swaps, options and other derivative instruments may be subject to various types of risks, including, without limitation, market risk, liquidity risk, the risk of non-performance by the counterparty, including, without limitation, risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

#### *Investments in Underlying BDCs.*

1. *FSOF's investments in Underlying BDCs and investments made by Underlying BDCs are subject to restrictions under the Investment Company Act of 1940, as amended (the "ICA").* FSOF is limited, under Section 12(d)(1) of the ICA, from acquiring the securities issued by BDCs in certain circumstances. Such limitations include a restriction on FSOF being able to own in the aggregate more than three percent (3%) of the total outstanding voting stock of any BDC (i.e., the "anti-pyramiding" restriction). Such restrictions may materially limit FSOF's ability to own securities of any particular Underlying BDC or to

fully implement its investment objectives. Investments in BDCs are often subject to sales charges and charges assessed in connection with selling such an investment prior to the expiration of a set period of time. Fifth Street will not be required to minimize any such costs. In addition, investments in an Underlying BDC will be subject to an additional layer of fees and expenses. Similar restrictions under the ICA also apply to investments made by Underlying BDCs in which FSOF invests.

Additionally, there are restrictions under the ICA with respect to co-investment by private funds and RICs and BDCs under common management. The ICA prohibits a BDC from making certain negotiated co-investments with affiliates unless the investment adviser of the BDC receives an order from the SEC permitting the BDC to do so. Such prohibition would apply to Underlying BDCs that may co-invest with other investment vehicles managed by a BDC Manager and/or its affiliates. BDC Managers may submit exemptive applications to the SEC and/or have received exemptive orders to permit the Underlying BDCs managed by them to co-invest with other funds managed by the BDC Managers and/or their affiliates in a manner consistent with such Underlying BDCs' investment objectives, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. There can be no assurance that any such exemptive order has been or will be obtained.

2. *Underlying BDCs investments in portfolio companies may be risky and Underlying BDCs could lose all or parts of their investments.* BDCs must invest at least seventy percent (70%) of their total assets in securities of certain companies, called "eligible portfolio companies." Eligible portfolio companies are either not listed on an exchange, or are listed companies with a small market capitalization. Such companies in which Underlying BDCs may invest will typically be highly leveraged, and, in most cases, Underlying BDCs' investments in such companies will not be rated by any rating agency. If such investments were rated, they would likely receive a rating from a nationally recognized statistical rating organization of below investment grade (i.e., below BBB- or Baa), which is often referred to as "junk." Exposure to below investment grade securities involves certain risks, and those securities are viewed as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Investing in eligible portfolio companies involves a number of significant risks. Among other things, these companies: (i) may have limited financial resources and may be unable to meet their obligations under their debt instruments that Underlying BDCs hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of Underlying BDCs realizing any guarantees from subsidiaries or affiliates of their portfolio companies that Underlying BDCs may have obtained in connection with their investments, as well as a corresponding decrease in the value of the equity components of their investments; (ii) may have shorter operating histories, narrower product lines, smaller market shares and/or significant customer concentrations than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns; (iii) are more likely to depend on the management talents and efforts of a small group of persons and, therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on a portfolio company and, in turn, on an Underlying BDC; (iv) generally have less predictable operating results, may from time to time be parties to litigation, may

be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and (v) generally have less publicly available information about their businesses, operations and financial condition. If Underlying BDCs are unable to uncover all material information about these companies, Underlying BDCs may not make a fully informed investment decision, and as a result may lose part or all of their investment. Further, in the course of providing significant managerial assistance to certain of an Underlying BDC's portfolio companies, certain of the Underlying BDC's officers and directors may serve as directors on the boards of such companies. To the extent that litigation arises out of an Underlying BDC's investments in these companies, an Underlying BDC's officers and directors may be named as defendants in such litigation, which could result in an expenditure of funds (through an Underlying BDC's indemnification of such officers and directors) and the diversion of management time and resources.

3. *Underlying BDCs may incur greater risk with respect to investments they acquire through assignments or participations of interests.* Underlying BDCs may acquire senior loans through assignments or participations of interests in such loans. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to such debt obligation. However, the purchaser's rights can be more restricted than those of the assigning institution, and Underlying BDCs may not be able to unilaterally enforce all rights and remedies under an assigned debt obligation and with regard to any associated collateral. A participation typically results in a contractual relationship only with the institution participating out the interest and not directly with the borrower. Sellers of participations typically include banks, broker-dealers, other financial institutions and lending institutions. In purchasing participations, Underlying BDCs generally will have no right to enforce compliance by the borrower with the terms of the loan agreement against the borrower, and Underlying BDCs may not directly benefit from the collateral supporting the debt obligation in which Underlying BDCs have purchased the participation. As a result, Underlying BDCs will be exposed to the credit risk of both the borrower and the institution selling the participation. Further, in purchasing participations in lending syndicates, Underlying BDCs will not be able to conduct the same level of due diligence on a borrower or the quality of the senior loan with respect to which Underlying BDCs are buying a participation as they would conduct if they were investing directly in the senior loan. This difference may result in an Underlying BDC being exposed to greater credit or fraud risk with respect to such senior loans than it expected when initially purchasing the participation.
4. *An investment strategy focused primarily on privately-held companies presents certain challenges, including, without limitation, the lack of available information about these companies.* Underlying BDCs generally invest in privately-held companies. Generally, little public information exists about these companies, including, without limitation, typically a lack of audited financial statements and ratings by third parties. Underlying BDCs will, therefore, have to rely on the ability of the BDC Managers to obtain adequate information to evaluate the potential risks of investing in these companies. These companies and their financial information may not be subject to the Sarbanes-Oxley Act

and other rules that govern public companies. If Underlying BDCs are unable to uncover all material information about these companies, they may not make a fully informed investment decision, and may lose money on their investments. These factors could affect Underlying BDCs' investment returns.

5. *Underlying BDCs may not have yet identified most of the portfolio companies in which they will invest.* Underlying BDCs have significant flexibility in investing the net proceeds of their offering and any future offerings, and may do so in a way with which FSOF and other stockholders may not agree. Additionally, a BDC Manager will select an Underlying BDC's investments subsequent to the closing of an offering, and an Underlying BDC's stockholders will have no input with respect to such investment decisions. Further, other than general limitations that may be included in a future credit facility, the holders of an Underlying BDC's debt securities will generally not have veto power or a vote in approving any changes to the Underlying BDC's investment or operational policies. These factors increase the uncertainty, and thus the risk, of investing in an Underlying BDC's common stock. In addition, pending such investments, Underlying BDCs may invest the net proceeds from their offering primarily in high quality, short-term debt securities, consistent with their BDC election and their election to be taxed as a registered investment company ("RIC"), at yields significantly below the returns which they expect to achieve when their portfolios are fully invested in securities meeting their investment objectives. If Underlying BDCs are not able to identify or gain access to suitable investments, their income and, therefore, FSOF's, may be limited.
6. *Underlying BDCs' portfolio companies may incur debt that ranks equally with, or senior to, some of the Underlying BDCs' investments in such companies.* Some Underlying BDCs may invest primarily in senior secured loans, including, without limitation, unitranche and second lien debt instruments, as well as unsecured debt instruments, issued by the Underlying BDCs' portfolio companies. If an Underlying BDC invests in unitranche, second lien, or unsecured debt instruments, its portfolio companies typically may be permitted to incur other debt that ranks equally with, or senior to, such debt instruments. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which an Underlying BDC will be entitled to receive payments in respect of the debt securities in which the Underlying BDC will invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to a Underlying BDC's investment in that portfolio company would typically be entitled to receive payment in full before the Underlying BDC receive any distribution in respect of its investment. In such cases, after repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to an Underlying BDC. In the case of debt ranking equally with debt securities in which such Underlying BDCs will invest, the Underlying BDCs would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.
7. *If Underlying BDCs invest in the securities and obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including, without*

*limitation, lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower than-expected investment values or income potentials and resale restrictions.* Underlying BDCs may be authorized to invest in the securities and obligations of distressed or bankrupt companies. At times, distressed debt obligations may not produce income and may require Underlying BDCs to bear certain extraordinary expenses (including, without limitation, legal, accounting, valuation and transaction expenses) in order to protect and recover their investment. Therefore, to the extent Underlying BDCs invest in distressed debt, their ability to achieve current income for their stockholders, including, without limitation, FSOF, may be diminished. Underlying BDCs also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt in which they invest will eventually be satisfied (e.g., through a liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt held by an Underlying BDC, there can be no assurance that the securities or other assets received by an Underlying BDC in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by Underlying BDCs upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of an Underlying BDC's participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, Underlying BDCs may be restricted from disposing of such securities.

8. *The lack of liquidity in an Underlying BDC's investments may adversely affect the Underlying BDC's, and therefore FSOF's, business.* Underlying BDCs typically invest in companies whose securities are not publicly traded, and whose securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. Underlying BDCs also may invest in listed securities of small cap companies whose shares are thinly traded. In fact, all of an Underlying BDC's assets may be invested in illiquid securities. The illiquidity of these investments may make it difficult for Underlying BDCs to sell these investments when desired. In addition, if Underlying BDCs are required to liquidate all or a portion of their portfolios quickly, they may realize significantly less than the value at which the Underlying BDCs had previously recorded these investments. Underlying BDCs' investments are usually subject to contractual or legal restrictions on resale or are otherwise illiquid because there is usually no established trading market for such investments. The illiquidity of most of an Underlying BDC's investments may make it difficult for an Underlying BDC to dispose of them at a favorable price, and, as a result, the Underlying BDC may suffer losses
9. *Underlying BDCs may not have the funds or ability to make additional investments in their portfolio companies.* After Underlying BDCs make an initial investment in a portfolio company, Underlying BDCs may be called upon from time to time to provide additional funds to such company or have the opportunity to increase its investment through the exercise of a warrant to purchase common stock. There is no assurance that Underlying BDCs will make, or will have sufficient funds to make, follow-on investments. Any decisions not to make a follow-on investment or any inability on an

Underlying BDC's part to make such an investment may have a negative impact on a portfolio company in need of such an investment, may result in a missed opportunity for the Underlying BDC to increase its participation in a successful operation or may reduce the expected yield on the investment.

10. *The disposition of an Underlying BDC's investments may result in contingent liabilities.* Most of an Underlying BDC's investments will likely involve private securities. In connection with the disposition of an investment in private securities, Underlying BDCs may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. Underlying BDCs may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through an Underlying BDC's return of certain distributions previously made to the Underlying BDC.
11. *There may be circumstances where an Underlying BDC's debt investments could be subordinated to claims of other creditors or the Underlying BDC could be subject to lender liability claims.* Even though an Underlying BDC may intend to structure most of its investments as senior loans, if one of the Underlying BDC's portfolio companies were to go bankrupt, depending on the facts and circumstances, including, without limitation, the extent to which the Underlying BDC actually provide managerial assistance to such a portfolio company, a bankruptcy court might recharacterize the Underlying BDC's debt investment and subordinate all or a portion of its claim to that of other creditors. Underlying BDCs may also be subject to lender liability claims for actions taken by it with respect to a borrower's business or instances where Underlying BDCs exercise control over the borrower. It is possible that Underlying BDCs could become subject to a lender's liability claim, including, without limitation, as a result of actions taken in rendering significant managerial assistance.
12. *Second priority liens on collateral securing loans that an Underlying BDC may make to its portfolio companies may be subject to control by senior creditors with first priority liens.* If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and the Underlying BDC. To a certain extent, loans that an Underlying BDC makes to portfolio companies may be secured on a second priority basis by the same collateral securing first priority debt of such companies. The first priority liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before the Underlying BDC. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second priority liens after payment in full of all obligations secured by the first priority

liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then an Underlying BDC, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company's remaining assets, if any. The rights an Underlying BDC may have with respect to the collateral securing the loans the Underlying BDC may make to portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that the Underlying BDC enters into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken with respect to the collateral will be at the direction of the holders of the obligations secured

by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. Underlying BDCs may not have the ability to control or direct such actions, even if its rights are adversely affected.

13. *Underlying BDCs owning debt generally do not expect to control their portfolio companies.* Underlying BDCs generally do not expect to control their portfolio companies, even though their debt agreements may contain certain restrictive covenants. As a result, an Underlying BDC may be subject to the risk that a portfolio company in which it invests may make business decisions with which the Underlying BDC disagrees and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve the Underlying BDC's interests as a debt investor. Due to the lack of liquidity for an Underlying BDC's anticipated investments in non-traded companies, an Underlying BDC may not be able to dispose of its interests in its portfolio companies as readily as the Underlying BDC would like or at an appropriate valuation. As a result, a portfolio company may make decisions that could decrease the value of an Underlying BDC's portfolio holdings.
14. *Defaults by an Underlying BDC's portfolio companies would harm the Underlying BDC's operating results.* A portfolio company's failure to satisfy financial or operating covenants imposed by an Underlying BDC or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a portfolio company's ability to meet its obligations under the debt or equity securities that the Underlying BDC may hold. Underlying BDCs may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.
15. *Underlying BDCs may not realize gains from its equity investments.* FSOF may invest in Underlying BDCs that primarily invest in senior loans, although certain of such Underlying BDCs' investments may include warrants or other equity securities. In addition, such Underlying BDCs may make direct equity investments in companies. Although the intended goal is ultimately to realize gains upon an Underlying BDC's disposition of such equity interests, the equity interests an Underlying BDC may receive may not appreciate in value and, in fact, may decline in value. Accordingly, an

Underlying BDC may not be able to realize gains from the equity interests it may hold, if any, and any gains that the Underlying BDC does realize on the disposition of any such equity interests may not be sufficient to offset any other losses the Underlying BDC may experience. Underlying BDCs also may be unable to realize any value if a portfolio company does not have a liquidity event, such as a sale of the business, recapitalization or public offering, which would allow an Underlying BDC to sell the underlying equity interests. Underlying BDCs may seek puts or similar rights to give the Underlying BDCs the right to sell their equity securities back to the portfolio company issuer. Underlying BDCs may be unable to exercise these put rights for the consideration provided in their investment documents if the issuer is in financial distress.

16. *Underlying BDCs are non-diversified investment companies within the meaning of the ICA and, therefore, have few restrictions with respect to the proportion of their assets that may be invested in securities of a single industry or issuer.* Underlying BDCs are classified as non-diversified investment companies within the meaning of the ICA, which means that Underlying BDCs are not limited by the ICA with respect to the proportion of their assets that they may invest in securities of a single industry or issuer, excluding limitations on investments in other investment companies. To the extent that an Underlying BDC assumes large positions in the securities of a small number of industries or issuers, an Underlying BDC's net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the industry or issuer. Underlying BDCs may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond RIC diversification requirements, Underlying BDCs generally do not have fixed guidelines for diversification, and an Underlying BDC's investments could be concentrated in relatively few industries or issuers.

*Hedging Transactions.* Hedging involves special risks, including, without limitation, the possible default by the other party to the transaction, illiquidity and, to the extent Fifth Street's view as to certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if such investment strategies had not been used. Fifth Street may utilize financial instruments for risk management purposes. The success of the hedging strategy of FSOF will be subject to Fifth Street's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Because the characteristics of many assets change as markets change or time passes, the success of FSOF's hedging strategy will also be subject to Fifth Street's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While FSOF may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for FSOF than if it had not engaged in any such hedging transactions. For a variety of reasons, Fifth Street may not seek to hedge certain portfolio holdings, or may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Moreover, the portfolio may be exposed to certain risks that cannot be hedged.

When conducted outside the United States, hedging may not be regulated as rigorously as in the United States, may not involve a clearing mechanism and related guarantees and will be subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities,



currencies, commodities and other financial instruments. The value of positions taken as part of non-U.S. hedging also could be adversely affected by: (i) other complex foreign political, legal and economic factors; (ii) lesser availability of data on which to make trading decisions than in the United States; (iii) delays in FSOF's ability to act upon economic events occurring in foreign markets during non-business hours in the United States; (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States; and (v) lower trading volume and liquidity.

#### **Item 9     DISCIPLINARY INFORMATION**

There is currently no disciplinary information related to Fifth Street or its advisory affiliates that is required to be reported in this brochure.

#### **Item 10    OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As discussed in Item 4 (Advisory Business), Mr. Tannenbaum is the founder of Fifth Street. As of the Effective Date, as part of the restructuring in connection with the initial public offering of FSAM, FSAM became the general partner of Holdings. Fifth Street is wholly owned by Holdings, and FSAM holds a minority interest in Holdings. The majority of interests in Holdings is held by employees of affiliates of Fifth Street, including Mr. Tannenbaum.

In addition to the BDCs, the SMA, and FSOF, Fifth Street and its affiliates may advise or manage other investment vehicles and accounts for which they are compensated. Certain of such investment vehicles and accounts may have investment objectives and utilize strategies similar to the investment objective and strategies of FSOF. In addition, Fifth Street and its affiliates may participate or invest in other business ventures of any kind, including, without limitation, the management of or investment in other investment entities or securities. Some of these activities may be conducted on behalf of certain clients of Fifth Street and/or its affiliates.

Fifth Street CLO Management LLC ("Fifth Street Management") is an SEC Registered Investment Adviser and affiliate of Fifth Street. Fifth Street and Fifth Street Management operate out of the same principal place of business and share certain employees. Fifth Street Management serves as investment adviser to two private funds two private funds, Fifth Street Senior Loan Fund I, LLC and Fifth Street SLF II, Ltd.

Fifth Street Capital LLC ("Fifth Street Capital") is an exempt reporting advisor and affiliate of Fifth Street. Fifth Street and Fifth Street Capital operate out of the same principal place of business and share certain employees. Fifth Street Capital serves as investment adviser to two private funds.

From time to time, certain personnel of Fifth Street and its affiliates may come into possession of material, nonpublic information that would limit the ability of FSOF to buy and sell investments. The investment flexibility of FSOF may be constrained as a consequence of Fifth Street's inability to take certain actions because of such information. FSOF may experience losses if it is unable to sell an investment that it holds because certain personnel have obtained material, nonpublic information about such investment.

Please see Items 4 (Advisory Business), Item 5 (Fees and Compensation), 8 (Methods of Analysis, Investment Strategies and Risk of Loss), 11 (Code of Ethics, Participation in Client Transactions and Personal Trading) and 12 (Brokerage Practices).

#### **Item 11 CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Fifth Street has adopted a code of ethics (the “Code”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). The Code requires that Fifth Street and Supervised Persons (defined therein) comply with applicable federal securities laws. The Code also provides that Fifth Street and its Supervised Persons owe a fiduciary duty to clients, including the duty to put the best interests of clients ahead of the interests of Fifth Street and of Supervised Persons. The Code is provided to each Supervised Person, and Supervised Persons are required to acknowledge receipt of the Code.

Subject to applicable law, internal compliance policies and approval procedures, Fifth Street, its affiliates and/or their respective principals, employees (if any) and other affiliates may make trades and investments for their own accounts (including, without limitation, in securities, commodities and other financial instruments in which FSOF may invest). In these accounts, they may use trading and investment methods that are similar to, or substantially different from, the methods used by them to direct FSOF’s assets.

The Code requires the Chief Compliance Officer of Fifth Street to maintain a current list of issuers of securities that Fifth Street is analyzing and/or recommending for client transactions. A Supervised Person who is involved in making securities recommendations to clients or has

access to nonpublic information on client investments or recommendations (each, an “Access Person”) may not purchase or sell, whether directly or indirectly, any security that is on the list.

Access Persons are required to obtain prior written approval from the Chief Compliance Officer prior to purchasing or selling, whether directly or indirectly, any security in an initial public offering or limited offering. The Chief Compliance Officer will consider whether the opportunity to purchase or sell such securities should be first offered to eligible clients of Fifth Street, and whether the Access Person is being offered the investment opportunity because of his or her position with Fifth Street.

The Code requires Supervised Persons to provide the Chief Compliance Officer with certain securities holdings reports and periodic transaction statements and requires the Chief Compliance Officer to review those reports.

Potential violations of the Code must be reported to the Chief Compliance Officer. All reported potential violations will be investigated, and if appropriate, sanctions will be imposed.

The Code is available to clients upon written request by contacting us at the following address:

Fifth Street Management LLC  
777 West Putnam Avenue, 3rd Floor  
Greenwich, CT 06830  
Attention: Chief Compliance Officer  
Telephone: (203) 681-3600  
Facsimile: (203) 681-3879  
Email: KAcocella@fifthstreetfinance.com

Please see Items 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

## **Item 12   BROKERAGE PRACTICES**

Fifth Street has the sole power and authority to determine the brokers to be used for each securities transaction for FSOF and to appoint a prime broker to settle and clear all of FSOF’s securities transactions. In selecting brokers or dealers to execute transactions, Fifth Street need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In selecting brokers, Fifth Street may or may not negotiate “execution only” commission rates; thus, FSOF may be deemed to be paying for other services provided by the broker to FSOF, Fifth Street, FSCO GP, and/or their respective affiliates which are included in the commission rate. Additionally, Fifth Street will also take into account any clearing and/or other fees charged by the prime broker to execute transactions through other brokers. In negotiating commission rates, Fifth Street will take into account the financial stability and reputation of brokerage firms and the brokerage, research and other services provided by such brokers, although FSOF may not, in any particular instance, be the direct or indirect beneficiary of the services provided.

### Research and Other Soft Dollar Benefits

Although it does not currently do so, FSOF may in the future be deemed to be paying for research and other services with “soft” or commission dollars. Although Fifth Street believes FSOF would benefit from many of the services obtained with soft dollars generated by FSOF’s trades, it would likely not benefit exclusively. In general, Fifth Street may at its option use soft dollar benefits to service all of its clients’ accounts. Fifth Street and/or its affiliates may also derive direct or indirect benefits from some or all of these services, particularly to the extent that Fifth Street uses “soft” or commission dollars to pay for expenses it would otherwise be required to pay itself.

Because many of those services could benefit Fifth Street, Fifth Street may have a conflict of interest in allocating brokerage business, including an incentive to cause FSOF to effect more transactions than it might otherwise do in order to obtain those benefits. The extent of that conflict depends in large part on the nature and uses of the services and products acquired with soft dollars.

Section 28(e) of the Exchange Act provides a “safe harbor” to investment advisers who use commission dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the investment adviser in the performance of investment decision-making responsibilities. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. To the extent that Fifth Street uses “soft” dollars, such use would fall within the safe harbor of Section 28(e).

#### Brokerage for Client Referrals

Fifth Street may also direct some of FSOF’s brokerage business to brokers who refer investors to FSOF. Because such referrals, if any, are likely to benefit Fifth Street, FSCO GP and their respective affiliates but will provide an insignificant (if any) benefit to the investors in FSOF, Fifth Street will have a conflict of interest when allocating FSOF’s brokerage business to a broker who has referred investors to FSOF. To prevent the brokerage commissions paid by FSOF from being used to pay investor referral fees, Fifth Street will not allocate FSOF’s brokerage business to a referring broker unless Fifth Street determines in good faith that the commissions payable to such broker are reasonable in relation to those available from non-referring brokers offering services of substantially equal value to FSOF.

FSCO GP may sell interests in FSOF through banks, broker-dealers, placement agents and other eligible persons and pay a marketing fee, charge, commission or other amount in connection with such activities, including, without limitation, ongoing payments. It is expected that such parties will not be related to the operations of FSOF. Fifth Street, FSCO GP and/or their respective affiliates will pay such fees, charges, commissions or other amounts out of their own funds rather than from the funds of the applicable investor. For the avoidance of doubt, any such fee, deduction, charge, commission or other amount will not be paid by the applicable investor.

#### Trade Aggregation and Allocation

Fifth Street may at times determine that certain securities, commodities or other financial instruments will be suitable for acquisition by FSOF and/or by investment funds or vehicles or

other accounts managed by Fifth Street and/or its affiliates, possibly including, but not limited to, its own accounts or accounts of affiliates (collectively, “Other Accounts”).

Fifth Street may aggregate purchase and sale orders of securities, commodities and other financial instruments held by FSOF and/or such Other Accounts with similar orders being made simultaneously for other accounts or entities if, in Fifth Street’s reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to FSOF and/or such Other Accounts based on an evaluation that FSOF and/or such Other Accounts will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of securities, commodities and other financial instruments for FSOF and/or such Other Accounts will be affected simultaneously with the purchase or sale of like securities, commodities and other financial instruments for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume purchased or sold. In such event, the average price of all securities, commodities or other financial instruments purchased or sold in such transactions may be determined, at Fifth Street’s sole and absolute discretion, and FSOF and/or such Other Accounts may be charged or credited, as the case may be, with the average transaction price.

None of Fifth Street and its affiliates is under any obligation to devote their full time to the business of FSOF and/or such Other Accounts. Fifth Street and its affiliates are only required to devote such time and attention to the affairs of FSOF and/or such Other Accounts as they deem appropriate. Fifth Street and its affiliates will divide their time among FSOF and such Other Accounts as they see fit and, from time to time, such Other Accounts may receive a disproportionate share of their attention.

Fifth Street has adopted an investment allocation policy that governs the allocation of investment opportunities among the investment funds managed by Fifth Street and its affiliates. To the extent an investment opportunity is appropriate for more than one client managed by Fifth Street and/or its affiliates, and co-investment is not possible, Fifth Street will adhere to its investment allocation policy in order to determine to which client to allocate the opportunity. The ICA prohibits the BDCs from making certain negotiated co-investments with affiliates, including with one another, unless they receive an order from the SEC permitting Fifth Street to do so. As such, entities managed by Fifth Street were substantially limited in their ability to co-invest in privately negotiated transactions with affiliated funds until Fifth Street obtained an exemptive order from the SEC on September 9, 2014. The exemptive relief permits Fifth Street to participate in negotiated co-investment transactions, subject to the conditions of the relief granted by the SEC, with certain affiliates, each of whose investment adviser is Fifth Street, or an investment adviser controlling, controlled by or under common control with Fifth Street, in a manner consistent with Fifth Street’s investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, and pursuant to the conditions of the exemptive relief.

If Fifth Street is unable to rely on Fifth Street’s exemptive relief for a particular opportunity, such opportunity will be allocated first to the client whose investment strategy is the most consistent with the opportunity being allocated, and second, if the terms of the opportunity are consistent with more than one client’s investment strategy, on an alternating basis. Although Fifth Street’s investment professionals will endeavor to allocate investment opportunities in a

fair and equitable manner, FSOF and/or such Other Accounts could be adversely affected to the extent investment opportunities are allocated among FSOF and/or such Other Accounts and other investment vehicles managed or sponsored by, or affiliated with, Fifth Street.

The policies of Fifth Street and its affiliates are also designed to manage and mitigate the conflicts of interest associated with the allocation of investment opportunities if FSOF is able to co-invest with the Other Accounts, either pursuant to SEC interpretive positions or Fifth Street's exemptive order. Generally, under the investment allocation policy, co-investments will be allocated pursuant to the conditions of the exemptive order. Under the investment allocation policy, a portion of each opportunity that is appropriate for FSOF and/or an Other Account will be offered to such eligible account generally based on asset class, fund size and liquidity, among other factors. If there is a sufficient amount of securities to satisfy all participants, the securities will be allocated among the participants in accordance with their order size and if there is an insufficient amount of securities to satisfy all participants, the securities will be allocated pro rata based on each participating party's capital available for investment in the asset class being allocated, up to the amount proposed to be invested by each. In accordance with Fifth Street's investment allocation policy, FSOF and/or an Other Account might not participate in each individual opportunity, but will, on an overall basis, be entitled to participate equitably with other entities managed by Fifth Street and its affiliates. Fifth Street seeks to treat all clients fairly and equitably such that none receive preferential treatment vis-à-vis the others over time, in a manner consistent with its fiduciary duty to each of them; however, in some instances, especially in instances of limited liquidity, the factors may not result in pro rata allocations or may result in situations where certain funds receive allocations where others do not.

Fifth Street and/or any of its affiliates may enter into agency cross transactions on behalf of a client with other accounts and/or other private pooled investment vehicles that are managed by Fifth Street and/or any of its affiliates, to the extent permitted by law; provided, however, that the client receives full written disclosure with respect to any such agency cross transaction in accordance with the Advisers Act. Such agency cross transactions may include, without limitation, transactions undertaken to rebalance the portfolios of the client and/or such other accounts and/or vehicles.

However, Fifth Street will not cause or allow FSOF to enter into any contract or transaction with an affiliate or principal of FSOF, FSCO GP, or Fifth Street unless such transaction is upon terms no less favorable to FSOF, as applicable, than it would obtain in a comparable arm's length transaction with a person or entity which is not an affiliate or principal of FSOF, FSCO GP, or Fifth Street.

Please see Item 10 (Other Financial Industry Activities and Affiliations).

### **Item 13    REVIEW OF ACCOUNTS**

FSOF is reviewed and reconciled periodically to assure that the structure and financial instruments held are suitable and consistent with the fund's objectives and strategies. In addition, Fifth Street personnel also monitor FSOF to help ensure conformity with investment objectives and guidelines. Fifth Street engages in active management and frequent transactions for clients and, accordingly, reviews its transactions, positions and cash balances on a regular

basis.

Investors in FSOF are provided with annual reports containing financial statements examined by FSOF's independent auditors within 120 days after the end of each taxable year. Investors are also provided with monthly net asset statements.

#### **Item 14 CLIENT REFERRALS AND OTHER COMPENSATION**

Fifth Street does not receive an economic benefit from a person who is not a client for providing investment advice to a client or investor.

Fifth Street and/or its affiliates have previously entered into one or more agreements and may, in the future, enter into additional agreements with third parties that may introduce prospective investors to FSOF. None of Fifth Street and/or its affiliates are currently a party to any such agreements. It is expected that such parties will not be related to the operations of FSOF and any fee paid will be disclosed to the investors introduced by such third parties. Fifth Street and its affiliates may pay such commissions or fees out of their own funds or directly charge investors that were introduced through such arrangements.

#### **Item 15 CUSTODY**

To the extent required by law, client assets are maintained with a qualified custodian. However, Fifth Street is deemed as having custody of the funds and securities of FSOF. FSOF distributes its annual audited financial statements to its investors within 120 days of their fiscal year-end. Fifth Street urges an investor to carefully review the audited financial statements and compare such financial statements to the periodic reports received from Fifth Street.

#### **Item 16 INVESTMENT DISCRETION**

Fifth Street and its affiliates have been afforded discretionary authority to manage the assets of FSOF pursuant to an investment management agreement with FSOF. Fifth Street makes investment decisions on behalf of FSOF in accordance with their respective investment objectives. For more information, please see Item 4 (Advisory Business).

#### **Item 17 VOTING CLIENT SECURITIES**

As an investment adviser registered under the Advisers Act, Fifth Street has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, it recognizes that it must vote client securities in a timely manner free of conflicts of interest and in the best interests of its clients. The proxy voting policies and procedures of Fifth Street are set forth below. These policies and procedures for voting proxies for the investment advisory clients of the Investment Adviser are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Fifth Street will vote proxies relating to clients' securities in the best interest of its clients' investors. It will review on a case-by-case basis each proposal submitted for a stockholder vote to determine its impact on the portfolio securities held by its clients. Although Fifth Street will generally vote against proposals that may have a negative impact on its clients' portfolio securities, it may vote for such a proposal if there exists compelling long-term reasons to do so.

The proxy voting decisions of Fifth Street are made by the officers who are responsible for monitoring each of its clients' investments. To ensure that its vote is not the product of a conflict of interest, it will require that: (a) anyone involved in the decision-making process disclose to its Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (b) employees involved in the decision-making process or vote administration are prohibited from revealing how Fifth Street intends to vote on a proposal in order to reduce any attempted influence from interested parties.

Fifth Street's proxy voting policies and proxy voting records may be obtained, without charge, upon a written request to the address below:

Fifth Street Management LLC  
777 West Putnam Avenue, 3rd Floor  
Greenwich, Connecticut 06830  
Attention: Chief Compliance Officer  
Tel: (203) 681-3600  
Fax: (203) 681-3879  
Email: KAcocella@fifthstreetfinance.com

#### **Item 18 FINANCIAL INFORMATION**

Fifth Street does not require or solicit prepayment of advisory fees six months or more in advance.

Fifth Street is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

Fifth Street has not been the subject of a bankruptcy petition at any time during the past ten years.

#### **Item 19 REQUIREMENTS FOR STATE REGISTERED ADVISERS**

Not applicable.