

**CONTRARIAN**  
CAPITAL MANAGEMENT

March 29, 2018

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This brochure provides information about the qualifications and business practices of Contrarian Capital Management, L.L.C. (the "Adviser"), an investment adviser registered with the United States Securities and Exchange Commission (the "SEC"). If you have any questions about the contents of this brochure, please contact us at (203) 862-8200. This information has not been approved or verified by the SEC or by any state securities authority.

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

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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#### **Item 4. Advisory Business**

The Adviser is an investment adviser with its principal place of business in Greenwich, Connecticut. The Adviser commenced operations as an investment adviser in 1995 and has been registered with the SEC since December 15, 1995. The Adviser is owned by Jon Bauer (principal owner), Janice Stanton and Gil Tenzer. Xiao Song, William Raine and Jeffrey Bauer are also special limited members of the Adviser. Ownership interests of the Adviser may be held individually or through entities established by or for the benefit of such individuals or their family members.

The Adviser provides advisory services on a discretionary basis to its clients, which include (i) institutional investors and (ii) pooled investment vehicles. The Adviser's investment advisory services focus on a multi-strategy approach to investing in distressed securities portfolios, including corporate, real estate and non-U.S. securities, high yield securities, senior secured obligations, trade claims and equity securities. The Adviser's advisory services focus on selecting investments primarily in special situations including, but not limited to, marketable and nonmarketable securities and other obligations (such as bank loans, promissory notes, mortgages, and other evidences of indebtedness, as well as accounts payable to trade creditors and judgment pools) of financially distressed companies or companies in bankruptcy proceedings. The Adviser also provides advice concerning transactions related to extraordinary corporate events such as mergers, rights offerings, divestitures, share repurchases and spin-offs. Moreover, the Adviser provides advice concerning other types of investments, including securities and other assets (including real estate) which appear to be undervalued.

The Adviser provides advice to client accounts based on specific investment objectives and strategies. Under certain circumstances, the Adviser may agree to tailor advisory services to the individual needs of a client.

Clients may impose restrictions on investing in certain securities or certain types of securities.

As of December 31, 2017, the Adviser had approximately \$5,387,162,000 in regulatory assets under management, all of which is managed on a discretionary basis.

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## Item 5. Fees and Compensation

Generally, the Adviser charges each client an investment management fee based on the value of the client's assets under management ranging from 0.5% to 1.5% per annum. In certain circumstances, the investment management fee may be based on capital commitments or invested capital.

Generally, investment management fees are charged each quarter in advance based on the total market value of the assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest), total drawn capital or total committed capital, as applicable, on the first day of the quarter. If a new client account is established during a quarter or a client makes an additional contribution to its account during a quarter, the investment management fee will be charged as of the effective date of the investment management agreement or the date of such additional contribution based on the value of the assets as of the applicable date and will be prorated for the number of days remaining in the quarter.

If the advisory contract is terminated or a withdrawal is made from the account before the end of a quarter, the amount of investment management fees refunded will be determined on a pro rata basis calculated based on the number of days remaining in the quarter.

The Adviser, its members and related entities, and their respective partners, directors and employees may invest in the Adviser's private investment funds without being subject to any management fees. In certain circumstances, the Adviser has agreed to lower the management fee payable by certain affiliated strategic investors. In addition, these fees may be negotiable for separately managed account clients.

The Adviser will also be paid performance-based compensation (either as a performance fee or allocation), which is compensation that is based on a share of capital gains on, or capital appreciation of the assets of a client (e.g., a private fund or other pooled investment vehicle). This compensation will be allocated to the Adviser or to a related person of the Adviser and will generally equal 20%. Under certain circumstances, receipt of performance-based compensation may be subject to a preferred rate of return.

The Adviser, its members and related entities, and their respective partners, directors and employees may invest in the Adviser's private investment funds without being subject to any performance-based compensation. In certain circumstances, the Adviser has agreed to lower the performance-based compensation payable by certain affiliated strategic investors. In addition, the performance-based compensation may be negotiable for separately managed account clients.

Certain clients gain access to one or more of the Adviser's strategies or sub-strategies by investing in other private funds managed by the Adviser. To the extent a client is invested in another private fund managed by the Adviser, such client will not be subject to a duplicative management fee or incentive allocation but will be required to bear its pro rata share of the private fund's operating expenses, in addition to the expenses of the client.

Investment management fees are deducted on a quarterly basis from client accounts by the third party administrator.

With respect to certain private funds managed by the Adviser, investors that withdraw from the private fund during or prior to a specified investment period are charged an early withdrawal fee of up to 4% of the withdrawal proceeds, which is for the benefit of the non-withdrawing investors in the applicable private fund.

In addition to paying investment management fees and performance-based compensation, each client account will also be subject to other expenses which are set forth in the respective investment management agreement, limited partnership agreement, offering memorandum or other relevant document. Expenses for certain client accounts managed by the Adviser may include, without limitation, the following categories and the expenses borne by a particular client account are set forth in that account's governing documents:

- third-party expenses incurred in connection with the evaluation, acquisition or disposition of investments (whether or not consummated), including:
  - private placement fees;
  - sales commissions;
  - appraisal fees;
  - taxes;
  - brokerage fees;
  - interest on margin accounts and other indebtedness;
  - borrowing charges on securities sold short;
  - underwriting commissions and discounts;
  - legal, accounting, investment banking, consulting fees (including without limitation, fees payable to research consultants) and professional fees;
  - expenses attributable to the negotiation of side letters (including legal fees and expenses);
  - research-related fees (including out of pocket travel and travel-related expenses);
  - data and information service providers (*e.g.*, Reorg Research, general market research with respect to trading models and industries, etc.); and
  - other transaction costs;
- expenses incurred in connection with the formation of alternative investment vehicles to the extent permitted under the client account's constituent documents;
- expenses incurred in connection with the formation, maintenance and operation of special purpose vehicles through which the fund makes, holds or manages investments, including:
  - taxes and other governmental charges;
  - administrator fees; and
  - professional fees incurred with respect to tax planning and tax compliance;

- compensation and other similar expenses of third-party consultants (including industry executives, advisors, operating executives or other persons acting in a similar capacity (including with respect to potential portfolio investments));
- fees and expenses of a third party administrator;
- organizational expenses of the client account and related entities, including fees and expenses of counsel to, accountants for and agents of, the client, and other expenses (including without limitation, travel and travel-related costs and expenses) in each case, incurred in connection with the formation of the client account and related entities, the preparation of the client account's operative documents and the offering of interests in the client account;
- audit fees and other out-of-pocket expenses incurred in connection with the preparation and distribution of financial statements for the client account or with respect to any investment and audit compliance;
- expenses relating to third-party valuation;
- fees and expenses relating to the purchasing, leasing and development of software;
- expenses incurred in connection with the carrying or management of investments, including:
  - custodial, trustee, record keeping and other administration fees;
- expenses incurred in connection with the preparation and distribution of its tax returns, financial statements and reporting for the fund (including Schedules K-1 for fund investors);
- expenses incurred in connection with tax compliance (including FATCA compliance);
- attorneys' and accountants' fees and disbursements relating to client matters;
- taxes and other governmental charges levied against it;
- any and all expenses (including legal fees and expenses) incurred to comply with any law or regulation related to the activities of the client account (including regulatory expenses of the Adviser and general partner, if any, incurred in connection with reporting to regulatory authorities and preparation and making of any required regulatory filings or notice (including Form PF, Section 13 and Section 16 filings) to the extent they are in connection with or relate to or derive from the client account or its investment activities;
- insurance premiums and other insurance costs and expenses incurred in connection with the activities of the fund, including without limitation, errors, omissions, fidelity, crime, general partner liability, directors' and officers' liability and similar coverage for any indemnified party;
- expenses incurred in connection with its dissolution, liquidation or winding-up and termination;
- expenses incurred in connection with any restructuring or amendments to its constituent documents and related entities, if applicable;
- expenses incurred in connection with distributions to investors;
- expenses related to the client's indemnification obligations;

- certain litigation expenses;
- any amounts paid by the client for, or resulting from, hedging transactions;
- investment management fees;
- other extraordinary expenses relating to the client and its activities that are not investment expenses; and
- such other expenses as are set forth in the client's private placement memorandum, limited partnership agreement and/or other governing documents.

Client assets may be invested in a mini-master structure. Feeder funds bear a pro rata share of the expenses associated with the related master fund.

The Adviser seeks to allocate common expenses among clients in a manner that is fair and equitable and in accordance with the relevant offering or other governing documents. However, expense allocation decisions involve conflicts of interest. Under the Adviser's current expense allocation policies, the Adviser makes a determination whether an expense will be borne by the Adviser or by one or more clients. Common expenses are allocated among clients as follows:

- specific investment-related expenses are allocated to each client based on the current market value of the client's holdings.
- general investment related expenses are allocated based upon the anticipated trade allocation to each client.
- general expenses are allocated based on assets under management of each client; and
- specific allocation expense is allocated to the relevant client.

Notwithstanding the foregoing, the Adviser will bear any portion of a common expense that is allocable to a client under the Adviser's expense allocation policies, but may not be charged to the client pursuant to a separate written agreement between the client and the Adviser.

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

The Adviser and its investment personnel provide investment management services to multiple portfolios for multiple clients. The Adviser is allocated performance-based compensation by its private pooled investment vehicle clients. In addition, the Adviser's investment personnel are typically compensated on a basis that includes a performance-based component. Certain client accounts may have higher asset-based fees or more favorable performance-based compensation arrangements than other accounts. When the Adviser and its investment personnel manage more than one client account a potential exists for one client account to be favored over another client account.

The Adviser has adopted and implemented policies and procedures intended to address potential conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. The Adviser reviews investment decisions for the purpose of ensuring that all client accounts (or portions of client accounts) with substantially similar investment objectives are treated in a fair and equitable manner on a trade-by-trade basis and in accordance with the Adviser's procedures. Under the Adviser's general allocation principles, however, certain strategies managed by the Adviser are given priority in the allocation of investment opportunities as follows:

### GENERAL ALLOCATION PRINCIPLES

- A. Trade Claims Strategy. Contrarian Capital Trade Claims, L.P. ("CCTC") and each other client account (or portion of a client account) that is managed on a substantially similar basis with CCTC (collectively the "Trade Claims Strategy") may receive up to fifty percent (50%) of trade claims up until a five percent (5%) position of the aggregate exposure<sup>1</sup> (based on the client account within the Trade Claims Strategy with the lowest exposure to the trade claim) is reached in the Trade Claims Strategy. Any remaining amount of the trade claim will be allocated to the other participating client accounts pro rata based on estimated beginning of month net asset value and/or undrawn capital ("Capital") in each portfolio (or portion of the portfolio). In addition, and with respect to the Trade Claims Strategy only, 100% of all trade claim purchases that are \$100,000 or less of market value, will also be allocated to the Trade Claims Strategy.
- B. Emerging Markets Strategy. Investment opportunities for Contrarian Emerging Markets, L.P. ("CEM") and each other client account (or portion of a client account) that is managed on a substantially similar basis with CEM (collectively, the "Emerging Markets Strategy"), may receive up to fifty percent (50%) of such strategy specific security up until a five percent (5%) position of the aggregate exposure<sup>1</sup> (based on the client account within the Emerging Markets Strategy with the lowest exposure to the strategy specific security) is reached in the Emerging Markets Strategy. Any remaining amount of the security will be allocated to the other participating client accounts pro rata based on Capital in each portfolio (or portion of the portfolio).
- C. Real Estate Strategy. Investment opportunities for Contrarian Distressed Real Estate Debt Fund III, L.P. ("CREF III") and Contrarian Distressed Real Estate Debt Fund III - PIP, L.P. (collectively the "Real Estate Strategy") shall be allocated 100% to the Real Estate Strategy for so long as the exposure threshold for such opportunity as set forth in the offering and/or constituent documents has not been exceeded. Client accounts will only be able to

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<sup>1</sup> Exposure shall be determined by asset type on a per issuer basis.



participate in a CREF III investment opportunity as co-investors as described below under Co-Investment Opportunities.

The Adviser's general allocation principles also provide for pro rata allocation of investment opportunities for the Flagship and Senior Secured Strategies as follows:

- A. Flagship Strategy. Investment opportunities for Contrarian Capital Fund I, L.P. ("CCI") and each other client account (or portion of a client account) that is managed on a substantially similar basis with CCI (collectively the "Flagship Strategy") will be allocated pro rata based on Capital of each participating client account within the Flagship Strategy.
- B. Senior Secured Strategy. Investment opportunities for Contrarian Capital Senior Secured, L.P. ("CCSS") and each other client account (or portion of a client account) that is managed on a substantially similar basis with CCSS (collectively the "Senior Secured Strategy") will be allocated pro rata based on Capital of each participating client account within the Senior Secured Strategy.

#### SPECIAL ALLOCATION CONSIDERATIONS

To the extent Contrarian Opportunity Fund, L.P. ("COF") and each other client account (or portion of a client account) that is managed on a substantially similar basis with COF (collectively the "COF Strategy") participates in any investment opportunity, it will be deemed to have up to two times its Capital for the purposes of such allocation. In addition, in the event the Adviser determines, in its sole discretion, to begin disposition of an investment held by more than one client, such investment will generally be sold pro rata across the client accounts based on each client's exposure to such investment. Certain fluctuations in capital flows may necessitate a non-pro rata sale in one or more client accounts. Furthermore, investments that are intended for the primary purpose of hedging a client's portfolio (by risk model or otherwise) may not be allocated pursuant to the Adviser's allocation procedures described above, but rather in accordance with the client's risk model or other methodology determined by the Adviser's risk function.

Due to the differences in investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among client accounts in investment opportunities held. Certain factors may be taken into consideration by the applicable portfolio manager and may justify a deviation from the allocation methodologies described above: (a) target percentages, not to exceed any of Adviser's general allocation principles set forth in the Adviser's allocation policy, as determined by the portfolio manager based on the investment mandate of the applicable client account; (b) investment opportunities may be allocated disproportionately up or down to a client account: (i) during its initial investment period, (ii) upon significant fluctuations in assets under management, (iii) for balancing exposures among clients within the same strategy, or (iv) with respect to any private equity vehicle, within 6 months prior to the end of its investment period, notwithstanding that other client accounts may have Capital available for investment; (c) the respective investment objectives and restrictions applicable to each client; (d) legal, regulatory and/or tax considerations applicable to the proposed investment and each client's portfolio or by virtue of federal or state law; (e) any conflicts of interest in the capital structure or otherwise; (f) whether such investment is a "follow on" investment or otherwise connected or affiliated with a prior investment or transaction for any client; (g) diversification requirements, concentration risks, capacity considerations, and the balancing of the applicable client account portfolio; (h) liquidity concerns applicable to each client, including but not limited to the expected realization timeline and liquidity characteristics of the proposed investment and other investments held by the client; (i) contractual eligibility of the client and transfer requirements related to the particular investment; (j) the Adviser may, in its sole discretion, prioritize the sale of assets from a liquidating client account; provided, however, the Adviser will have no obligation to sell such investments from client accounts that are not liquidating;

and/or (k) any other information determined to be relevant to the fair allocation of investment opportunities. In addition to the foregoing list set forth in subsection (b) above, investment opportunities may be disproportionately allocated (i) ten (10) business days prior to the applicable month end to manage exposures to reflect future anticipated additional capital flows, (for purposes of this calculation only, to the extent the aggregate change in additional capital equals or exceeds three percent (3%) of the then-current daily net asset value of the applicable client account, the net asset value of such client account will be adjusted by a factor of fifty percent (50%) of the expected change in capital. Where the aggregate change in additional capital is less than three percent (3%) of the then-current daily net asset value of the applicable client account, the net asset value of such client account will not be adjusted), and (ii) to manage exposures to reflect future anticipated reductions in capital.

#### CO-INVESTMENT OPPORTUNITIES

Except as indicated below with respect to CREF III, a co-investment opportunity having a limited supply at a particular price or subject to supply at market pricing will generally be allocated to a co-investor only after all clients which have demand and have not exceeded their exposure threshold for such opportunity have first received their full allocation to such opportunity. If after allocation to a co-investor a client which has demand is able to increase its exposure to such co-investment opportunity (by virtue of increased net asset value, for example) such co-investment opportunity will again be first allocated to such client(s) before being allocated again to the co-investor. By contrast, a co-investment opportunity having excess supply at a particular price or excess supply at a price exceeding the demand of all clients at such particular price (as determined by the portfolio manager) may be allocated to such co-investor contemporaneously with allocations to the clients or to such co-investor without any allocation to one or more client accounts.

If the general partner of CREF III determines in good faith that a potential investment exceeds the appropriate size for CREF III and its parallel funds, the CREF III investment opportunity may be made available to co-investors. In such cases, the general partner of CREF III may offer up to 50% of any co-investment opportunity to the Adviser's affiliates and other client accounts.

#### OVERSIGHT AND REVIEW

The Adviser's compliance department ("Compliance") is responsible for monitoring trading in client accounts for compliance with the Adviser's allocation policy. In addition, the Adviser has established an allocation committee which is responsible for, among other duties: (a) reviewing certain transactions that have been highlighted by Compliance; (b) reviewing and resolving conflicts in allocation methodology designations; and (c) reviewing and revising the Adviser's allocation policy at least annually, and as and when needed.

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**Item 7. Types of Clients**

The Adviser's clients consist of (i) institutional investors (e.g., pension or profit-sharing plans subject to ERISA, endowments, foundations, insurance companies, fund-of-funds and family offices); and (ii) pooled investment vehicles such as private investment limited partnerships formed or advised by the Adviser and offshore corporations to which the Adviser acts as the investment manager.

With respect to any client that is a pooled investment vehicle, any initial and additional subscription minimums are disclosed in the offering memorandum for the pooled investment vehicle. The minimum size for non-pooled investment vehicles is determined by the Adviser on a case-by-case basis.

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

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods of analysis include fundamental research, charting analysis, cyclical analysis as well as the use of quantitative tools and investment approaches, or technical analytical tools and approaches. The Adviser employs the following investment strategy and sub-strategies in managing client portfolios:

Distressed Investing. Distressed investing is a specialized version of value investing. Like pure value investors, the Adviser seeks to invest in securities and other financial instruments that trade at a significant discount to their underlying values. Client portfolios are invested in all types of distressed securities and financial instruments, including U.S. and non-U.S. corporate debt, sovereign debt securities, lower credit quality securities, real estate securities and assets, trade claims, bank loans and credit default swaps. Rather than employing the buy and hold strategy characteristic of pure value investors, the Adviser looks for an event, usually during the balance sheet restructuring process that allows the Adviser to capture the undervaluation spread. Distressed securities are the securities of companies or assets which are, or are perceived to be, in financial trouble. Whether or not these companies are in default or bankruptcy, their securities are selling at steep discounts to their face value. Certain client accounts will seek to exercise significant influence over each issuer in which the client account invests by engaging in negotiations with the issuer or its management, participating in formal or ad hoc committees, participating in litigation, obtaining membership on an issuer's board of directors or by other similar means.

Distressed investing involves risk of loss to clients and clients must be prepared to bear the loss of their entire investment. Certain material risks associated with the Adviser's distressed investment strategy and the sub-strategies are set forth below:

### **Risk Associated With Adviser's Investment Strategies and Investments**

*Nature of Investments.* The Adviser invests client portfolios in debt obligations, equity securities, and other financial instruments and assets that are inefficiently valued as a result of business financial, market or legal uncertainties. The level of analytical sophistication, both financial and legal, necessary for successful returns on such investments is unusually high. There can be no assurance that the Adviser will evaluate correctly the nature and magnitude of the various factors that could affect the value of client investments.

In particular, the Adviser will purchase securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Many of these securities typically remain unpaid unless and until the company reorganizes and/or emerges from bankruptcy proceedings. In addition it frequently may be difficult to obtain information as to the conditions of these securities.

Private distressed investment opportunities can occur in companies that have filed for, or plan to file for, reorganization under the U.S. Bankruptcy Code or comparable regimes in other applicable jurisdictions. Sourcing, diligence, structuring and governance of private distressed investments require consideration of factors that are often not present in investments in the senior and secured debt of financially sound companies. If the Adviser's evaluation of the anticipated outcome of an investment situation should prove incorrect, clients could experience losses. Successful investing requires a specialized skill set that includes: (i) the capacity to accurately value a company's assets and analyze its capital structure; (ii) a sophisticated knowledge of the complex legal environment in which such investing occurs, particularly bankruptcy, securities, corporate and indenture law; (iii) the experience necessary to determine

accurately the financial interests and legal rights of the debtor and each of its creditor constituencies; and (iv) refined negotiating skills. A wide variety of considerations makes any evaluation of the outcome of an investment in a financially distressed company uncertain. These considerations include the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain consents from governmental authorities or others, as well as numerous other factors. In addition, the Adviser may not have access to reliable and timely information concerning material developments affecting a company. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of the Adviser to reliable and timely information concerning material developments affecting an investment, or which cause lengthy delays in the completion of a reorganization or liquidation proceeding.

*Lower Credit Quality Securities.* Client accounts may invest in bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

*Credit Risks and Interest Rate Risks.* Debt investments are subject to credit and interest rate risks. Credit risk refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. Interest rate risk refers to the risks associated with market changes in interest rates. Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities.

*Issuer-Specific Changes.* Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

*Nature of Bankruptcy Proceedings.* There are a number of significant risks when investing in companies involved in Chapter 11 cases, including the following:

- The duration of a Chapter 11 case is difficult to predict. A creditor's return on investments can be adversely impacted by delays while the plan of reorganization is being negotiated, voted on by the creditors and confirmed by the bankruptcy court, until it ultimately becomes effective.
- The administrative costs in connection with a Chapter 11 case are frequently high and may be paid out of the debtor's estate prior to any return to creditors. For example, if a proceeding involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to administrative costs.

- Creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions, especially in the case of investments made prior to the commencement of Chapter 11 cases.
- Bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that a client's influence with respect to the class of securities or other obligations it owns can be lost by increases in the number and amount of claims in that class or by different classification and treatment.
- In the early stages of the Chapter 11 case (or similar foreign proceeding), it is often difficult to estimate the extent of, or even to identify, any contingent claims that may be made.
- Certain claims, such as claims for taxes, may have priority by law over the claims of certain creditors.

*Special Purpose Vehicles.* The Adviser and its related persons utilize one or more special purpose vehicles or holding entities through which clients hold assets jointly (collectively, "SPVs"). In this regard, the Adviser has established Contrarian Funds, L.L.C. ("CFunds"), a Delaware limited liability company, for clearing, settlement and holding of trade claims and bank debt instruments. All clients that participate in trade claims and bank debt instruments participate in such investments through CFunds. In addition, the Adviser's clients may participate in SPVs with third parties whereby the Adviser's clients acquire controlling or non-controlling interests in certain instruments. Investments held through SPVs involve risks not present in direct investments, particularly when clients participate in a SPV in conjunction with third parties. For example, to the extent that the Adviser fails to properly account for the cash or investment activity of CFunds or any other SPV, the Adviser may be unable to properly account for the assets of clients participating in the SPV. In addition, in certain circumstances, a client may be liable for the actions of other clients managed by the Adviser, or third party partners or co-venturers. For example, a co-participant in a SPV may become bankrupt or otherwise fail to fund its obligations to the SPV and a client may be required to make additional contributions to replace the shortfall. Any default or decision not to fund by a co-participant could have a material adverse effect on clients. A third party co-venturer may have economic or business interests or goals which are inconsistent with those of the Adviser's clients, or may be in a position to take (or block) action in a manner contrary to client investment objectives. In certain circumstances, depending on the jurisdiction of organization, applicable tax treaties and other tax, legal or business considerations, an SPV through which multiple clients make investments may not provide for complete segregation of assets and liabilities in respect of the applicable clients holding such investments through such SPVs. Accordingly, if any client is unable to meet all of its obligations to the underlying investment in which it holds an interest through an SPV, other clients that hold that investment through such SPV may be adversely affected. Liabilities attributable to any SPV could expose a client to liability that would otherwise be attributable to other clients participating in the investment through the SPV. Similarly, each client may enter into indemnification arrangements or guarantees relating to investments made jointly with other clients. Subject to the terms of these arrangements, one client may be liable for actions of other participating clients. Additionally, certain client accounts have established and may, in the future, establish entities to serve as blockers for various tax purposes.

*Risk of Investment in Private Funds Managed by the Adviser.* Certain clients may gain access to one or more of the Adviser's sub-strategies by investing in other private funds managed by the Adviser. For example, CCI periodically invests in emerging markets and real estate opportunities through an investment in other private funds managed by the Adviser. Investments through other private funds managed by the Adviser involves risks not present in direct investment. To the extent a client is invested in another private fund managed by the Adviser, such client will not be subject to a duplicative management fee or

incentive allocation but will be required to bear its pro rata share of the private fund's operating expenses, in addition to the expenses of the client.

*Liquidity and Valuation.* Client portfolios may invest in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists. For example, certain instruments such as trade claims, may have no readily available market or third-party pricing. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Because the markets for such securities are still evolving, liquidity in these securities is limited and liquidity with respect to lower-rated and unrated subordinated classes may be even more limited. The Adviser may be unable to liquidate all or a portion of its positions in such securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. In addition, the market prices, if any, for such securities tend to be more volatile and the Adviser may not be able to realize what it perceives to be their fair value in the event of a sale. The high yield securities markets have suffered periods of extreme illiquidity for certain types of instruments in the past. For these reasons, among others, calculating the fair market value of a client's holdings may be difficult. The Adviser may, in its discretion, utilize the assistance of internal or external pricing services or valuation sources in calculating such fair market values when and if available.

Should no quotes be available for a particular investment, the Adviser will determine the fair market value of such investment in good faith in accordance with the Adviser's valuation policy. Illiquid securities are subject to wide spreads. Fair valuation is not exact and prices can vary significantly from one period to the next.

*Non-U.S. Securities.* Investments in the securities of non-U.S. issuers are subject to the risks associated with non-U.S. markets in which those non-U.S. issuers are organized and operate, including but not limited to, risks related to foreign currency, limited liquidity, more or less government regulation, privatization, and the possibility of substantial volatility due to adverse political, economic, geographic events, or other developments, differences in accounting, auditing and financial reporting standards, the possibility of repatriation, expropriation or confiscatory taxation, adverse changes in investment or exchange controls or other regulations and potential restrictions on the flow of international capital. As compared to U.S. entities, non-U.S. entities generally (a) disclose less financial and other information publicly, (b) may be subject to less stringent and less uniform accounting, auditing and financial reporting standards and (c) may be subject to less stringent regulatory oversight. Also it may be more difficult to obtain and enforce legal judgments against non-U.S. entities than against domestic entities. Non-U.S. markets also have different clearance and settlement procedures, which in some markets have at times failed to keep pace with the volume of transactions, thereby creating delays and settlement failures which could adversely affect the performance of the Adviser's clients. These risks are often heightened for investment in smaller capital markets, emerging markets, developing markets or frontier markets. The Adviser is not obligated to engage in any currency hedging transactions on behalf of clients.

*Emerging Markets.* Investments in emerging markets may be subject to a greater risk of loss than investments in more developed markets, as they are more likely to experience inflation risk, political turmoil and rapid changes in economic conditions. Investing in the securities of emerging markets involves certain considerations not typically associated with investing in more developed markets, including but not limited to, the small size of such securities markets and the low volume of trading (possibly resulting in potential lack of liquidity and in price volatility), political risks of emerging markets which may include unstable governments, government intervention in securities or currency markets, nationalization, restrictions on foreign ownership and investment, laws preventing repatriation of assets

and legal systems that do not adequately protect property rights. Further, emerging markets may be adversely affected by changes to the economic health of certain key trading partners, such as the U.S., regional and global conflicts and terrorism and war. Emerging markets often have less uniformity in accounting and reporting requirements, unreliable securities valuation and greater risk associated with custody of securities.

*Exchange Risk Exposure.* Certain client assets may be invested in securities and other financial instruments that are denominated in currencies other than U.S. dollars. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. To the extent unhedged, the value of clients' assets will fluctuate with the U.S. dollar exchange rates as well as the price changes of clients' investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which clients make investments will reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of clients' securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on clients' non-U.S. dollar securities. Clients will necessarily be subject to foreign exchange risks. The Adviser may enter into forward contracts or other instruments to hedge client exchange risk exposure, but there can be no assurance that such hedging strategy will be implemented, and if implemented, will be effective.

*Real Estate.* Client accounts may invest in debt backed by real estate and may own real estate directly following a foreclosure or similar event. Because real estate, like many other types of long-term investments, historically has experienced significant fluctuation and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of a client account's assets or its underlying collateral. The cash flow and value of client account assets will depend on many factors beyond the control of the Adviser, including, without limitation: changes in international, national, regional or local economic, real estate, social climate or market conditions; regional location risks; environmental risks; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building) and the Adviser's inability to achieve or maintain full occupancy of properties in which client accounts are invested; litigation at the property level; changes in interest rates; the promulgation and enforcement of governmental regulations relating to land use and zoning restrictions, environmental protection and occupational safety; structural defects at the asset level; unavailability of mortgage funds, which may render the construction, leasing, sale or refinancing of a property difficult; the financial condition of borrowers and of tenants, buyers and sellers of property; changes in real estate tax rates and other operating expenses; the imposition of rent controls; fluctuations in energy prices and energy and supply shortages; changes in the relative popularity of property or asset types; the ongoing need for capital improvements; cash-flow risks; construction risks; various uninsured or uninsurable risks; and natural disasters, acts of war, civil unrest, and terrorist attacks. The impact which these risks could have on a client account's business in particular and the U.S. economy, the global economy and global financial markets in general, is indeterminable.

*Short Selling Risk.* The Adviser's investment program may include short selling. Short selling, or the sale of securities not owned by the Adviser, necessarily involves certain additional risks. Such transactions expose client accounts to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein a client account might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

*Control Positions; Provision of Managerial Assistance.* Client accounts may own a controlling stock in, obtain rights to participate substantially in and to influence substantially the conduct of the management of the



issuers in which they invest. On behalf of client accounts the Adviser may designate directors (and non-executive chairmen) to serve on the boards of directors or creditors' committees of issuers. To the extent that a client account owns a controlling stake in, has representatives on a board of directors or creditors committee or is deemed an affiliate of, a particular company, it may be subject to certain additional bankruptcy or securities laws restrictions. These restrictions which could affect both the liquidity of the client's interest and the ability to liquidate its interest without adversely impacting the stock price, include insider trading restrictions, affiliate sale restrictions and the disclosure requirements under the federal securities laws. In addition, to the extent that affiliates of the client or the Adviser are subject to such restrictions, the client, by virtue of its affiliation with such entities, may be similarly restricted, regardless of whether the client stands to benefit from such affiliate's stock ownership.

*Lack of Diversification.* Client accounts may not be required to be diversified among a wide range of types of securities, countries or industry sectors. Accordingly, client portfolios may be subject to a more rapid change in value than would be the case if the Adviser were required to maintain a wider diversification among types of securities and other instruments.

*Hedging.* The Adviser is not required to enter into hedging transactions with respect to client portfolios. To the extent that the Adviser enters into hedging transactions, there can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Furthermore, while the Adviser may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for client's investment portfolios than if the Adviser did not engage in any such hedging transactions.

*Market Risk Management Failures.* Although the Adviser attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Moreover, many risk management techniques, including those employed by the Adviser, are based on historical market behavior, but future market behavior may be entirely different and, accordingly, the risk management techniques employed on behalf of clients may be incomplete or altogether ineffective. Similarly, the Adviser may be ineffective in implementing or applying risk management techniques. Any inadequacy or failure in risk management efforts could result in material losses to clients.

*Possibility of Fraud and Other Misconduct of Employees and Third-Party Service Providers.* In providing advice to clients, the Adviser relies on personnel of the Adviser and its affiliates, counterparties, contractors and other third party service providers. There is a risk that the Adviser's personnel or personnel of third party service providers could engage in misconduct that adversely affects the investment strategies implemented by the Adviser. It is not always possible to deter such misconduct, and the precautions the Adviser takes to detect and prevent such misconduct may not be effective in all cases. Misconduct by an employee of the Adviser or employee of a third party service provider, or even unsubstantiated allegations of such misconduct, could result in both direct financial harm to the Adviser and the clients, as well as harm to the reputations of the Adviser and its clients, which would have a material adverse effect on the clients. Although the Adviser has controls and procedures through which it seeks to minimize the risk of such misconduct occurring, and to ensure that its clients transact with reliable counterparties and third-party service providers, such efforts may not be effective in all cases.

*Cybersecurity Breaches And Identity Theft.* The information and technology systems of the Adviser and of key service providers may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Adviser has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be

necessary for the Adviser to make a significant investment to fix or replace them and to seek to remedy the effect of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Adviser or of its clients and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information. Such a failure could result in reputational harm to the Adviser, and/or the affected clients, subject any such entity and its affiliates to legal claims and otherwise affect its business and financial performance.

*Systems And Operational Risk.* The Adviser relies heavily on certain financial, accounting, data processing and other operational systems and services that are employed by the Adviser and/or by third party service providers, including prime brokers, the third party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, the Adviser and its clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in the clients' operations. In addition, despite certain measures established by the Adviser and third party service providers to safeguard information in these systems, the Adviser, the clients and their third party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of the client trading activities, liability under applicable law, regulatory intervention or reputational damage.

### **Risks Associated With Types of Investments**

*Interest Rate Risk.* Investment in fixed-income and debt securities such as bonds, notes, asset-backed securities and bank debt, subject a client's portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

*Nature of Trade Claims.* The Adviser may invest client assets in the claims of creditors against bankrupt debtors arising from business, ranging from obligations owed to creditors by such debtors for goods and services delivered prior to or after the filing of a bankruptcy, to causes of action against debtors for failure to honor prospective contracts, and including, without limitation, wage claims, tax claims, environmental claims, personal injury claims, contract rejection claims, government claims, claims for administrative expenses and lease claims, and make investments in other claims including securitized lease receivables and equipment note payments (collectively, "Trade Claims"). The Trade Claims market is highly specialized and consists of purchasing the unsecured debt or the priority and administrative debt owed to trade vendors by companies in financial distress. Such claims often involve non-economic sellers who lack the expertise to assess the value of their claims in the context of bankruptcy or financial distress and choose to divest them for liquidity purposes. This allows for the purchase of Trade Claims at substantial discounts to where *pari passu* unsecured bonds are trading. In addition to the risks otherwise associated with low-quality obligations and inherent in investments in entities experiencing financial distress, the risks associated with Trade Claims include (i) the possibility that the amount of the claim may be disputed by the obligor, (ii) difficulties in obtaining information regarding the obligor's true financial condition, (iii) fraud on the part of the assignor of the claim and (iv) logistical and mechanical issues that

may affect the ability of clients or their agents to collect on the claim in whole or in part. Such investments may also be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate and disenfranchise certain claims. Trade Claims are generally monetized by distributions, which may be in the form of cash, securities and/or other instruments, over an extended period of time as opposed to outright sales.

*Bank Loans and Assignments.* Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer or creditors of the obligations; and (iii) environmental liabilities that may arise with respect to collateral securing the obligations.

The purchaser of an assignment of an interest in a loan typically succeeds to all the rights and obligations of the assigning selling institution and becomes a lender under the loan agreement with respect to that loan. As a purchaser of an assignment, clients generally will have the same voting rights as other lenders under the applicable loan agreement, including the right to vote to waive enforcement of breaches of covenants or to enforce compliance by the borrower with the terms of the loan agreement and the right to set off claims against the borrower and to have recourse to collateral supporting the loan. Assignments are, however, arranged through private negotiations between assignees and assignors and in certain cases the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning selling institution.

Assignments are sold strictly without recourse to the selling institutions and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans. In addition, clients will be bound by the provisions of the underlying loan agreements, if any, that require the preservation of the confidentiality of information provided by the borrower. Because of certain factors including confidentiality provisions, the unique and customized nature of the loan agreement and the private syndication of the loan, loans are not purchased or sold as easily as are publicly traded securities.

*Participations.* In circumstances where owning by assignment is not available or desirable, the Adviser may purchase loans on behalf of clients through participation agreements. Investing through participation agreements is subject to unique risks, including:

- The possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws;
- So-called lender-liability claims by the issuer or creditors of the obligations;
- Environmental liabilities that may arise with respect to collateral securing the obligations; and
- Limitations on the ability of clients to directly enforce their rights with respect to participations. For example:
  - In the event of the insolvency of the record holder, a client, by owning a participation interest, may be treated as a general unsecured creditor of the record holder and may not benefit from any set off between the record holder and the borrower.
  - A client may purchase a participation interest from a selling institution that agrees to be the record holder for the clients but does not itself retain any portion of the applicable loan and, therefore, may have limited interest in monitoring the terms of the loan agreement and the continuing creditworthiness of the borrower.

- When a client holds a participation interest in a loan it will not have the right to vote under the applicable loan agreement with respect to every matter that arises thereunder and it is expected that the record holder will reserve the right to administer (i.e., vote) the loan sold by it as it sees fit and to amend the documentation evidencing such loan in all respects.
- The record holder may have interests different from those of the clients and may fail to consider the interests of the Adviser's clients in connection with their votes.

*REITs.* REITs in which the Adviser may invest client accounts are affected by underlying real estate values, which may have an exaggerated effect to the extent that REITs in which the Adviser invests concentrate investments in particular geographic regions or property types. Investments in REITs are also subject to the risk of interest rate volatility. Further, rising interest rates will cause investors in REITs to demand a higher annual yield from future distributions, which will in turn decrease market prices for equity securities issued by REITs. REITs are subject to risks inherent in operating and financing a limited number of projects because they are dependent upon specialized management skills, and have limited diversification. REITs depend generally on their ability to generate cash flow to make distributions to investors.

*Asset-Backed Securities.* Asset-backed securities are subject to interest rate risk and, to a lesser degree, prepayment risk. Asset-backed securities are subject to additional risks in that, unlike mortgage-backed securities, asset-backed securities generally do not have the benefit of a security interest in the related collateral. Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. In addition, asset-backed securities experience credit risk. There is also the possibility that recoveries on repossessed collateral may not be available to support payments on these securities because of the inability to perfect a security interest in such collateral.

*Subordinated Debt.* Issuers of securities in which the client accounts invest may incur debt that ranks equally with, or senior to, the distressed debt securities in which the client accounts may invest. 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 a client account is entitled to receive payments. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of the issuer, holders of debt instruments ranking senior to the ones held by a client account would typically be entitled to receive payment in full before the client account receives any distribution in respect of its investment. After repaying such senior creditors, the issuer may not have any remaining assets to fulfill its obligations to the client account. In the case of debt ranking equally with a client account's debt securities, the client account 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 issuer, and the client account may not receive the full distribution to which it is entitled. In addition, client accounts may not be in a position to control any such issuer by investing in the issuer's debt securities. As a result, client accounts are subject to the risk that an issuer in which a client account invests may make business decisions with which the Adviser disagrees and the management of such issuer may take risks or otherwise act in ways that do not serve the client account's interests as debt investors.

*Collateralized Debt Obligations.* The value of collateralized debt obligations ("CDOs") generally fluctuates with, among other things, the financial condition of the obligors on or issuers of the underlying portfolio, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. CDOs are usually limited-recourse obligations of the issuer thereof payable solely from the underlying portfolios of such issuer or proceeds thereof. If distributions on the underlying portfolio are insufficient to make payments on a CDO, no other assets will be available for payment of the deficiency and, following realization of the underlying assets, the obligation of such issuer to pay such deficiency shall be extinguished. As a result,

the amount and timing of interest and principal payments will depend on the performance and characteristics of the related underlying portfolios.

*Commercial and Residential Mortgage-Backed Securities.* Client accounts may invest in commercial mortgage-backed securities ("CMBS") and residential mortgage-backed securities ("RMBS"). Commercial mortgage loans underlying CMBS are generally secured by income-producing property, such as multifamily housing or commercial property, and may entail risks of delinquency and foreclosure, and risks of loss in the event thereof, that are greater than similar risks associated with loans secured by one-to four-family residential property. If the net operating income of the property underlying the CMBS is reduced (for example, if rental or occupancy rates decline or real estate tax rates or other operating expenses increase), the borrower's ability to repay the loan may be impaired. CMBS may be backed by an underlying mortgage pool of only a few mortgage loans, or mortgage loans secured by properties in only a few states or regions. As a result, each commercial mortgage loan in the underlying mortgage pool represents a large percentage of the principal amount of CMBS backed by such underlying mortgage pool. In addition, the mortgage loans may be more susceptible to geographic risks relating to the areas in which the underlying properties are located. A failure in performance of any one commercial mortgage loan in the underlying mortgage pool will have a much greater impact on the performance of the related CMBS.

Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. Distributions on RMBS will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited. A portion of the RMBS may be backed by non-conforming mortgage loans, including loans to mortgagors whose creditworthiness and repayment ability do not satisfy Fannie Mae and Freddie Mac underwriting guidelines and loans to mortgagors who may have a record of credit write-offs, outstanding judgments, prior bankruptcies and other negative credit events. Accordingly, non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than conforming mortgage loans. RMBS which are backed by such loans may experience increased losses. RMBS are also subject to certain state and federal laws designed to protect consumers from unfair and deceptive practices, and violations of such laws by the party who originated the loans may limit the ability of the issuer to collect all or part of the principal or interest on the underlying loans, which could result in a loss to a client account as the holder of the security.

*Derivatives and Credit Derivatives.* The Adviser may enter into derivative transactions, including but not limited to credit derivatives, on behalf of client accounts. Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments may require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by the client or the Adviser. Further, transactions in derivative instruments may not be undertaken or cleared on recognized exchanges, and will expose the client's account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

*Options.* The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, basket of securities, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses the premium paid. Selling options, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security (which could result in a potentially unlimited loss) rather than only the loss of the premium payment received. Over-the-counter options also involve counterparty solvency risk.

*Futures Contracts.* The Adviser may invest client portfolios in futures contracts. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security can produce disproportionately larger profit or loss.

Futures positions (including financial futures) may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits”. Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Adviser from promptly liquidating unfavorable positions and subject client accounts to substantial losses. In addition, the Adviser may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

*Swap Agreements.* Client accounts may enter into derivative transactions in the form of swap agreements and OTC derivative financial instruments. Swap agreements are two party contracts entered into primarily by institutional investors for periods ranging from weeks to ten (10) years or longer. In a standard “swap” transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or “swapped” between the parties are calculated with respect to a “notional amount,” (i.e., the return on or increase in value of a particular amount invested at a particular interest rate, in a particular non-U.S. currency or security, or in a “basket” of securities representing a particular index, or in one or more other underlying measures). The “notional amount” of the swap agreement is only a fictive basis on which to calculate the obligations that the parties to a swap agreement have agreed to exchange. Most swap agreements entered into by a client account would calculate the obligations of the parties to the agreement on a “net” basis. Consequently, a client’s obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the “net amount”).

*Forward Trading.* The Adviser may invest client accounts in forward contracts and options thereon, which, unlike futures contracts, are not traded on exchanges and are not standardized; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward contracts may be entered into, for among other reasons, to hedge exchange risk exposure. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they are

prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Adviser due to unusually high trading volume, political intervention or other factors. The imposition of controls by government authorities might also limit such forward (and futures) trading to less than that which the Adviser would otherwise recommend, to the possible detriment of the client accounts. Market illiquidity or disruption could result in major losses to client accounts.

*Equity Securities.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short term as well as the long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

*Small- and Medium-Capitalization Companies.* Investments in securities of small-capitalization companies involve higher risks in some respects than do investments in securities of larger "blue-chip" companies. For example, prices of securities of small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and may not be based on standard pricing models that are applicable to securities of large-capitalization companies. Furthermore, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. Finally, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid.

### **Risk Associated With the Adviser**

*Conflicts of Interest.* The Adviser and/or its affiliates may give advice and recommend investments to one client which may differ from advice given to, or securities recommended or acquired for a different client, even though their investment objectives may be the same or similar. Such activities could be viewed as creating a conflict of interest in that the time and effort of the Adviser and its affiliates will not be devoted exclusively to the business of any single client.

*Other Business Activities.* The Adviser and its affiliates, members, partners, officers and employees provide investment management advice and services to multiple entities and clients including other collective investment vehicles or clients which make similar investments or pursue an investment strategy or program that overlaps with other clients.

*Allocation of Investment Opportunities.* It is the Adviser's policy that all investment advisory clients should be treated in a fair and equitable manner on a trade-by-trade basis. The Adviser has adopted policies and procedures with respect to the allocation of investment opportunities. In certain circumstances, client accounts or groups of clients that pursue a specific investment strategy are given priority with respect to the allocation of investment opportunities within that strategy. A description of the Adviser's allocation policy and procedures is set forth herein under Item 6.

*Investments Involving Other Clients.* One or more of the Adviser's clients may, from time to time, make an investment in a portfolio company in which one or more other clients invests in a different part of the capital structure. There may be instances where such a portfolio company may become insolvent or bankrupt and where a client's and the Adviser's other clients interests in such portfolio company may conflict. Moreover, there may be situations in which a client invests in an issuer in which another client managed by the Adviser maintains an investment. To the extent that client holds securities in a portfolio company with rights, preferences and privileges that are different than those held by other clients in the

same portfolio company, the Adviser may be presented with decisions when the interests of a client and the Adviser's other clients are in conflict. It is possible that in a bankruptcy proceeding, out-of-court restructuring or other corporate action, a client's interest may be subordinated or otherwise adversely affected by virtue of the Adviser's other clients' involvement and actions relating to its investment. As a result, there may be conflicts between clients with respect to voting the securities of such issuers and other matters relating to various investments.

*Allocation of Expenses.* Each of the Adviser's clients bears its own expenses as set forth in the respective investment management agreement, limited partnership agreement, offering memorandum or other relevant document. Expenses borne by one client may differ from expenses borne by other clients. In certain instances one or more clients may bear expenses that the Adviser has agreed to bear for one or more other clients. Common expenses frequently will be incurred on behalf of more than one client. The Adviser seeks to allocate common expenses among clients in a manner that is fair and reasonable over time. However, expense allocation decisions involve conflicts of interest. A description of the Adviser's expense allocation policy and procedures is set forth under Item 5.

*Investments by Adviser Personnel.* The Adviser's Code of Ethics places restrictions on personal investment by employees, including requiring the disclosure of their securities holdings and transactions. The Adviser's employees are permitted to purchase and sell mutual funds, but are generally not permitted to trade directly in securities and financial instruments. In certain cases the Adviser may make an exception to this general policy, provided that any personal transactions are precleared and the Adviser has made a determination that such transactions will be conducted in a manner that does not adversely affect the Adviser's clients. In this regard, in connection with permitted personal real estate transactions, the Adviser's principals have used, and may in the future continue to use, operating partners that are also used by the Adviser's clients. The structure and fees in these personal real estate transactions may vary, and in certain circumstances, be more favorable than the client structures and fees, which creates a conflict of interest for the Adviser with respect to the selection of operating partners.

In accordance with contractual provisions set forth in the Adviser's 401(k) plan, the plan has and, in the future, may withdraw from a client on terms different than those set forth in such client's governing documents. Accordingly, the plan may be permitted to withdraw at a certain time or on shorter notice, while other investors in that client may be restricted from making a similar withdrawal at such time and will continue to bear the risk of the performance of such client.

*Access to Nonpublic Information.* The principals, employees or agents of Adviser may represent clients on the boards of directors or creditors' committees, or serve as observers to the boards of directors, of certain of the companies in which clients make investments. In addition, the Adviser may have access (through such representation or otherwise) to nonpublic information regarding issuers of securities that are investments or potential investments of clients. While such representation or access to nonpublic information is important to the Adviser's investment strategy and may enhance its ability to manage client investments, it may also have the effect of impairing the ability of clients to purchase or sell the related investments when, and upon the terms, it might otherwise desire, including as a result of applicable securities laws or standstill provisions in nondisclosure agreements entered into by Adviser or clients in connection with obtaining such representation or access. Furthermore, material nonpublic information may be obtained for the benefit of one client, yet result in the restriction of trading by other clients.

*Managed Accounts and Single Investor Funds.* The Adviser manages a number of single-investor funds and separately managed accounts for large institutional investors. These funds and accounts pursue strategies similar to those of the commingled private funds managed by the Adviser. In the case of separately managed accounts, the investor typically has the ability to assume control over the account and to liquidate positions in the account. In the case of a large managed account, such liquidations could



have an adverse effect on the Adviser's commingled private fund clients. In addition, the investor in a managed account usually has an ability to see all positions in the account. Such an investor, therefore, may have an advantage over an investor in the commingled private funds both as to the liquidity and transparency of its investment.

*Side Letters.* Each of the limited partnerships or private funds for which the Adviser serves as general partner or investment manager has and may in the future enter into agreements, or “side letters,” with certain prospective or existing limited partners or shareholders whereby such limited partners or shareholders may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for the partnership or fund. For example, such terms and conditions may provide for special rights to make future investments in the partnership, other investment vehicles or managed accounts; special redemption rights, relating to frequency or notice; a waiver or rebate in fees or redemption penalties to be paid by the limited partner or shareholder and/or other terms; rights to receive reports from the partnership on a more frequent basis or that include information not provided to other limited partners or shareholders (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the partnership or fund and such limited partners or shareholders. The modifications are solely at the discretion of the partnership or fund and may, among other things, be based on the size of the limited partner’s or shareholder’s investment in the partnership or fund, across multiple partnerships or funds or affiliated investment entities, an agreement by a limited partner or shareholder to maintain such investment in the partnership or fund for a significant period of time, or other similar commitment by a limited partner or shareholder to the partnership or fund.

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**Item 9. Disciplinary Information**

A complaint was unsealed on October 29, 2014 charging the Adviser's former controller with wire fraud relating to embezzlement of amounts from a special purpose entity that the Adviser uses to settle certain private transactions. The former controller misappropriated approximately \$9.2 million over a period of years and also engaged in unauthorized foreign exchange activities that resulted in losses of approximately \$2.8 million. The full amount of the former controller's misconduct, which totaled approximately \$12 million inclusive of the losses resulting from the unauthorized foreign exchange activities and the misappropriations, was reimbursed by the Adviser. The Adviser referred the matter to the U.S. Attorney for the District of Connecticut and self-reported to the SEC. On January 29, 2015, the former controller pleaded guilty to one count of wire fraud and was subsequently sentenced to a term of imprisonment.

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

This item is not applicable.

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

The Adviser has adopted a Code of Ethics (the "Code") that obligates the Adviser and its related persons to put the interests of the Adviser's clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of the Adviser's personnel are also required to comply with applicable federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Gina N. Scianni (the "Chief Compliance Officer") by email at [gscianni@contrariancapital.com](mailto:gscianni@contrariancapital.com) or by telephone at (203) 862-8200. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by related persons.

The Adviser, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser does not engage in principal transactions.

As a general matter, the Adviser's personnel are not permitted to engage in personal transactions for their personal securities accounts other than (i) to invest (through the Adviser's 401(k) Plan or otherwise) in open-end investment companies (mutual funds) or (ii) through any account over which a related person has no direct or indirect influence or control (each, a "Non-Control Account"). In certain cases, the Chief Compliance Officer may make an exception to this general policy and to ensure that any permitted trading by the Adviser's personnel is conducted in a manner that does not adversely affect the Adviser's clients and in recognition of the fiduciary duty owed by the Adviser to its clients, the Adviser's Code contains policies governing personal securities transactions.

The Adviser requires its related persons to preclear all transactions (other than in open-end investment companies, dividend reinvestment programs and other automatic investment programs, and Non-Control Accounts) in their personal accounts with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one or more of its clients.

In addition, the Adviser's Code prohibits the Adviser or its related persons from executing personal securities transactions of any kind in any securities on a restricted securities list maintained by Compliance. All of the Adviser's related persons are required to disclose their securities transactions on a quarterly basis and holdings on an annual basis. Trading in employee accounts will be reviewed by the Chief Compliance Officer and compared with transactions for the client accounts and reviewed against the restricted securities list.

The Adviser or a related person may not execute a personal securities transaction in a personal account on a day during which the Adviser, on behalf of a client account, (i) executes a transaction in that security or (ii) has a pending "buy" or "sell" order for that security. Additionally, the Adviser or a related person may not buy or sell a security for a personal account within seven calendar days before or after a client account trades in that security.

The Adviser's Code also prohibits its related persons from serving as a director of any company (including a publicly traded company or charitable organizations), without prior written authorization from the Chief Compliance Officer. Authorization will be based upon a determination that the board service would not be inconsistent with the interest of any client account. Related persons must submit to Compliance certain information about his or her immediate family members and close, personal relationships and a description of any outside business activities, including personal or family-owned corporate entities in which the related person has a significant role.

The Adviser's Code requires its related persons to report all gifts and business entertainment events to Compliance and in certain cases obtain preapproval.

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**Item 12. Brokerage Practices**

The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include, among others, financial stability of the broker-dealer; the actual executed price of the security and the broker-dealer's commission rates; research, if any; custodial and other services provided by such broker-dealers that are expected to enhance the Adviser's general portfolio management capabilities; the size and type of the transaction; the difficulty of execution and the broker-dealer's ability to handle difficult trades; the operational facilities of the brokers and/or dealers involved (including back office efficiency); and the ability to handle a block order for securities and distribution capabilities. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's head trader the Chief Compliance Officer and other personnel of the Adviser, as necessary, conduct a quarterly evaluation of the broker-dealers used by the Adviser to execute client trades using the foregoing factors.

The Adviser may receive research or brokerage from a broker-dealer and/or a third party in connection with client securities transactions. This is known as a "soft dollar" relationship. The Adviser has no soft dollar arrangements in place. To the extent the Adviser may enter into soft dollar arrangements in the future, the Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

From time to time the Adviser may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to a private fund managed by the Adviser or recommend these private funds as an investment to clients. The Adviser may place client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser (or an affiliate) or affording the Adviser with the opportunity to participate in capital introduction programs.

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**Item 13. Review of Accounts**

Each client account is reviewed by the portfolio manager of the Adviser, on an ongoing basis to determine whether securities positions should be maintained in view of current market conditions. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each client account.

Each client will transmit reports and/or account statements to its investors pursuant to the terms of the client's offering memoranda.

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

The Adviser has no soft dollar arrangements in place. To the extent the Adviser may enter into soft dollar arrangements in the future, the Adviser intends to stay within the Section 28(e) safe harbor. Furthermore if the Adviser were to adopt soft dollar arrangements in the future, the Chief Compliance Officer would review such arrangements and determine whether specific disclosure must be provided to clients regarding these arrangements and the attendant conflicts of interest.

The Adviser may make cash payments to third-party solicitors for client referrals. Where applicable, cash payments for client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act") and related SEC staff interpretations.



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**Item 15. Custody**

The Adviser and certain affiliated entities are deemed to have custody of client assets due to serving as the managing member to limited liability company clients or as the general partner to limited partnership clients. Each of the Adviser and its affiliates intends to comply with Rule 206(4)-2 under the Advisers Act, by meeting the conditions of the pooled vehicle annual audit provision.

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**Item 16. Investment Discretion**

The Adviser provides investment advisory services on a discretionary basis to clients. Please see Item 4 for a description of any limitations clients may place on the Adviser's discretionary authority.

Prior to assuming full discretion in managing a client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines); and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held.

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, it is to be (i) corrected as soon as practicable; and (ii) reported to Compliance. Trade errors with respect to a client will be resolved in a manner consistent with the applicable standard of care set forth in the relevant organizational documents or investment advisory agreement. In the event of any material trade error, an explanatory memorandum will be prepared and maintained by the Chief Compliance Officer.

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**Item 17. Voting Client Securities**

To the extent the Adviser has been delegated proxy voting authority on behalf of its clients, the Adviser complies with its proxy voting policies and procedures that are designed to ensure that in cases where the Adviser votes proxies with respect to client securities, such proxies are voted in the best interests of its clients.

In the absence of specific voting guidelines from a particular client, the Adviser will vote proxies in the best interest of each particular client, which may result in different voting results for proxies from the same issuer. The Adviser believes that voting proxies in accordance with the following guidelines is in the best interest of its clients and, as such, will follow these general voting guidelines. However, it is anticipated that circumstances may arise where votes are inconsistent with these general guidelines.

The Adviser generally votes in favor of routine corporate housekeeping proposals and has adopted specific guidelines with respect to proposals relating to the election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock. The Adviser generally votes against proposals that make it more difficult to replace members of the issuer's board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights and create supermajority voting. For all other proposals, the Adviser will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and the Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

Adviser's clients are not permitted to direct their votes in a particular solicitation.

If a material conflict of interest between the Adviser and a client exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client, and take other action as deemed appropriate.

Clients may obtain a copy of the Adviser's proxy voting policies and procedures and information about how the Adviser voted a client's proxies by contacting Gina N. Scianni (Chief Compliance Officer) by email at [gscianni@contrariancapital.com](mailto:gscianni@contrariancapital.com) or by telephone at (203) 862-8200.

The Adviser has authority to vote proxies with respect to client securities. Clients are asked not to contact the Adviser with questions about a particular solicitation.

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**Item 18. Financial Information**

This Item is not applicable.

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**Appendix, Item 2: Material Changes**

The update of this brochure dated March 29, 2018 reflects changes in the Adviser's business and clarifying changes to the Adviser's compliance policies and procedures since the Adviser's other-than-annual amendment filed on September 22, 2017.