

Item 1. Cover Page



AVENUE CAPITAL GROUP

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FORM ADV PART 2

March 29, 2019

This brochure provides information about the qualifications and business practices of Avenue Capital Management II, L.P., Avenue Europe International Management, L.P., Avenue Asia Capital Management, L.P., Avenue Credit Management, L.P. and their respective relying advisers (if any). If you have any questions about the contents of this brochure, please contact Andrew K. Schinder, Chief Compliance Officer, at (212) 878-3500 or aschinder@avenuecapital.com.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

Additional information about Avenue Capital Management II, L.P., Avenue Europe International Management, L.P., Avenue Asia Capital Management, L.P., Avenue Credit Management, L.P. and their respective relying advisers (if any) is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2. Material Changes

Since the last annual update of the brochures on March 30, 2018 for each of Avenue Capital Management II, L.P., Avenue Europe International Management, L.P., Avenue Asia Capital Management, L.P. and Avenue Credit Management, L.P. (each, a “filing adviser,” and collectively, “Avenue Capital Group”), Avenue Capital Group has updated this brochure to:

- remove and add disclosure with respect to certain private investment funds and certain affiliates of the firm (see Item 10 under the heading “Other Financial Industry Activities and Affiliations – Material Financial Industry Affiliations of Avenue Capital Group”);
- update Avenue Capital Group’s Chief Compliance Officer;
- add disclosure regarding the Sustainable Solutions strategy (see Item 8 under the heading “Methods of Analysis, Investment Strategies and Risk of Loss – Methods of Analysis and Investment Strategies – Sustainable Solutions Strategy”); and
- update or add certain information, such as Avenue Capital Group’s assets under management, and make certain clarifying or technical revisions.

Because this Item 2 discusses only those changes that have been made to this brochure since the prior annual filing that Avenue Capital Group believes to be material, this brochure should be reviewed in its entirety.

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Item 4. Advisory Business

Structure; History and Ownership

Avenue Capital Management II, L.P. (CRD #111845) (“Avenue U.S.”), Avenue Europe International Management, L.P. (CRD #131937) (“Avenue Europe”), Avenue Asia Capital Management, L.P. (CRD #113246) (“Avenue Asia”) and Avenue Credit Management, L.P. (CRD # 286584) (“Avenue Credit”) (each, a “filing adviser” and collectively, the “firm,” “Avenue Capital Group,” “Avenue,” “Avenue Capital” or “we”) is a group of commonly owned investment advisers with their principal place of business in New York City. Avenue Capital Group generally provides investment advisory services to private investment funds (“private funds”) and may provide investment advisory services to separately managed accounts. In addition, Avenue U.S. provides sub-investment advisory services to a third-party investment manager in respect of a registered investment company (the “Sub-Advised Public Fund,” and together with private funds and any separately managed accounts, “funds”). In addition to our offices in New York, we have offices in London, Luxembourg, Madrid, Milan, Sydney, Hong Kong, Beijing, Delhi and Singapore.

This brochure provides information about: (i) Avenue Capital Group and (ii) general partners or managing members of funds that are relying on the filing advisers’ registration as investment advisers (in accordance with the U.S. Securities and Exchange Commission (“SEC”) letter to the American Bar Association, Subcommittee on Private Investment Entities dated December 8, 2005 (the “2005 SEC Letter”)), which are listed in Section 7.A. of Schedule D in Part 1A of each filing adviser’s Form ADV. This brochure also provides information about Avenue Europe’s and Avenue Asia’s respective relying advisers which are listed in Schedule R of Part 1A of Avenue Europe’s and Avenue Asia’s Form ADV pursuant to General Instruction No. 5 to Form ADV Part 1A.¹ Each such entity conducts its activities in accordance with the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and the rules thereunder, and is subject to the supervision and control of Avenue Capital Group, including being subject to Avenue Capital Group’s investment adviser compliance policies and procedures.

Avenue U.S. commenced business in 2000 and has been registered as an investment adviser with the SEC since July 17, 2000. Avenue Europe commenced business in 2004 and has been registered as an investment adviser with the SEC since July 2, 2004. Avenue Europe Management, LLP, a relying adviser of Avenue Europe, has been authorized by the U.K. Financial Conduct Authority since 2004. Avenue Asia commenced business in 2001, has been registered as an investment adviser with the SEC since July 13, 2001 and has been registered as a Foreign Institutional Investor with the Securities and Exchange Board of India since 2008. GL Advisors Hong Kong Limited, a relying adviser of Avenue Asia, received a Type 9 (asset management) license with the Securities and Futures Commission of Hong Kong in August 2015. Avenue Credit has been registered as an investment adviser with the SEC since February 10, 2017.

Avenue Capital Group, including the general partners and managing members of funds and Avenue Europe’s and Avenue Asia’s relying advisers is a global alternative investment firm founded in 1995. As of February 28, 2019, Avenue Capital Group had approximately 170 employees worldwide, including approximately 56 investment professionals. Avenue Capital Group maintains a well-developed infrastructure with extensive accounting, operations, legal, business development, risk management, compliance and information technology teams.

¹ Neither Avenue U.S. nor Avenue Credit has any relying advisers pursuant to General Instruction No. 5 to Form ADV Part 1.

Marc Lasry (Chairman, Chief Executive Officer and Co-Founder) and Sonia Gardner (President, Managing Partner and Co-Founder) are the Senior Principals of Avenue Capital Group and together control the general partners of each filing adviser (*i.e.*, Avenue Capital Management II GenPar, LLC, Avenue Asia Capital Management GenPar LLC, Avenue Europe International Management GenPar, LLC and Avenue Credit Management GenPar, LLC). Richard Furst is the Chief Investment Officer of Avenue Capital and spends a portion of his time providing high-level investment oversight globally, including to Avenue Capital Group. Shawn Foley is a Senior Portfolio Manager and is responsible for Avenue U.S.'s Aviation sub-strategy. Matt Kimble is a Senior Portfolio Manager and is responsible for Avenue U.S.'s Energy sub-strategy. Jane Castle is a Senior Portfolio Manager and is responsible for certain portions of Avenue U.S.'s general Distressed strategy and is responsible for Avenue U.S.'s Public Fund strategy. Shawn Foley, Matt Kimble and Jane Castle are collectively responsible for Avenue U.S.'s Distressed strategy focusing on investments in portfolio companies headquartered or with principal places of business in the United States and Canada. Edward Gellert is a consultant to Avenue Capital Group and is responsible for Avenue U.S.'s Real Estate strategy.² William Maier is a Senior Portfolio Manager and is responsible for Avenue U.S.'s Performing Loans strategy. Richard Furst is a Senior Portfolio Manager and the Co-Head of Avenue Europe. Jonathan Ford is also a Senior Portfolio Manager and the Co-Head of Avenue Europe. Anil Gorthy is a Senior Portfolio Manager and is responsible for Avenue Asia's Distressed strategy. John Larkin is the Senior Managing Director of Avenue U.S.'s Sustainable Solutions strategy. Peter Pulkkinen is a Portfolio Manager responsible for assisting with the direction of the investment activities of Avenue U.S.'s Sustainable Solutions strategy.

Our primary investment advisory service is to provide discretionary investment advice to funds. In addition to funds, we may in the future also advise one or more separately managed accounts on a discretionary basis. The objective and strategy of a managed account may but is not required to be similar to the investment objective and strategy of a fund managed by Avenue Capital Group.

Avenue Capital Group's primary focus is investing in credit obligations (public and private), including without limitation, distressed debt and equity opportunities, other special situations (which includes private equity opportunities) and high yield investments in the United States, Europe and Asia. The Senior Principals and the Portfolio Managers of funds managed by Avenue Capital Group have spent virtually their entire careers in this space.

Avenue Capital Group generally pursues a theme-driven, concentrated investment strategy that is analytically intensive and relies upon individual issuer, industry and macro research and analysis. To execute this strategy, Avenue Capital Group has assembled an experienced team of investment professionals. The depth of experience of these professionals allows for thorough research and analysis of potential investment opportunities, including issuers with complicated, multi-layered capital structures in complex and dynamic industries.

Avenue U.S.

Avenue U.S. advises funds using investment strategies that may include one or more of the following strategies and sub-strategies:

- ❖ Private Funds
 - Distressed;
 - Energy

² Mr. Gellert was a Senior Portfolio Manager responsible for Avenue U.S.'s Real Estate strategy until March 16, 2018.

- Aviation
- Real Estate;
- High Yield;
- Performing Loans;
- Private Transactions (including private credit and equity transactions); and
- Sustainable Solutions.
- ❖ Sub-Advised Public Fund
 - Distressed; and
 - High Yield.

In addition to Avenue U.S.'s Distressed funds and its Energy and Aviation funds, a portion of the assets Avenue U.S. manages may be invested by its Real Estate funds, High Yield funds, Performing Loans funds, Private Transactions funds and/or Sustainable Solutions funds. Avenue U.S. provides sub-investment advisory services to a third-party investment manager in respect of the Sub-Advised Public Fund which employs a variation of Avenue U.S.'s Distressed and High Yield strategies. Avenue U.S.'s Distressed, Real Estate, High Yield, Performing Loans and Sustainable Solutions strategies include private funds. Avenue U.S.'s Private Transactions strategy may include private funds and other pooled investment vehicles with private transactions as part or all of their investment mandate. Thus, Avenue U.S. provides investment advice to private funds and to a third-party investment manager in respect of the Sub-Advised Public Fund.

Avenue Europe

Avenue Europe advises funds using investment strategies that may include one or more of the following strategies and sub-strategies:

- Distressed;
- Direct Lending;
- High Yield; and
- Private Transactions (including private credit and equity transactions).

Avenue Europe's primary investment strategy is a Distressed strategy pursuant to which Avenue Europe invests in distressed debt and other special situations, which includes private equity opportunities, investments in Europe. Avenue Europe considers European companies to be companies that are headquartered or have a principal place of business in Europe, whose country of risk is in Europe (*i.e.*, the primary source of revenue risk as determined by Avenue Europe), or that have issued securities or other financial instruments denominated in a European currency.

In addition to Avenue Europe's Distressed funds, a portion of the assets may be invested by Avenue Europe's Private Transactions funds. Avenue Europe's Private Transactions funds include private funds and other pooled investment vehicles with private transactions as part or all of their investment mandate.

Avenue Asia

Avenue Asia's Distressed strategy generally focuses on:

- companies undergoing a restructuring, reorganization or bankruptcy;
- companies that are operationally sound, but financially troubled due to overleveraged balance sheets, inadequate capitalization or limited access to capital;
- companies that are undervalued because of discrete extraordinary events or economic conditions; and
- companies being sold for less than their intrinsic value.

Avenue Asia focuses on special situations investment opportunities in the Asian region, which includes Australia and New Zealand. Avenue Asia's investment professionals seek undervalued securities or assets being sold at a discount by non-economic sellers, including single assets or concentrated pools of assets. Avenue Asia leverages its network of local investment, legal, and accounting professionals to source and execute investment opportunities and engage in active portfolio management. In addition to seeking special situations Avenue Asia's Distressed strategy focuses on investments in debt and equity across industries, sectors and geography.

Avenue Credit

The funds to be advised by Avenue Credit are expected to employ a Distressed and High Yield strategy.

Prospective investors in any fund are advised to review the private fund's confidential offering memorandum or, in the case of the Sub-Advised Public Fund, the prospectus that is included in the registration statement that has been filed with the SEC, for a more in-depth description of that fund's investment strategy and objectives, types of assets to be invested in, investment restrictions (if any), and related risk factors.

Some of the private funds we advise are feeder funds to or parallel funds of other funds. In some cases, such as certain of the Distressed funds, we advise successor funds to earlier funds that have concluded their investment period.

A list of the funds we manage can be found below at Item 10.

Types of Advisory Services

As described above, Avenue Capital Group generally provides advisory services to private investment funds, and we may provide advisory services to separately managed accounts for institutional investors. Avenue U.S. also provides sub-advisory services to a third-party investment manager in respect of the Sub-Advised Public Fund. Neither Avenue Capital Group nor any of our affiliates is acting as an investment adviser or otherwise making any recommendation as to an investor's decision to invest in the funds. The advisory services we provide to investment funds are provided on a discretionary basis. The advisory services we provide to managed accounts may be discretionary or non-discretionary.

Avenue Capital Group may manage one or more private funds (*i.e.*, pooled investment vehicles) in which Benefit Plan Investors³ would have aggregate holdings of 25% or more of the value of one or more classes of such funds' outstanding equity interests, resulting in the assets of the respective funds being treated as "plan assets" under ERISA. The applicable adviser would be considered a fiduciary of "ERISA plans" investing in the private fund. The applicable adviser would manage the operations and transactions of a private fund that is deemed to hold "plan assets" in a manner that complies with the applicable provisions of the prohibited transaction rules of ERISA and Section 4975 of the Code. The applicable adviser intends to rely on the applicable provisions of the relief available under various exemptions issued by the U.S. Department of Labor, including the relief available under prohibited transaction exemption 84-14, as amended, for transactions negotiated by a "qualified professional asset manager," when such operations or transactions would otherwise constitute prohibited transactions.

Pursuant to an exemption under U.S. Commodity Futures Trading Commission ("CFTC") Rule 4.13(a)(3), none of Avenue Capital Group's investment advisers, general partners or other affiliates are required to register, and are not registered, with the CFTC as commodity pool operators. None of Avenue Capital Group's investment advisers, general partners or other affiliates are required to register with the CFTC as a commodity trading advisors.

The investment strategies we employ are described below at Item 8. The description of each investment strategy, including restrictions on permissible investments, investment guidelines and applicable risk factors, is not intended to apply to any particular fund (unless explicitly stated otherwise), which could employ one or more of Avenue Capital Group's investment strategies.

Assets Under Management

As of December 31, 2018, Avenue Capital Group collectively managed approximately \$9,999,932,654 of client assets, all on a discretionary basis.⁴

³ As defined under Section 3(42) of the U.S. Employee Retirement Income Security Act of 1974 ("ERISA"), "Benefit Plan Investors" include: (i) employee benefit plans (such as defined benefit plans or profit-sharing plans) within the meaning of Section 3(3) of ERISA and subject to Title I of ERISA ("ERISA plan"); (ii) individual retirement accounts and other retirement plans and accounts subject to Section 4975 of the Internal Revenue Code of 1986 (the "Code"); and (iii) any other entity whose underlying assets include "plan assets" by reason of any Benefit Plan Investor's investment in such entity. Fiduciaries of ERISA Plans or other plans or individual retirement accounts subject to Section 4975 of the Code are subject to fiduciary responsibility and prohibited transaction issues which may arise with respect to a private fund's operations and transactions if at any time the underlying assets of such fund constitute "plan assets" of such plans or individual retirement accounts under U.S. Department of Labor Regulations Section 2510.3-101, as modified by Section 3(42) of ERISA. These regulations provide that when such a plan or individual retirement account invests in an equity interest in an entity (such as a private fund), its assets will include both the equity interest and the undivided interest in each of the underlying assets of the entity, unless an exception set forth in the regulations is applicable. The regulations provide an exception for an entity if, immediately after the most recent acquisition or disposition of any equity interest in the entity, Benefit Plan Investors hold less than 25% of the value of each class of equity interest in the entity.

⁴ Except as otherwise provided below, as of December 31, 2018: (a) Avenue U.S. managed approximately \$5,924,778,893 of client assets; (b) Avenue Europe managed approximately \$3,553,377,202 of client assets; (c) Avenue Asia managed approximately \$521,776,559 of client assets, in each case on a discretionary basis; and (d) Avenue Credit managed \$0 of client assets. These amounts represent the regulatory assets under management of each respective adviser. Avenue Europe Special Situations Fund IV (U.S.), L.P., Avenue Europe Special Situations Fund II Continuation Vehicle (US), L.P., Avenue Europe Special Situations Fund II Continuation Vehicle (Euro), L.P. and Avenue Pantheon Broadway Fund, L.P. launched in March 2019 and therefore, the regulatory assets under management of Avenue Europe with respect to such funds is taken as of March 2019.

Item 5. Fees and Compensation

Fees

Detailed information regarding fees is included in each fund's confidential offering memorandum or prospectus, as applicable. Because this brochure will only be delivered to "qualified purchasers" investing in our private funds, as defined in Section 2(a)(51) of the Investment Company Act of 1940, a complete description of our compensation arrangements is not required to be included in this brochure. Fees paid for services provided to managed accounts are determined on a client-by-client basis and may, but are not required to, be substantially similar to those paid by funds.

The Sub-Advised Public Fund generally pays management fees monthly in arrears based on average daily net assets to a third-party investment manager. In turn, the third-party investment manager pays Avenue U.S. a portion of such monthly management fee in exchange for Avenue U.S.'s sub-advisory services to the third-party investment manager. The third-party investment manager's management fees for the Sub-Advised Public Fund are calculated based on a percentage of average daily net assets.

The private funds we advise generally pay management fees and incentive allocations or carried interest, depending upon each fund's investment strategy. Management fees for private funds, calculated as a percentage of the asset value or aggregate commitments of the fund attributable to each investor, are generally paid monthly, quarterly or semi-annually in advance. With respect to our private funds that pay us a carried interest, management fees are *pro rated* for partial periods in the event that our investment management agreement with the fund is terminated or an investor makes a capital contribution or purchases shares at any time other than at the beginning of a fund's valuation period, but are payable in full for partial periods resulting from distribution of fund assets. With respect to the Sub-Advised Public Fund to which Avenue U.S. provides sub-advisory services to a third-party investment manager, management fees are *pro rated* for partial periods.

Incentive allocations or carried interest are calculated as a percentage of profits of the private funds. Some private funds pay incentive allocations, in whole or in part, on mark-to-market performance at the end of a period (year-end or upon a partial or full withdrawal), subject to a high watermark. Other private funds pay a carried interest on realized returns. For those funds, such carried interest payments are not paid to us until investors receive 100% of their capital back plus a preferred return.

Management fees, incentive allocations and carried interest rates may be negotiable.

Avenue Capital Group may receive income in the form of underwriting fees, break-up fees, commitment fees and other such fees. However, Avenue Capital Group will not accept any fees that would trigger broker-dealer or other registration unless and until the appropriate parties obtain the proper licenses and registrations.

For more information regarding certain categories of fee income, including without limitation, break-up fees, please see Item 5 under the heading "Fees and Compensation – Expenses – Funds."

Expenses

Whether an expense is a fund or firm expense is governed by each fund's operative documents and is the joint responsibility of the Chief Compliance Officer and Chief Financial Officer, with the assistance of such other parties as they deem necessary, to oversee how expenses are allocated. Expense allocation determinations may be made as to broad categories or expense types or on an expense item-by-expense item basis.

If permitted under a fund's controlling documents, from time to time the management company may advance payment of an expense on behalf of the fund and to the extent that the expense may be appropriately borne by the funds, the management company may seek reimbursement from the funds.

Once a determination is made that an expense is a fund expense that is attributable to more than one fund, the Chief Compliance Officer and Chief Financial Officer, with the assistance of such other parties as they deem necessary, shall determine the appropriate allocation methodology among the funds. For instance, research that generally could benefit any fund within a strategy or among strategies may be allocated among such funds/strategies based on the funds' strategies' respective net asset values or in such other manner as Avenue Capital Group deems equitable among the funds. Other expenses that directly relate to a specific investment may be allocated based on how the investment is held by, or is to be allocated to, the funds. There may be situations where an expense may be allocable to some but not all of the funds that receive the benefit of such expense. In these situations, the funds that can bear the expense shall bear their allocable share of the expense and Avenue Capital Group shall pay the remainder.

Funds

The payment of expenses by a fund will reduce the value of each investor's investment in the fund.

Detailed information regarding the expenses to which each fund is subject is set out in the offering documents or prospectus, as applicable, with respect to the particular fund.

Private Funds

Generally, each feeder fund bears its own expenses and its *pro rata* share of the expenses of any master fund or intermediate fund. Private fund expenses may include, without limitation, the following categories of expenses:

- formation expenses of the fund and related entities, including fees and expenses of counsel to, accountants for and agents of the fund, its general partner, if applicable, and the applicable filing adviser, of personnel of the applicable filing adviser and its advisors, and other expenses (including, without limitation, travel and travel-related costs and expenses (including business class airfare and first class airfare)), in each case, incurred in connection with the formation and marketing of the fund and related entities, the preparation of the fund's operative documents and the offering of equity interests of the fund;
- audit fees and other out-of-pocket expenses incurred in connection with the preparation and distribution of financial statements for the fund, any portfolio company or special purpose vehicles used by the fund with respect to any investment, audit and reporting compliance;
- 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,

- underwriting commissions and discounts,
 - travel and travel-related expenses (including business and first-class airfare);
 - legal, accounting, investment banking, consulting fees (including without limitation, fees payable to expert network consultants) and professional fees;
 - research-related fees and expenses;
 - data and information service providers (*e.g.*, Bloomberg, Debtwire, general market research with respect to trading models and industries, etc.); and
 - other transaction costs.
- a fund's allocable share of costs and expenses incurred in respect of any proposed investments that are not consummated and that were not intended by the general partner to support any investment previously made by the fund such that the general partner determines that such expenses should be considered investment expenses with respect to such investment previously made, including, without limitation, fees and expenses incurred to obtain financing commitments and fees and expenses paid to legal counsel, accountants or experts retained to negotiate or document a proposed investment or to conduct due diligence reviews, in each case to the extent that with respect to any such proposed investment (i) such out-of-pocket costs and expenses are not otherwise reimbursed by an unaffiliated third party or by the subject of the proposed investment, and (ii) the proposed investment is not consummated by an affiliate of the fund nor does any such affiliate receive any material amount of compensation in connection with the consummation of such proposed investment from any person other than the fund;
 - compensation and other similar expenses of consultants (including local joint venture partners, industry executives, advisors, consultants, operating executives, subject matter experts or other persons acting in a similar capacity (including with respect to potential portfolio investments));
 - any costs and 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, without limitation, FATCA expenses related to investor due diligence, reporting, filing fees, and registration), U.K. FATCA, CRS, AEOI compliance, compliance with the Organisation for Economic Cooperation and Development country-by-country reporting requirements and compliance with any other requirements resulting from the Organisation for Economic Cooperation and Development's ongoing Base Erosion and Profit Shifting project or similar regulatory filings;
 - attorneys' and accountants' fees and disbursements relating to fund 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 fund (including regulatory expenses of the general partner, if any, and the applicable filing adviser incurred in connection with reporting to regulatory authorities and preparation and making of any required regulatory filings or notice (including Form PF, U.S. Bureau of Economic Analysis or Federal Reserve Board forms, AIFMD, Form D or similar forms, MiFID II, GDPR)) or otherwise incurred in connection with any litigation or governmental inquiry related to the activities of the fund (to the extent such expenses would be indemnifiable under the fund's operative documents), including filing and registration fees and expenses related to regulatory sweeps;
- 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 relating to defaults by investors in the payment of any capital contributions;
- expenses incurred in connection with any restructuring or amendments to a fund's constituent documents and related entities;
- expenses incurred in connection with the formation of alternative investment vehicles to the extent permitted under the fund'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 (whether such vehicles are formed as subsidiaries of the fund or as stand-alone vehicles outside of the fund, including vehicles formed in non-U.S. jurisdictions), including:
 - rent,
 - employee costs,
 - office expenses,
 - taxes and other governmental charges,
 - administrator fees and
 - professional fees incurred with respect to tax planning and tax compliance;
- expenses of any administrator of the fund and any special purpose vehicles through which the fund makes, holds or manages investments (including vehicles formed in non-U.S. jurisdictions);
- expenses incurred in connection with distributions to investors;
- expenses incurred in connection with any meetings with investors called by the fund's general partner (including any annual conferences), including travel (including business class airfare, or when business class is not available, first class airfare), meal and lodging expenses

of the fund's advisory board and professionals of the investment adviser incurred in connection with attending such meetings;

- expenses incurred in connection with the preparation and distribution of any investor communications (including Intralinks);
- expenses related to the fund's indemnification obligations;
- certain litigation expenses;
- any amounts paid by the fund for, or resulting from, hedging transactions;
- investment management fees;
- expenses incurred in connection with compliance with side letters;
- expenses relating to transfers of interests in the fund or a permitted withdrawal of an investor (but only to the extent not paid or otherwise borne by the withdrawing investor and/or the assignee of the withdrawing investor);
- out-of-pocket expenses incurred by members of an independent committee in connection with the fulfillment of their duties, including without limitation, travel expenses incurred in connection with attending independent committee meetings (including, without limitation, transportation, meal and lodging expenses, including business class airfare, or when business class is not available, first class airfare);
- any principal, interest on and fees and expenses arising out of, the fund's borrowings and indebtedness (including, without limitation, the fees, and costs and expenses incurred in obtaining lines of credit, loan commitments and letters of credit for the account of the fund);
- the cost and expenses associated with, and structuring fee under, a total return swap or any credit facility;
- fees and expenses of any legal counsel engaged by the advisory committee of a fund;
- other extraordinary expenses relating to the fund and its activities that are not investment expenses; and
- such other expenses as are set forth in the fund's private placement memorandum, limited partnership agreement and/or other operative documents.

Fee income, including commitment fees, break-up fees, directors' fees and similar income realized with respect to investments or proposed investments by a private fund, will first be applied to unreimbursed out-of-pocket expenses related to the applicable transaction; any excess amount will be used to reduce the applicable investment management fee otherwise payable by the private fund's investors by an identical amount, or, at our discretion, be paid directly to the fund. Notwithstanding the foregoing, such fees (including directors' fees) may be waived at our discretion.

Sub-Advised Public Fund

The Sub-Advised Public Fund bears its own expenses, which generally include all costs not specifically borne by the third-party investment manager, the Sub-Advised Public Fund's distributor, Avenue U.S., the Sub-Advised Public Fund's administrator, the Sub-Advised Public Fund's transfer agent or other service providers, including without limitation:

- expenses incurred in connection with the Sub-Advised Public Fund's organization;
- investment management and administration fees;
- fees for necessary professional and brokerage services;
- fees for any pricing services;
- the costs of regulatory compliance; and
- costs associated with maintaining the Sub-Advised Public Fund's legal existence and shareholder relations.

Separately Managed Accounts

The expenses borne by separately managed accounts are set forth in their agreements with us and generally include all custodial fees, brokerage commissions, clearing fees, interest and withholding or transfer taxes incurred in connection with trading for the client's account.

For more information regarding our brokerage practices and brokerage expenses that may be incurred, please see Item 12.

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

As discussed in Item 5 above, the private funds we advise generally pay incentive allocations or carried interest, depending upon the fund's structure. Incentive allocations or carried interest are calculated as a percentage of profits of the private funds. Some private funds pay incentive allocations, in whole or in part, on mark-to-market performance at the end of a period (year-end or upon a partial or full withdrawal), subject to a high watermark. Other private funds pay a carried interest on realized returns. In those funds, such carried interest payments are not paid to us until investors receive 100% of their capital back plus a preferred return. Incentive allocations and carried interest rates may be negotiable.

Avenue U.S. also serves as a sub-adviser to a third-party investment manager in respect of the Sub-Advised Public Fund for which Avenue U.S. only receives an asset-based fee and no performance-based fee. As a result, we have a conflict of interest, because we can potentially receive greater fees from accounts having a performance fee structure than from those accounts we charge asset-based fees only. We have an incentive to:

- direct the best investment ideas to, or allocate or sequence trades in favor of, the accounts that pay performance-based fees;
- use trades by an account that does not pay performance-based fees to benefit accounts that do pay performance-based fees; and
- benefit an account that pays performance-based fees over an account that does not pay performance-based fees and which has a different and potentially conflicting investment strategy.

We have a fiduciary duty to our clients not to favor the account of one client over that of another, without regard to the types and amounts of fees paid by those accounts. In light of this, we have allocation and other policies and procedures in place to ensure that accounts are treated fairly. We seek to allocate investments among funds with similar strategies that are managed by the same investment team on a *pro rata* basis, targeted net asset basis or targeted total asset basis. However, as described in Item 12, under the heading “Allocation Procedures,” there are a number of reasons for which a particular transaction may not be allocated on a *pro rata* basis.

Avenue U.S. serves as sub-adviser to the Sub-Advised Public Fund in addition to an adviser to private funds. The Sub-Advised Public Fund (indirectly) sub-advised by Avenue U.S. is not subject to a performance fee. The Sub-Advised Public Fund may invest in securities that are the same as or similar to certain investments that may be held in certain of our private funds (which do pay a performance fee). For more information regarding the allocation of investments between Avenue Capital Group’s funds, see Item 12 under the heading “Allocation Procedures.”

Item 7. Types of Clients

We serve as the investment manager of, and provide investment advisory services to, private investment funds (*i.e.*, pooled investment vehicles) and may in the future serve as the investment manager of, and provide investment advisory services to, one or more managed accounts. Avenue U.S. also serves as the sub-adviser of, and provides sub-investment advisory services to, a third-party investment manager in respect of the Sub-Advised Public Fund. Neither Avenue Capital Group nor any of our affiliates is acting as an investment adviser or otherwise making any recommendation as to an investor’s decision to invest in the funds. With respect to the private funds, investment advice is provided directly to the funds and not individually to each of the funds’ limited partners or shareholders, as applicable. With respect to managed accounts, the investment objective and strategy of each client will not involve a recommendation or determination by us as to the appropriate investment program for such client nor due diligence by us as to such client’s financial condition or risk profile. With respect to the Sub-Advised Public Fund, investment advice is provided to a third-party investment manager and not individually to the Sub-Advised Public Fund’s shareholders.

The funds’ investors may consist of one or more of the following: individuals, pension and profit sharing plans, financial institutions (including funds of funds), trusts, endowments, charitable organizations and corporations or other business entities.

Each private fund investor or managed account client is required:

- to be an “Accredited Investor” as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933;
- to be a “Qualified Client” as such term is defined in SEC Rule 205-3 under the Investment Advisers Act of 1940;
- to be a “Qualified Purchaser” as such term is defined in Section 2(a)(51) of the Investment Company Act of 1940; and
- to meet such other eligibility requirements as we determine on a case by case basis.

Managed account clients may consist of one or more of the following: individuals, pension and profit sharing plans, financial institutions (including funds of funds), trusts, endowments, charitable organizations and corporations or other business entities.

There is no minimum size for the funds or managed accounts we advise. A majority of the private funds have minimum investment amounts ranging from \$500,000 to \$10,000,000. Certain private funds, however, may have higher or lower minimum investment amounts depending upon the agreement negotiated between Avenue Capital Group and a fund's investor(s), particularly in the case of single investor funds. Subject to applicable statutory minimums, such minimum investment amounts are negotiable.

The Sub-Advised Public Fund to which Avenue U.S. (indirectly) provides sub-advisory services does not have a minimum investment amount.

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

Methods of Analysis and Investment Strategies

We pursue a theme-driven, concentrated investment strategy that is analytically intensive and relies upon individual issuer, industry and macro research and analysis. In addition to conducting extensive fundamental issuer analysis, we may actively participate on creditors' committees and steering committees. For those companies that require a restructuring (in or out of court), we may seek to influence and/or actively drive the reorganization, bankruptcy or restructuring process. Some of our investments may be long-term illiquid investments. Our goal is to select industries that are undergoing periods of rapid change and/or deterioration, which may provide significant investment opportunities as these cycles run their course. Following a disciplined, theme-based strategy allows us to pursue a relatively concentrated portfolio with a limited number of core investments. This results in a portfolio that represents a careful selection of investments within such industries rather than a broader, "indexed" approach. We employ a value investing strategy based on fundamental, proprietary research and comprehensive due diligence. Our due diligence process seeks to uncover hidden value and/or risk, thereby increasing potential returns and reducing the risk of investment loss.

Avenue U.S.

Avenue U.S.'s investment strategies are grouped into the following strategies and sub-strategies:

- ❖ Private Funds
 - Distressed;
 - Energy
 - Aviation
 - Real Estate;
 - High Yield;
 - Performing Loans;
 - Private Transactions (including private credit and equity transactions); and
 - Sustainable Solutions.
- ❖ Sub-Advised Public Fund

- Distressed; and
- High Yield

Avenue Europe

Avenue Europe's investment strategies are grouped into the following strategies and sub-strategies:

- Distressed;
- Direct Lending;
- High Yield; and
- Private Transactions (including private credit and equity transactions).

Avenue Asia

Avenue Asia's primary investment strategy is a Distressed strategy pursuant to which Avenue Asia invests in the distressed debt and undervalued debt and equity securities of companies headquartered or with a principal place of business in Asia, including Australia and New Zealand. Avenue Asia may also employ Avenue Capital Group's Private Transactions strategy, including private credit and equity transactions, in respect of one or more funds it manages.

Avenue Credit

Avenue Credit expects to employ a Distressed and High Yield investment strategy on behalf of the funds it will manage.

Funds may use one or more special purpose vehicles to effect a fund investment or in such circumstances as Avenue Capital Group may deem appropriate, including in an effort to increase the tax efficiency of a fund investment or to enable compliance with local investment laws. Expenses related to the formation, maintenance and operation of these special purpose vehicles, including, among other things, rent, employee costs, office expenses, administrator fees and professional fees incurred with respect to tax planning and tax compliance, will be borne by the funds.

Funds have the ability to use security-level leverage in respect of their investments, and certain funds invest in asset classes (derivatives and options) that include implicit leverage. Each fund also has the authority to use fund-level leverage as part of their investment strategy(ies), although most of our funds historically have not done so. Going forward, however, we expect that our funds may use leverage in a number of different ways. For a detailed description of the specific leverage restrictions with respect to a fund and/or the manner in which leverage may be employed by a fund, please refer to that fund's offering documents. See Item 8 "Methods of Analysis, Investment Strategies and Risk of Loss – Risks Associated with Avenue Capital Group's Investment Strategies – Use of Leverage."

Our investment strategies and certain risks associated with our investment strategies are described in this Item 8. Prospective investors in any fund(s) are advised to review the respective private funds' private placement memorandum, explanatory memorandum, or confidential offering circular or, in the case of the Sub-Advised Public Fund, the prospectus that is included in the registration statement that has been filed with the SEC, for a more in-depth description of that fund's investment strategy and objectives, types of assets to be invested in, investment restrictions (if any), and related risk factors.

Distressed Strategy

Avenue U.S., Avenue Europe and Avenue Asia

Each of Avenue Capital Group's filing advisers (other than Avenue Credit) focuses primarily on a variation of Avenue Capital Group's Distressed strategy (and, if applicable, a sub-strategy). As a general matter:

- Avenue U.S.'s Distressed strategy focuses on the distressed debt and undervalued securities of portfolio companies headquartered or with principal places of business in the United States and Canada as well as claims of creditors against bankrupt debtors. Notwithstanding, investments may be made outside North America. As a general matter, Avenue U.S.'s Distressed strategy may also invest in real estate debt or equity.
- Avenue Europe's Distressed strategy focuses on the distressed debt and undervalued securities of European companies or non-European companies that have issued European denominated securities.
- Avenue Asia's Distressed strategy generally focuses on investments in the debt, equity or other securities, including indebtedness or other obligations, of Asian companies.

Avenue Capital Group's Distressed strategies generally focus on investments in the debt, equity or other securities, including indebtedness or other obligations, as applicable, of U.S., European and/or Asian:

- companies in financial distress or undergoing a turnaround;
- companies in bankruptcy, restructuring, reorganization or liquidation;
- companies in industries that are in turmoil;
- companies that are undervalued because of discrete extraordinary events or economic conditions;
- companies whose securities Avenue Capital Group believes to be undervalued or are being sold for less than their intrinsic value;
- companies experiencing operational or financial difficulty in which Avenue Capital Group anticipates a turnaround; and
- companies that are operationally sound, but financially troubled due to overleveraged balance sheets, inadequate capitalization or limited access to capital.

Avenue Capital Group's Distressed strategies generally target:

- bank debt;
- event-driven situations;
- claims;
- distressed securities, including distressed debt;

- high-yield debt;
- restructured and post-reorganization equities;
- performing/restructured debt;
- non-performing loans; and
- viable companies generating positive cash flow.

Avenue Capital Group typically does not seek to gain operational control of companies it invests in, but may have operational control of such companies from time to time.

Investments are generally expected to be made in senior secured debt or other debt that is structurally senior to other portions of the capital structure. However, as market cycles evolve, Avenue Capital Group's Distressed strategies may seek to invest in more junior portions of the capital structure depending on the risk return profiles of an investment.

In addition, the funds that employ Avenue Capital Group's Distressed strategies may act as lenders originating floating rate and fixed rate loans.

In pursuing its Distressed strategy, Avenue Capital Group's filing advisers:

- typically invest in creditor-friendly jurisdictions;
- seek to create investments at low valuations, including undervalued securities or assets being sold at a discount by non-economic sellers, including single assets or concentrated pools of assets;
- purchase securities denominated in benchmark currencies;
- devote significant time and resources to researching the bankruptcy laws and precedents of the various jurisdictions within Avenue Capital Group's investment mandate to determine the creditor protections of each locale;
- maximize risk-adjusted returns through investing in debt securities that are senior in the capital structure, often with first lien status, and, as a result, generally have less volatility than subordinated securities;
- pursue active, but non-control investments;
- focus on companies in asset rich industries or industries with predictable cash flows;
- actively manage the portfolio by tactically allocating assets across industries and countries;
- leverage their network of local investment, legal, and accounting professionals to source and execute investment opportunities and engage in active portfolio management; and
- in addition to seeking special situations, focus on investments in debt and equity across industries, sectors and geography.

Avenue Capital Group's various investment teams conduct comprehensive due diligence of fundamental aspects of potential Distressed investments including some or all of the following:

- business fundamentals, including analysis of both individual companies and the industries in which they operate;
- valuation, including going concern and liquidation values;
- legal issues;
- capital structure and off-balance sheet liabilities; and
- expected recovery on non-performing loans.

Distressed Sub-Strategies

Avenue U.S., Avenue Europe and Avenue Asia also employ Avenue Capital Group's Distressed strategy as part of multiple sub-strategies, including Energy and Aviation with respect to Avenue U.S., and Private Transactions with respect to Avenue U.S., Avenue Europe and Avenue Asia, each of which are described in greater detail below.

Energy Sub-Strategy

Avenue U.S.'s Energy sub-strategy focuses primarily on individual corporate, distressed debt securities and other special situations investment opportunities, including, without limitation, private equity opportunities of North American energy and utility companies and are generally expected to employ Avenue U.S.'s Distressed, High Yield and Private Transactions strategies.

The Energy sub-strategy may also invest opportunistically in a limited number of select European energy and utility companies in financial stress or distress, leveraging the experience and resources of Avenue Europe.

Aviation Sub-Strategy

Avenue U.S.'s Aviation sub-strategy expects to make investments primarily in select aircraft and aviation related hard and soft assets. Investments are expected to focus primarily on special situations investment opportunities in global aircraft and aviation assets and companies, and investments are generally expected to be made in hard assets such as aircraft, engines, and parts, as well as soft assets such as leases, equipment trust certificates, aircraft mortgages and other aircraft and aviation related investments. The Aviation sub-strategy may also seek to invest in the securities of airline companies and affiliates (before or after such companies have declared bankruptcy). Funds utilizing the Aviation sub-strategy will also seek to lend, on a secured basis, to operators or lessors, where the present value of the leases or the equivalent rental value and residual values result in loan to values acceptable to Avenue U.S.

High Yield Strategy

Avenue U.S. and Avenue Europe

Avenue U.S.'s and Avenue Europe's High Yield strategies seek to generate a high level of current income and capital appreciation by opportunistically investing primarily in credit obligations, including senior secured floating rate and fixed rate loans and high yield bonds (including non-investment grade bonds, speculative grade bonds and junk bonds) of U.S. or European issuers, respectively, which operate in a

variety of industries, and in companies that Avenue U.S. or Avenue Europe believe have strong leadership, stable cash flow and improving credit performance.

Avenue U.S.'s and Avenue Europe's High Yield strategies are expected to focus on investments in senior secured debt or other debt that is structurally senior to other portions of the capital structure for purposes of financing or refinancing investment opportunities of the United States or European countries, as applicable. However, as market cycles evolve, Avenue U.S. or Avenue Europe may seek to invest in more junior portions of the capital structure, depending on the risk return profile of the investment.

Avenue Europe's High Yield strategy may also incorporate aspects of the Direct Lending sub-strategy described below. See Item 8 under the heading "Methods of Analysis, Investment Strategies and Risk of Loss Methods of Analysis and Investment Strategies –Direct Lending."

Direct Lending

Avenue Europe's Distressed and High Yield strategies also employ a Direct Lending sub-strategy, which investment objective is to generate current income and capital appreciation generally by providing senior-secured, medium-term loan financing primarily to middle-market companies that are headquartered or have their principal place of business in Europe or whose operating revenue is generated primarily in Europe or that have issued securities or other financial instruments denominated in a European currency. Investments are expected to be made in: (i) companies that are currently unable to access traditional bank financing; (ii) companies seeking acquisition, investment capital and/or working capital; (iii) companies that are in need of refinancing or liquidity; (iv) new leveraged buyout financings; and (v) companies seeking capital to execute and complete financial restructurings.

Investments by funds utilizing Avenue Europe's Direct Lending sub-strategy are expected to be made primarily in individual corporate loans for financing or refinancing investment opportunities of European companies. Investments are anticipated to be made primarily in senior secured debt or other debt that is structurally senior to other portions of the capital structure.

Funds employing Avenue Europe's Direct Lending sub-strategy may utilize limited leverage, depending upon Avenue Europe's risk perception of the portfolio, the availability and cost from financing providers and other factors.

Avenue Capital Group may use fund-level leverage as part of its Distressed strategy or any of its sub-strategies and we also invest in asset classes (derivatives and options) that include implicit leverage. See Item 8 under the heading "*Methods of Analysis, Investment Strategies and Risk of Loss – Methods of Analysis and Investment Strategies.*" In addition we expect that funds will, from time to time, borrow capital in lieu of drawing down capital commitments and apply subsequent drawdowns to repay such borrowings and interest thereon ("administrative borrowings").

Performing Loans Strategy

Avenue U.S.'s Performing Loans strategy seeks attractive rates of return and capital appreciation primarily in first or second lien secured bank loans in leveraged, non-investment grade companies on a levered basis. Avenue U.S.'s Performing Loans strategy will primarily target the United States and, to a lesser extent, Europe.

Avenue U.S.'s Performing Loans strategy generally focuses on:

- large cap companies with attractive growth prospects with a particular focus on less cyclical sectors;
- investing at the top of the capital structure with collateral protection and with the use of leverage; and
- being opportunistic across market cycles.

Avenue U.S.'s Performing Loans strategy generally targets:

- senior secured first lien bank loans;
- junior secured second lien loans; and
- unfunded revolvers.

Private Transactions Strategy

Avenue Capital Group's Private Transactions strategy seeks to generate current income and capital appreciation by investing in situations where it can provide capital and guidance to businesses in various industries that are headquartered in or principally operating in Europe and the U.S.

Avenue Capital Group's Private Transactions strategy generally focuses on:

- companies that are undergoing transition due to a change-of-control transaction, refinancing or restructuring;
- companies that are having trouble accessing the capital markets; and
- companies that are undervalued because of discrete extraordinary events.

The Private Transactions strategy generally invests in:

- common equity;
- preferred stock;
- payment-in-kind (PIK) notes;
- bonds;
- mezzanine debt;
- second lien debt; and
- senior debt.

The Private Transactions strategy is not presently the primary investment strategy of any fund managed by Avenue Capital Group. Rather, this strategy may be leveraged in connection with particular investments made by the funds managed by Avenue Capital Group and is currently employed in connection with a fund managed by Avenue Europe.

Real Estate Strategy

Avenue U.S.'s Real Estate strategy seeks U.S.-focused opportunistic real estate investments. Investments may take the form of, or include, among others:

- direct or indirect interests in real property;
- joint ventures and other vehicles for the acquisition of real estate assets (including the acquisition of debt and equity interests in joint ventures);
- acquisition or origination of mezzanine debt, mortgage loans and other real estate-backed indebtedness and other indebtedness of entities that own interests in real estate or are otherwise engaged in real estate-related businesses; and
- investments in public or private real estate investment trusts, pooled investment funds or other real estate-related companies (including management, brokerage, development, financing or other operating companies).

The Real Estate strategy's investment focus includes, among others, residential, office, retail, industrial and hotel properties. Avenue U.S.'s private funds that pursue the Real Estate strategy may have primary management responsibility over certain of the real estate assets in which they invest. In some instances, Avenue U.S. may invest with, or lend to, operating partners who will have primary responsibility for the day-to-day execution of the investment business plan for a particular real estate asset. Avenue U.S. may also co-invest with other financial partners with whom Avenue Capital Group and its affiliates have strong relationships.

The Real Estate strategy generally focuses on:

- situations, as opposed to trends, as well as complex "difficult to understand" transactions;
- residential, office, retail, hotel and industrial properties; and
- value-added, redevelopment, special situation or independently sourced opportunities.

Avenue U.S.'s Real Estate strategy investment professionals focus on real estate investments and institutional-quality underwriting. Investments may include, without limitation, activist and joint venture opportunities. The strategy may also purchase real estate-related non-performing and performing debt, partnership interests, or public securities. The strategy may also provide liquidity to recapitalizations and may invest in distressed situations that allow for turnaround opportunities.

As a general matter, Avenue U.S. does not use fund-level leverage as part of its Real Estate strategy, although it may in the future. However, Avenue U.S. may use leverage in connection with the financing of a fund's investment transactions.

Sustainable Solutions Strategy

Avenue U.S.'s Sustainable Solutions strategy seeks credit-oriented investments primarily in private, middle-market companies and related projects that may advance select social and environmental impact themes while generating attractive risk-adjusted returns and current income.

The Sustainable Solutions strategy generally focuses on:

- companies seeking direct financing;
- companies that are in growth stage; and
- companies and projects in line with U.N. Sustainable Development Goals.

The Sustainable Solutions strategy generally targets:

- private credit opportunities;
- senior secured lending;
- second lien debt;
- mezzanine debt; and
- private equity and warrants.

Investments are expected to be made primarily in investment opportunities within Avenue U.S.'s areas of focus, which may include (i) sustainable infrastructure, (ii) resource efficiency, (iii) agriculture and water resources, (iv) climate change mitigation, (v) clean energy, and (vi) safety and security.

Certain funds have agreed in their governing documents to use fund-level leverage, as described in greater detail in their offering documents, in connection with the financing of a fund's investment transactions. Avenue Capital Group may use fund-level leverage as part of its strategies and Avenue Capital Group also invests in asset classes (derivatives and options) that include implicit leverage.

Prospective investors in any of our funds employing any of Avenue Capital Group's investment strategies discussed above are advised to review the fund's offering documents for a more in-depth description of that fund's investment strategy and objectives, types of assets to be invested in, investment restrictions (if any) and related risk factors.

Public Fund Strategy

Sub-Advised Public Fund

The Sub-Advised Public Fund employs a "multi-manager" strategy whereby a third-party investment manager allocates the Sub-Advised Public Fund's assets among professional money managers (such as Avenue U.S.), each of which is responsible for investing its allocated portion of the Sub-Advised Public Fund's assets. The third-party investment manager may also invest a portion of the Sub-Advised Public

Fund's assets in shares of one or more exchange-traded funds, which use a passive management (i.e., index-tracking) strategy.

Avenue's Public Fund Strategy employs a combination of the Distressed, High Yield and Performing Loans strategies with respect to the Sub-Advised Public Fund.

Prospective investors in the Sub-Advised Public Fund are advised to review the prospectus that is included in the registration statement that has been filed with the SEC for a more in-depth description of that fund's investment strategy and objectives, types of assets to be invested in, investment restrictions, and related risk factors.

Risks Associated with Avenue Capital Group's Investment Strategies

The investment strategies described above that we use for the funds cover a wide range of investment types. Material risks involved in our investment strategies are described below. Certain risks outlined below are specific to certain investment strategies and therefore are relevant to certain funds to the extent that they may employ such strategy(ies). Prospective investors in any fund are advised to review the private fund's confidential offering memorandum or confidential offering circular or, in the case of the Sub-Advised Public Fund, the prospectus that is included in the registration statement that has been filed with the SEC, for a more in-depth description of that fund's risk factors.

Conflicts of Interest

As set forth in each fund's confidential offering memorandum or confidential offering circular, as applicable, an investment in a fund or managed account involves certain potential conflicts of interest, which may include those described below.

Other Clients. In addition to responsibilities with respect to the management and investment activities of any particular fund or managed account, Avenue Capital Group will have similar responsibilities with respect to various other existing and future pooled investment vehicles and client accounts. The existence of such multiple vehicles and accounts necessarily creates a number of potential conflicts of interest.

Investment Activities of Funds and Other Clients; Allocation of Investment Opportunities Among Funds and Other Clients. Avenue Capital Group conducts the various funds' investment programs in a manner that is similar to the investment programs of other clients, particularly where the investment objectives and policies of various clients overlap. As a result, there may be conflicts between clients with respect to the allocation of investment opportunities. See Item 12 ("Brokerage Practices") below for a description of how we address such potential or actual conflicts.

Combined Orders. If Avenue Capital Group has determined to invest at the same time for one or more clients, Avenue Capital Group will generally place combined orders for all such accounts simultaneously and if all such orders are not filled at the same price, it will generally average the prices paid. Similarly, if an order on behalf of more than one fund or client cannot be fully executed under prevailing market conditions, Avenue Capital Group will allocate the investments among the different funds or clients on a basis that it considers equitable. Situations may occur where a fund or client could be disadvantaged because of the investment activities conducted for other funds or clients.

Standing Information Barrier. Avenue U.S. has implemented an information barrier to prevent the transmission of material nonpublic information among different groups within Avenue Capital Group, specifically to wall off Avenue U.S.'s Performing Loans strategy from Avenue U.S.'s and Avenue Capital Group's other investment professionals. Without an information barrier, certain funds could be precluded from trading based on the information inadvertently received by the Performing Loans strategy.

Implementation of the information barrier reduces the likelihood of material nonpublic information being obtained by or from the Performing Loans strategy, thus reducing the possibility of restricting trading activities of the funds and increasing their ability to perform their normal business activities without interruption. Notwithstanding the foregoing, Avenue Capital Group and/or one of its affiliates may from time to time establish one or more additional information barriers around one or more strategy groups within Avenue U.S. and/or Avenue Capital.

Time Commitment. Avenue Capital Group and its affiliates are not obligated to devote any specific amount of time to the affairs of any fund or managed account. Avenue Capital Group's affiliates, including Avenue U.S., Avenue Europe, Avenue Asia and Avenue Credit spend substantial time on other business activities, including those related to the other Avenue clients (as defined herein). Avenue Capital Group's Senior Principals and their affiliates currently engage in and will be free to continue to engage in outside business activities as well as investment activities for their own accounts.

Agreements with Certain Investors in Private Funds. The funds, Avenue Capital Group and their respective affiliates have and may from time to time in the future enter into agreements with one or more investors whereby in consideration for agreeing to invest certain amounts in a fund and other consideration deemed material to the fund, such investors have in the past, and may in the future, be granted rights not otherwise afforded to other investors, including, without limitation, the right to receive reports from the fund on a more frequent basis or to receive reports that include information not provided to other investors, the right to pay a reduced carried interest and/or investment management fee, the right to receive a share of the carried interest and/or investment management fee earned by Avenue Capital Group or its affiliate and such other rights as may be negotiated between the funds, Avenue Capital Group and their respective affiliates, on the one hand, and such investor, on the other hand. Such agreements will have the effect of establishing rights under, or altering or supplementing the terms of, the fund's constituent documents with respect to such investors. To the extent that compliance with any of the provisions of any such agreements would cause the funds, Avenue Capital Group or any of their respective affiliates to violate their respective fiduciary duties or obligations or to violate any applicable laws, any non-compliance with any such provision will not be deemed to be a breach of such agreements.

Agreements with Certain Managed Account Clients and Single Member Funds. Avenue Capital Group and its affiliates may provide advice to one or more clients that invest side-by-side (*i.e.*, in parallel) with one or more of the funds managed by Avenue Capital Group. The agreements entered into with clients grant rights not afforded to other clients or to fund investors. Such rights may include, without limitation, increased transparency (*e.g.*, the right to receive reports regarding the client on a more frequent basis or to receive reports that include information not provided to other clients or fund investors), the right to withdraw capital on a more frequent basis than other clients or fund investors, the right to terminate the relationship on short notice and such other rights as may be negotiated between Avenue Capital Group and its affiliates, on the one hand, and such client, on the other hand. In addition, the fees and expenses paid by such clients may be less, in some cases substantially less, than those paid by other clients or by the funds and the investors in the funds. Such clients may seek to liquidate investments upon termination of their respective investment management agreements in situations where Avenue Capital Group may be unable to liquidate the account's portfolio holdings and/or where liquidation of the account's portfolio holdings is not in the best interest of Avenue Capital Group's other clients. To the extent that compliance with any of the provisions of any client agreement would cause Avenue Capital Group or any of its affiliates to violate its respective fiduciary duties or obligations or to violate any applicable laws, any non-compliance with any such provision will not be deemed to be a breach of such agreements.

Transactions with Affiliates. A client may engage in transactions with Avenue Capital Group or its affiliates. Avenue Capital Group may cause a fund or managed account to engage in cross trades. Such

transaction will be on terms no less advantageous to the fund than are available from unaffiliated persons. Notwithstanding the foregoing, a fund may enter into tax lien servicing arrangements with an affiliate of Avenue Capital Group without regard to the terms of such arrangements. In addition, from time to time, Avenue Capital Group or an affiliate may post the purchase price of a fund investment that is ultimately reimbursed by the applicable fund.

Avenue Capital Group may cause a fund to engage in cross-trades for any number of reasons, including, without limitation, any reasons disclosed Item 11 under the heading “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – Participation or Interest in Client Transactions” or to be consistent with the investment and operating guidelines of the funds. In addition, from time to time, currencies to be bought or sold by a fund may be suitable for purchase by one or more of the other clients of Avenue Capital Group and vice versa. In such circumstances, if Avenue Capital Group determines in good faith that the transaction is in the best interest of the fund and each such other client, the currencies may be transferred at market value between the fund and such other client(s). The Senior Principals and their affiliates will not receive a commission directly or indirectly in connection with such cross-trade.

From time to time, Avenue Capital Group, on behalf of a fund, may receive offers to purchase certain assignments of, or participations in, loans or notes (or interests therein) which clients of Avenue Capital Group own (including loans in whose origination such clients or Avenue Capital Group may have been involved). In the event of such an offer, the price of the participation or assignment of the loan or notes (or interest therein) will not solely be set by Avenue Capital Group or the fund but rather will be established based on third-party valuations obtained in accordance with the procedures followed by the funds, applied on a consistent basis. In connection with each such proposed transaction, Avenue Capital Group will prepare the materials it deems necessary to describe the transaction to the fund. The decision to accept or decline the offer, at the price offered, will, however, be made by a separate committee which will be retained by the fund and will consist of one or more members, after a review of the materials prepared by Avenue Capital Group regarding the proposed transaction plus any additional information requested by the committee. The committee will consist of one or more persons with substantial experience and knowledge of the loan market and related investment arenas who are independent of Avenue Capital Group. The initial member or members of the committee will be appointed by Avenue Capital Group. Following such initial appointment, if all members of the committee subsequently resign or are otherwise removed, Avenue Capital Group may appoint one or more additional members thereto.

Related Party Transactions. An independent committee will have the right to, on behalf of investors and funds, approve or disapprove, certain related party transactions and any other matter as to which approval may be required under the Advisers Act, including Sections 205(a) and 206(3) thereof. In no event will any such transaction be entered into unless it complies with applicable law.

Discounted Products and Services from Portfolio Companies. Certain portfolio companies may offer product and service discounts from time to time to employees of Avenue Capital Group and its affiliates. For example, in order to encourage greater knowledge and understanding of their products and services, or as a general matter for friends and family, certain hospitality-related portfolio companies of a fund and other clients from time to time provide discounted hotel room rates to employees of Avenue Capital Group and its affiliates.

Valuation. The investment professionals of Avenue Capital Group, including the portfolio managers of a fund, may provide input during the valuation process, including, without limitation, at the valuation committee meetings. Such investment professionals maintain an interest in the valuation of a fund’s assets. However, such investment professionals, including the portfolio managers of the fund, shall not participate in the final determination of the valuation of the fund’s assets.

Investments Involving Other Clients. A client 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 fund's and Avenue Capital Group's other clients' interests in such portfolio company may conflict. Moreover, there may be situations in which a fund determines to invest in an issuer in which another fund managed by Avenue Capital Group or its affiliate(s) maintains an investment, so long as Avenue Capital Group or its affiliate(s) determine that the investment made by the fund(s) is appropriate for, and falls within the investment guidelines of, such fund(s). Furthermore, a private fund may invest in the interests of another private fund managed by Avenue Capital Group and/or its affiliate(s). To the extent that a fund 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, Avenue Capital Group and its affiliates may be presented with decisions when the interests of a fund and Avenue Capital Group's other clients are in conflict. It is possible that in a bankruptcy proceeding, out-of-court restructuring or other corporate action, a fund's interest may be subordinated, restricted in some manner or otherwise adversely affected by virtue of Avenue Capital Group's other clients' involvement and actions relating to its investment including, without limitation, the inability to conduct a transaction in an issuer or an instrument in a fund at a time when Avenue Capital Group would otherwise seek to conduct such transaction. There may be conflicts between clients with respect to voting the securities of such issuers and other matters relating to various investments. See Item 11 ("Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – Participation or Interest in Client Transactions") and Item 17 ("Voting Client Securities") for a description of how Avenue Capital Group addresses such potential or actual conflicts.

Follow-On Investments. The funds may be called upon to make investments in an existing portfolio company (or any of its affiliates or subsidiaries) that in Avenue Capital Group's determination is necessary to preserve, protect or enhance the value of an existing investment in such portfolio company. There can be no assurance that the funds will be able to make such investments, including, among other reasons, because the funds will have sufficient funds to do so or because the fund's offering documents prohibit such investment. Any decision not to make such investment could potentially have a substantial negative impact on an investment in a portfolio company. Moreover, to the extent that a fund does not make such investment in a company, such company may seek capital from other investors. Any such arrangements with other investors could rank senior to, and/or cause the dilution of, or otherwise negatively impact, the investment of the fund. In addition, Avenue Capital Group may determine to make a follow-on investment in a portfolio company in which one or more funds previously invested using assets from one or more new funds so long as Avenue Capital Group determines that the follow-on investment made by the new fund(s) is appropriate for, and falls within the investment guidelines of, such fund(s), notwithstanding that the new investment will have rights, preferences and privileges that are senior to the existing investment.

Diverse Investment Management Firm. Avenue Capital Group engages in a broad range of investment management activities, including sponsoring and managing other pooled investment vehicles, client accounts and other activities. Although the relationships and activities of the Avenue Capital Group managers should enable these entities to offer attractive opportunities and services to their clients, such relationships and activities, in the ordinary course of business, may also give rise to circumstances in which the interests of these entities and other affiliates of the Avenue Capital Group managers conflict with the interests of certain of Avenue Capital Group's clients, including, without limitation, competition with other investment vehicles (proprietary or third-party managed) in which clients may have an interest, purchasing and selling investments in entities in which clients may have an interest, or taking or advocating positions in certain transactions that may be considered adverse to the interests of certain clients. The Avenue Capital Group managers effectively may engage in opposite transactions with respect to a particular investment (*e.g.*, one Avenue Capital Group client may acquire a long position in a security

on behalf of an Avenue Capital Group client while one or more of the other Avenue Capital Group clients sells or shorts the security).

Other Activities. Avenue Capital Group and its affiliates are not required to manage the investments of any particular client as their sole and exclusive function and each may engage in other business ventures and other activities unrelated to the affairs of any client, including directly or indirectly purchasing, selling, holding or otherwise dealing with any securities for the account of other investment funds, for their own accounts or for the accounts of family members or other clients. Without limiting the foregoing, Avenue Capital Group's Senior Principals and employees, including the Portfolio Managers, invest in, participate on advisory boards of and/or provide other services to, funds that are unaffiliated with Avenue Capital Group and its family of funds. Avenue Capital Group and its Senior Principals and employees, including the Portfolio Managers, may become aware of business opportunities in which clients will not be given an opportunity to participate.

Investment Management Fee; Incentive Allocation and/or Carried Interest. The investment management fees and the incentive allocations or carried interest borne by funds have generally not been established on the basis of an arm's-length negotiation between the fund, on the one hand, and Avenue Capital Group or its affiliates, on the other hand. However, Avenue Capital Group believes that the investment management fees, and the terms of the incentive allocations or carried interest, generally reflect prevailing market terms. The existence of an incentive allocation or carried interest may create an incentive for Avenue Capital Group to cause a fund to make, more speculative investments than it would otherwise make in the absence of such performance-based compensation. In addition, the investment management fees for some of our funds that are structured like private equity funds may be charged on capital contributions that have not yet been invested or redistributed. Other private equity structured funds pay management fees on drawn capital only, which may create an incentive for a fund to draw down capital more quickly.

Although an incentive allocation or carried interest, such as is paid to the general partners of certain of our private funds, has largely become a customary standard for private investment funds, this type of relative allocation of profits and losses can be characterized as creating an incentive to the general partner for speculative investment and thus a potential conflict with the interests of the limited partners. In addition, since the incentive allocation of certain of our private funds (i.e., our hedge funds) is based upon portfolio gains, both realized and unrealized (net of realized and unrealized losses), it is possible that the general partner may receive an incentive allocation based upon unrealized appreciation in particular positions that was not in fact achieved upon disposition of such positions. Further, while the general partner is entitled to receive an incentive allocation based upon the realized and unrealized net profits initially allocated to each limited partner, it is allocated net losses solely on the basis of its invested capital.

For more information regarding certain categories of fee income, including without limitation, break-up fees, please see Item 5 under the heading "Fees and Compensation – Expenses – Funds."

Diverse Investors. Each fund's investors may include taxable and tax-exempt entities and persons or entities resident of or organized in various jurisdictions. As a result, conflicts of interest may arise in connection with decisions made by Avenue Capital Group or an affiliate that may be more beneficial for one type of investor. In making such decisions, Avenue Capital Group and its affiliates intend to consider the investment objectives of the fund as a whole, not the investment objectives of any investor individually.

Minority Investor in Avenue Capital Group. In the ordinary course of a fund's investment activities, from time to time the fund may enter into transactions with parties related to Morgan Stanley, which is a minority investor in certain entities that are part of Avenue Capital Group. Such transactions may

include, among other things, consulting services, prime brokerage, custodial and ISDA counterparty services and/or the fund purchasing securities from, or settling trades with, a party related to Morgan Stanley.

Tax Risks. The funds and/or investors could become subject to additional or unforeseen taxation in jurisdictions in which the funds operate and invest. Changes to taxation treaties (or their interpretation) between the U.S. and the countries in which the funds invest may adversely affect the funds' ability to efficiently realize income or capital gains.

There are a number of uncertainties in the tax laws relating to certain distressed assets. There can be no assurance that the position adopted by the funds with respect to the characterization of a particular distressed asset, or the timing and characterization of income and losses associated with such asset, will be respected by the IRS or a court, or the taxing authorities in other countries, and any recharacterization by such authorities, if successful, could adversely affect the investors' investments in the funds.

FATCA. Sections 1471 to 1474 of the Code (together with the Common Reporting Standard ("CRS") issued by the Organisation for Economic Cooperation and Development, any associated legislation, regulations or guidance or similar legislation, regulations or guidance enacted in any other jurisdiction as well as any intergovernmental agreements and other laws of other jurisdictions with similar effect, "FATCA") impose a withholding tax of 30% on certain U.S. source payments made to foreign financial institutions, their affiliates and certain other foreign entities, unless the payee institution agrees to comply with new reporting requirements for foreign accounts owned by U.S. individuals or U.S.-owned foreign entities or is otherwise required to do so pursuant to an intergovernmental agreement. Under the applicable regulations, FATCA withholding applies to certain U.S. source payments. Investors in the funds may be required to provide certain information to the funds so that they can comply with these requirements, including certifications by non-U.S. investors as to the beneficial ownership and the U.S. or non-U.S. status of their beneficial owners. An investor that fails to provide required information may be subject to consequences under FATCA and the fund's operative agreements, including withholding, transfer of its interest, redemption of its interest, assignment of its interest to an alternative investment vehicle, special allocations of withholding taxes imposed with respect to a fund's income, and indemnification obligation for costs or expenses arising out of such failure.

Holding Period Requirements for Long-Term Capital Gain. Non-corporate U.S. persons (including the owners of Avenue Capital Group) are subject to U.S. federal income tax on long-term capital gain at rates that are substantially lower than the rates applicable to ordinary income or short-term capital gain. In general, gain from the disposition of an investment of the funds held for more than one year will be treated as long-term capital gain. Under new U.S. federal tax legislation enacted into law on December 22, 2017 (the "2017 Tax Act"), however, gain in respect of the incentive allocations or carried interest will generally be treated as short-term capital gain unless the funds' holding period in the relevant investment is more than three years. The 2017 Tax Act does not change the required holding period for long-term capital gain for investors in the Funds, which remains one year. As a consequence, conflicts of interest may arise between the interests of Avenue Capital Group and the interests of the investors in connection with Avenue Capital Group's investment-related determinations. Such determinations include, but are not limited to, decisions with respect to the development, acquisition or consummation, ownership, maintenance, restructuring, monitoring, hedging, disposition or monetization of the funds' investments. Prospective investors should consider these potential conflicts in making their investment decisions and understand that Avenue Capital Group's determinations may be influenced, in part, by the tax treatment of capital gain in respect of the incentive allocation or carried interest.

Risks Related to Our Investment Strategies

Risks Associated With Market Conditions and Investment Opportunities

General Economic Conditions and Recent Events. Various sectors of the global financial markets have been experiencing periods of reduced liquidity, greater volatility, general widening of credit spreads and a lack of price transparency. The short- and longer-term impact of these events is uncertain, but could have a material effect on general economic conditions, consumer and business confidence and market liquidity. Investments made by a fund are expected to be sensitive to the performance of the overall economy. A negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of a fund and these or similar events may affect the ability of a fund to execute its investment strategies.

Economic and Political Risks of Investments in the United States, Europe and Asia. A portion of the assets of one or more funds managed by Avenue Capital Group may invest in the United States, Europe and/or Asia. There is often a high degree of government regulation in the economies of the United States, Europe and Asia, including in the securities markets. Action by such governments may directly affect foreign investment in securities in those countries and may also have a significant indirect effect on the market prices of securities and of the payment of dividends and interest.

Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits and other economic regulations are possible, any of which could have an adverse effect on private investments. The economies of the United States, Europe and Asia may differ favorably or unfavorably from each other and other economies with regard to the rate of growth of gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments. The U.S. government and governments in certain of the countries in Europe and Asia participate to a significant degree, through ownership interests or regulation, in their respective economies. Action by these governments could have a significant adverse effect on market prices of securities and payment of dividends. The economies of certain countries depend heavily on international trade and can be adversely affected by the enactment of trade barriers or changes in the economic conditions of their trading partners. With respect to certain countries, there may be the possibility of expropriation or confiscatory taxation, political, economic or social instability, limitation on the removal of funds or other assets or the repatriation of profits, restrictions on investment opportunities, the imposition of trading controls, withholding or other taxes on interest, capital gain or other income, import duties or other protectionist measures, various laws enacted for the protection of creditors, greater risks of nationalization or diplomatic developments which could adversely affect the investments or interests of the fund in those countries.

Changing political environments, regulatory restrictions, and changes in government institutions and policies in the United States, Europe and Asia could adversely affect private investments. Civil unrest, ethnic conflict or regional hostilities may contribute to instability in the United States and some countries of Europe and Asia. Such instability may impede business activity and adversely affect the environment for foreign investments. We do not intend to obtain political risk insurance on behalf of the funds. Actions in the future of the U.S. government and/or one or more European and Asian governments could have a significant effect on the various economies, which could affect market conditions, prices and yields of securities in a fund's portfolio. Political and economic instability in the United States and any of the countries in Europe or Asia in which a fund invests could adversely affect the fund's investments.

Laws affecting international investment and business in the United States, Europe and Asia also continue to evolve, although at times in an uncertain manner that may not coincide with local or accepted international practices. Laws and regulations, particularly those concerning investment and taxation, can change quickly and unpredictably. Inconsistencies and discrepancies among the vast number of local,

regional and national laws, the lack of judicial or legislative guidance on unclear or conflicting laws and broad discretion on the part of government authorities implementing the laws produce additional legal uncertainties. The burden of complying with changing and conflicting laws may have an adverse impact on the operations of the funds.

Currency and Exchange Rate Risks. The funds may invest in securities denominated in various currencies of the countries in the Asian and European region, whereas the capital subscriptions for certain funds are denominated in U.S. Dollars or Euros and the funds' assets will be valued in U.S. Dollars or Euros. The funds may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between foreign currencies and the U.S. Dollar or Euro, as well as the transaction costs associated with converting foreign currencies into U.S. Dollars or Euros. Changes in foreign currency exchange rates may also affect the value of dividends and interest earned, and the level of gains and losses realized on the sale of such investments. The rates of exchange between the U.S. Dollar or Euro and other currencies are affected by many factors, including forces of supply and demand in the currency markets. Exchange rates also are affected by the international balance of payments and other economic and financial conditions, government intervention, speculation, and other factors. The funds may, but are not required to, engage in currency hedging. The funds may benefit from the use of such currency hedging mechanisms; however, such mechanisms may result in losses for the funds and an overall poorer performance for the funds than if they had not entered into such currency hedging transactions. Additionally, there can be no assurance as to the success of any hedging arrangements that the funds may implement, and there can be no assurance that adequate hedging arrangements will be available on an economically viable basis.

Non-U.S. Investments. Non-U.S. investments may involve certain special risks, including the following:

- political, social or economic instability;
- the unpredictability of international trade patterns;
- the possibility of non-U.S. governmental actions such as expropriation, nationalization or confiscatory taxation;
- the imposition or modification of exchange controls; price volatility;
- the imposition of withholding taxes on dividends, interest and gains;
- fluctuations in currency exchange rates;
- different bankruptcy laws and customs; and
- different legal systems and laws relating to creditors' rights.

As compared to U.S. entities, non-U.S. entities generally:

- disclose less financial and other information publicly,
- may be subject to less stringent and less uniform accounting, auditing and financial reporting standards and
- 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 substantial delays and settlement failures that could adversely affect the funds' performance. Greater tax risks and complexities also may be associated with these investments. The foreign securities in which the funds may invest may be issued by companies or governments located in emerging market countries. Compared to the United States and other developed countries, emerging market countries may have relatively unstable governments, economies based on only a few industries and securities markets that trade a small number of securities. Securities issued by companies or governments located in emerging market countries tend to be especially volatile and may be less liquid than securities traded in developed countries. The funds are not obligated to engage in any currency hedging operations and there can be no assurance as to the success of any hedging operations that the funds may implement.

Market Disruptions. The funds may incur major losses in the event of market disruptions and other extraordinary events in which historical pricing relationships (on which we base a number of the funds' trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. Certain of Avenue Capital Group's previous investments have benefited from favorable borrowing conditions in the debt markets, which historically have been cyclical. The financing available to the funds from their banks, dealers and other counterparties is typically reduced during market disruptions. Market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the funds and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

Permanent Establishment Risks. Avenue Capital Group generally intends to conduct the funds' operations in a manner that will not cause them to have a "permanent establishment" in any country outside the United States, as such term is defined in the relevant income tax treaty. There can be no assurance that a particular country will not assert that a fund has a permanent establishment in such country, and if such assertion were upheld, it can potentially result in adverse tax consequences to the funds.

Availability of Suitable Investments. While we believe that many attractive investments of the type in which the funds invest are currently available, there can be no assurance that such investments will continue to be available or that available investments will continue to meet the funds' investment criteria. Furthermore, the funds may be unable to find a sufficient number of attractive investment opportunities to meet their investment objectives. Past performance is not necessarily indicative of future performance.

Competition. The markets for potential investments in the funds' investment programs are highly competitive. The funds will be competing for investment opportunities with a significant number of financial institutions and other private funds as well as various institutional investors. Some of these competitors are larger and have greater financial, human and other resources than the funds and **may** in certain circumstances have a competitive advantage over the funds. As a result of this competition, there may be fewer attractively priced investment opportunities than in the past, which could have an adverse impact on the ability of the funds to meet their investment goals or the length of time that is required for the funds to become fully invested. There can be no assurance that the returns on any fund's investments will be commensurate with the risk of investment in the fund.

No Assurance of Investment Return. The funds' task of identifying and evaluating investment opportunities, managing such investments and realizing a significant return for investors is difficult. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize a profit on such investments successfully. Avenue Capital Group believes that its investment strategy and investment approach moderate this risk through a careful selection of securities and other

financial instruments. However, there is no assurance that the funds will be able to invest their capital on attractive terms or generate returns for their investors. Investors in the funds could experience losses on their investment, including a total loss of their investment.

Risks Relating to the European Region

Economic and Political Risks. There is often a high degree of government regulation in European economies, including in the securities markets. Action by such governments may directly affect foreign investment in securities in those countries and may also have a significant indirect effect on the market prices of securities and of the payment of dividends and interest.

Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits, and other economic regulations are possible, any of which could have an adverse effect on private investments. The European economies may differ favorably or unfavorably from the U.S. economy and other economies with regard to the rate of growth of gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments.

Governments in certain of the countries in Europe participate to a significant degree, through ownership interests or regulation, in their respective economies. Action by these governments could have a significant adverse effect on market prices of securities and payment of dividends.

Changing political environments, regulatory restrictions, and changes in government institutions and policies in Europe could adversely affect private investments. Civil unrest, ethnic conflict or regional hostilities may contribute to instability in some countries of Europe. Such instability may impede business activity and adversely affect the environment for foreign investments. Avenue Capital Group does not intend to obtain political risk insurance. Actions in the future of one or more European governments could have a significant effect on the various economies, which could affect market conditions, prices and yields of securities in the funds' portfolios. Political and economic instability in any of the countries in Europe in which the funds invest could adversely affect the funds' investments.

Legal Infrastructure. Laws affecting international investment and business continue to evolve, although at times in an uncertain manner that may not coincide with local or accepted international practices. Laws and regulations, particularly those concerning foreign investment and taxation, can change quickly and unpredictably. Inconsistencies and discrepancies among the vast number of local, regional and national laws, the lack of judicial or legislative guidance on unclear or conflicting laws and broad discretion on the part of government authorities implementing the laws produce additional legal uncertainties. The burden of complying with conflict laws may have an adverse impact on the operations of the funds.

Accounting Standards. Investments may be made in countries where generally accepted accounting standards and practices differ significantly from those practiced in the United States. The evaluation of potential investments and the ability to perform due diligence may be affected. The financial information appearing on the financial statements of a company operating in one or more European countries may not reflect its financial position or results of operations in the way they would be reflected if the financial statements had been prepared in accordance with accounting principles generally accepted in the United States.

Eurozone Uncertainty. Significant Eurozone uncertainty persists with low-to-negative economic growth, high unemployment, growing sovereign debt-to-GDP ratios, and challenges to the European Union in developing a regionwide solution that will stabilize economies and encourage sustainable growth. In response to the economic situation facing the European Economic and Monetary Union, or Eurozone, based on factors including tightening credit conditions, higher risk premiums on Eurozone sovereigns and disagreement among European policy makers as to how best to address the declining market confidence

with respect to the Eurozone, credit rating agencies have downgraded a number of countries in the Eurozone. These downgrades and outlooks could have a material adverse impact on the funds' portfolio.

European Union Alternative Investment Fund Managers Directive. The European Union Directive on Alternative Investment Fund Managers (2011/61/EU) (the "AIFMD") came into force on July 22, 2013. The AIFMD applies to Avenue Capital Group to the extent to which it actively markets the funds into each member of the European Union that has implemented the AIFMD. If the funds are marketed to European Union-based investors, they will be subject to certain reporting, disclosure and other compliance obligations under the AIFMD, which may result in the funds incurring additional costs and expenses. As the funds and Avenue Capital Group are domiciled outside of any European Union member state, the AIFMD requires that, among other things, Avenue Capital Group make available to investors in applicable European Union jurisdictions certain information, set forth in Article 23 of the AIFMD, prior to such investor's investment in a fund. In addition to these disclosures required prior to an investment, Article 23 also requires that Avenue Capital Group disclose certain information on a periodic or regular basis.

The Expected Exit of the United Kingdom from the European Union. On June 23, 2016, the United Kingdom held a remain-or-leave referendum on the United Kingdom's membership of the European Union, the result of which favored the exit of the United Kingdom from the European Union ("Brexit"). A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union, as well as whether the United Kingdom will be able to continue to benefit from the European Union's free trade and similar agreements. Depending on the terms of Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and volatility. The uncertainty before, during and after the period of negotiation – the timing of which is unknown – may also have a negative economic impact and increase volatility in the markets, particularly in the United Kingdom and the Eurozone. Such negative economic impact and volatility could, in turn, adversely affect market conditions. In addition, the political and economic instability in the United Kingdom and other European countries, particularly countries in the Eurozone, could adversely affect the funds' investments.

Shadow Banking Regulation. There has been increasing commentary amongst regulators and intergovernmental institutions, including the Financial Stability Board and International Monetary Fund, on the topic of so-called "shadow banking" (a term generally taken to refer to credit intermediation involving entities and activities outside the regulated banking system).

The Financial Stability Board issued a report in July 2017 that recommended strengthening oversight and regulation of the "shadow banking" system in Europe. The report outlined initial steps to define the scope of the shadow banking system and proposed general governing principles for a monitoring and regulatory framework. While, at this stage, it is difficult to predict the scope of any new regulations, if during a fund's investment period such regulations were to extend the regulatory and supervisory requirements, such as capital and liquidity standards, currently applicable to banks, or the fund was considered to be engaged in "shadow banking," the regulatory and operating costs associated therewith could adversely impact the implementation of the fund's investment strategy and the fund's returns and may become prohibitive. In an extreme eventuality, it is possible that such regulations could render the continued operation of a fund unviable and lead to its premature termination or restructuring.

MiFID II. The package of European Union market infrastructure reforms known as "MiFID II", in effect from January 3, 2018, is expected to have a significant impact on the European capital markets. MiFID II increases regulation of trading platforms and firms providing investment services in the European Union. Among its many market infrastructure reforms, MiFID II has brought in: (i) significant changes to pre- and post-trade transparency obligations applicable to financial instruments admitted to trading on

European Union trading venues (including a new transparency regime for non-equity financial instruments); (ii) an obligation to execute transactions in shares and derivatives on an European Union regulated trading venue; and (iii) a new focus on regulation of algorithmic and high frequency trading. These reforms may lead to a reduction in liquidity in certain financial instruments, as some of the sources of liquidity exit European markets, and may result in significant increases in transaction costs. Although the full impact of these reforms is difficult to assess at present, it is possible that the resulting changes in the available trading liquidity options and increases in transactional costs may have an adverse effect on the ability of Avenue Capital Group to execute the funds' investment program.

Risks Relating to the Asian Region

Investments in the countries in the Asian region involve a broad range of political, economic, legal and financial risks. Many of these risks are not quantifiable or predictable and are not typically associated with investments in securities of companies in economies that have developed and been regulated over a longer period of time.

Market Characteristics. The funds may invest in a relatively limited number of issuers, some or many of which may operate in the same industry or economic sector. Many companies traded on securities markets in certain countries in the Asian region are smaller than companies whose securities are traded on securities markets in developed countries. Investments in smaller companies typically involve greater risk than is customarily associated with investing in larger companies. Smaller companies may have limited product lines, markets or financial or managerial resources and may be more susceptible to losses and risks of insolvency or bankruptcy. Additionally, market making and arbitrage activities are generally less extensive in such markets, which may contribute to increased volatility and reduced liquidity of such markets as compared to developed securities markets. Accordingly, each of these markets may be subject to greater influence by adverse events generally affecting the market and by large investors trading significant blocks of securities, than is usual in developed countries. There is also generally less government supervision and regulation of foreign securities exchanges, brokers and listed companies in the countries in the Asian region than exists in developed countries.

Accounting, auditing and financial reporting standards in the Asian region may not be similar to those of developed countries. In addition, existing regulations are sometimes inconsistently applied. Less information may, therefore, be available to the funds than in respect of investments in developed countries. Trading practices that are prohibited in a number of other countries may also be present in some of these markets in the Asian region. Further, in certain countries in the Asian region, less information may be available to the funds than to local market participants.

Brokerage commissions and other transaction costs on securities exchanges in certain of the countries in the Asian region may be generally higher than in developed countries. Foreign security settlements may in some instances be subject to delays and related administrative uncertainties.

Economic and Political Risks. The funds may invest in securities markets and in securities of issuers located in countries in non-U.S. regions, and in particular in the Asian region, that have less political and economic stability than many developed countries. The economies of such countries may be burdened by heavy debt and high rates of inflation. Foreign securities' markets also may be less liquid, more volatile and less subject to governmental supervisions than in the United States. Investments could be affected by other factors not present in the United States, including the lack of uniform accounting, auditing and financial reporting standards, inadequate settlement procedures and inadequate corporate disclosure standards.

In addition, because many countries in the Asian region are heavily dependent on international trade, such countries may be affected by economic conditions in the international marketplace by the imposition of

trade barriers, quotas and other protectionist measures, as well as by fluctuations in exchange rates. Given that such countries may have a short “free market” trading tradition, there is often a high degree of government regulation in the economy, including in the securities markets. Action by such governments may directly affect foreign investment in securities in those countries and may also have a significant indirect effect on the market prices of securities and of the payment of dividends and interest. The application of non-U.S. tax laws (*e.g.*, the imposition of withholding taxes on dividend or interest payments) may also affect investment in non-U.S. securities.

Political instability in countries in which the funds invest may result in adverse effects on the economy and hence the market value of securities in those countries. Political instability may result from, among other things, the following:

- authoritarian governments or military involvement in political and economic decision-making, including changes in government through extra-constitutional means;
- popular unrest associated with demands for improved political, economic and social conditions;
- internal insurgencies;
- hostile relations with neighboring countries; and
- ethnic, religious and racial disaffection.

Such social, political and economic instability could disrupt the principal financial markets in which the funds invest and as a result adversely affect the value of the funds’ assets.

Not all of the countries in the Asian region have fully democratic governments. In addition, there may be a risk of expropriation, nationalization or confiscatory taxation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy or changed circumstances in dealings between nations, the imposition or modification of exchange controls, price volatility, the imposition of withholding taxes on dividends, interest and gains, fluctuations in currency exchange rates, different bankruptcy laws and customs; and different legal systems and laws relating to creditors’ rights, all of which may affect the funds’ investments either directly or by subsequent adverse effects on the value of the funds’ investments in those countries.

Governments in certain of the countries in the Asian region participate to a significant degree, through ownership interests or regulation, in their respective economies. Action by these governments could have a significant adverse effect on market prices of securities and payment of dividends.

Legal Infrastructure. The legal infrastructure in each of the countries in the Asian region is unique. In addition, certain countries in the Asian region, securities laws are evolving and far from adequate for the protection of the public from serious fraud. In addition, many countries in the Asian region have undeveloped shareholder rights and provide inadequate legal remedies for breaches of contract, which could adversely affect the funds’ minority investments and rights under shareholders agreements. Courts in some of the countries in the Asian region lack experience in commercial dispute resolution, and many of the procedural remedies for enforcement and protection of legal rights typically found in more developed jurisdictions are not available in such countries. The extent to which local parties and entities, including local government agencies, will recognize the contractual and other rights of the parties with which they deal may be uncertain in certain parts of the Asian region. The funds may therefore be unable to protect and enforce their rights against local governmental and private entities. The funds may also encounter difficulties enforcing judgments of foreign courts in the Asian region.

Repatriation of Investments and Profits. The income that the funds will receive from their investments may be denominated in currencies other than U.S. dollars. The repatriation of the funds' capital and investment income in U.S. dollars may be subject to the laws and regulations of the individual countries in the Asian region in which the funds invest. Therefore, such repatriation may require prior government approval in some countries. Although the right to remit capital dividends and interest income is generally respected by countries throughout the Asian region, the funds may be adversely affected in certain countries by delays in procuring any required government approval for repatriation of such capital, dividends and interest income in U.S. dollars.

Foreign Investment Restrictions. Some countries in the Asian region have laws and regulations that limit direct foreign investment and require government approval or registration prior to effecting any foreign investment in domestic securities. In some cases, such laws may preclude or restrict foreign investment in the securities of resident companies, limit the types of securities that foreigners may buy, or limit foreign investors to special investment structures. In some countries in the Asian region, foreigners are precluded from investing in certain economic sectors. Furthermore, foreign ownership limitations also may be imposed by the individual companies. As a result of foreign investment restrictions, a fund may not be able to recover investment proceeds or otherwise realize gains to which it is entitled. These restrictions could also have an adverse effect on the companies in which a fund invests.

Risks Associated with Avenue Capital Group's Investments and Investment Activities

Nature of Investments. Our investment strategy involves investing in senior and subordinated, secured or unsecured, debt obligations, securities and assets that are inefficiently priced 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 we will evaluate correctly the nature and magnitude of the various factors that could affect the value of these investments.

In particular, the funds 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. The market prices of these securities are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such securities may be greater than normally expected. Although such investments may result in significant returns to the funds, they involve a substantial degree of risk and may not show any return for a considerable period of time, if at all.

Distressed investment opportunities can occur in companies that have filed for, or plan to file for, reorganization. Sourcing, diligence, structuring and governance of private distressed investments require consideration of factors that are often not present in standard private equity investing or investments in the senior and secured debt of financially sound companies. If our evaluation of the anticipated outcome of an investment situation should prove incorrect, the funds could experience losses. Successful investing requires a specialized skill set that includes:

- the capacity to accurately value a company's assets and analyze its capital structure;
- a sophisticated knowledge of the complex legal environment in which such investing occurs, particularly bankruptcy, securities, corporate and indenture law;
- the experience necessary to determine accurately the financial interests and legal rights of the debtor and each of its creditor constituencies; and

- 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, we 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 our access 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. Competition from other investors may also render it unadvisable for us to pursue intended results or promptly effect transactions.

Troubled company and other asset-based investments require active monitoring and will, at times, require participation in business strategy or reorganization proceedings by Avenue Capital Group. To the extent that Avenue Capital Group becomes involved in such proceedings, the funds may have a more active participation in the affairs of the issuer. In addition, involvement by Avenue Capital Group in a company's reorganization proceedings could result in the imposition of restrictions limiting a fund's ability to liquidate its position in the securities of the company.

A portion of the funds' investments may be in obligations or securities that are rated below investment grade by recognized rating services such as Moody's and Standard & Poor's. Securities rated below investment grade and unrated securities generally offer a higher current yield than that available from higher grade issues but typically involve greater risk. The value of securities rated below investment grade and unrated securities is typically sensitive to adverse changes in general economic conditions and changes in the financial condition of their issuers and subject to price fluctuation in response to changes in these conditions or in interest rates. During periods of economic downturn or rising interest rates, issuers of securities rated below investment grade and unrated instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of securities rated below investment grade and unrated securities, especially in a market characterized by a low volume of trading. In addition, the secondary market for high yield securities, which is concentrated in relatively few market makers, may not be as liquid as the secondary market for more highly rated securities. As a result, the funds could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. The prices quoted by different dealers may vary significantly, and the spread between the bid and asked price is generally much larger for high yield securities than for higher quality instruments. Under continuing adverse market or economic conditions, the secondary market for high-yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these securities may become illiquid.

To the extent that a secondary market does exist for debt obligations, including senior secured floating rate and fixed rate loans and subordinated or unsecured loans, the market is more volatile than for liquid, listed securities and may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Markets for other investments of the funds, including derivative instruments, bonds, currencies and other instruments can also be highly volatile. Purchasers of leveraged loans are predominantly commercial banks, investment funds and investment banks. As secondary market trading volumes increase, arrangers and obligors of new leveraged loans are frequently adopting standardized documentation to facilitate trading that should improve market liquidity. There can be no assurance, however, that the current level of liquidity will continue or that future levels of supply and demand in leveraged loan trading will provide an adequate degree of liquidity. No assurance can be given that a

fund that purchases a leveraged loan will be able to sell that loan if the obligor has deteriorated in credit quality. Even in the absence of a default with respect to any leveraged loan, due to potential market volatility, the market value of such loan at any time will vary, and may vary substantially, from the price at which such loan was initially purchased and from the principal amount of such loan. The market value of leveraged loans will generally fluctuate with, among other things, the financial condition of the obligors of the loans, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. No assurance can be given as to the amount of proceeds of any sale or disposition of any leveraged loan, or that the proceeds of any such sale or disposition would be sufficient to repay principal of and interest or other amounts due on the notes that may have been issued by a fund using such leveraged loan as collateral, and/or pay other amounts payable prior thereto.

The funds may invest in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists, or acquire illiquid securities, *e.g.*, through bankruptcy reorganization proceedings. 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 funds may be unable to liquidate all or a portion of their positions in such securities. In addition, the market prices, if any, for such securities tend to be more volatile and the funds 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 the funds' holdings may be difficult. The funds may, in their discretion, utilize the assistance of internal or external pricing services or valuation sources in calculating such fair market values when and if available.

If market quotations for the funds' investments are not readily available, the funds may seek to value their investments by modeling and other methods to fair value such investments, either through third-party service providers or by Avenue Capital Group's valuation team and by Avenue Capital Group's valuation committee, which has been charged with the responsibility of valuing the funds' portfolios. Illiquid securities are subject to wide spreads. Fair valuation is not exact and prices can vary significantly from one period to the next.

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 and that an investor may not receive any or all of its principal or interest. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument, and debt obligations, which are rated by rating agencies, are often reviewed and may be subject to downgrade. Senior loans, like most other debt obligations, are subject to credit risks of default. In addition, because second lien or other subordinated or unsecured loans or debt are subordinated in payment and/or lower in lien priority to senior loans, they are subject to additional risk that the cash flow of the borrower and property securing the loan or debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior secured obligations of the borrower. This risk is generally higher for subordinated unsecured loans or debt, which are not backed by a security interest in any specific collateral.

"Interest rate risk" refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate debt

securities) and directly (especially in the case of debt instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. In addition, interest rate increases generally will increase the interest carrying costs to the funds of borrowed securities and leveraged investments (*e.g.*, derivative transactions). If interest rates fall, it is possible that issuers of fixed income securities with high interest rates will prepay or “call” their securities before their maturity dates. In this event, the proceeds from the prepaid or called securities would likely be reinvested in securities bearing the new, lower interest rates, resulting in a possible decline in the funds’ income.

In addition, the funds may agree to buy or sell bank claims or other similar private paper, with an understanding that formal written contracts for the purchase or sale will be prepared at a later date. The terms of these contracts may be less favorable than the funds anticipated. In some circumstances, they may be so unfavorable that a fund decides to terminate a proposed transaction.

The funds may from time to time make investments in securities of private companies without an active trading market. Traditional exit opportunities for such investments have consisted primarily of initial public offerings and acquisitions of portfolio companies by publicly traded companies, often for stock. The ability of the funds to sell securities and realize investment gains will depend upon favorable market conditions. Initial public offering and merger and acquisition opportunities may be limited or non-existent for extended periods of time, whether due to economic, regulatory, or other factors. In addition, general fluctuations in the market prices of securities may affect the value of the investments held by the funds. Therefore, there is no assurance that the funds will be able to realize liquidity for such investments in a timely manner, if at all.

In recent years, markets for debt instruments have become noticeably less liquid. This “liquidity squeeze” reflects a growing structural change in financial markets that has resulted from industry consolidation, increased capital requirements, and stricter regulatory oversight of large banks that have traditionally served to “make” markets for debt securities through proprietary trading of short-term positions. The origins of reduced liquidity can be traced to the 2008-2009 financial crisis, which led to the disappearance of large firms such as Lehman Brothers and Bear Stearns, passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and increased capital requirements related to Basel III standards. These factors have limited the number of market participants and reduced the profitability and extent of proprietary trading. While banks’ trading operations previously included dedicated proprietary trading desks that were designed to generate profits based on market or security-specific views, such operations have generally been curtailed. Remaining dealer trading operations are designed with a more narrow focus on facilitating trades through taking temporary positions in securities, which is a more limited use of banks’ proprietary capital. The decline in liquidity of the debt markets may lead to higher transaction costs for fund investments, and at the margins, increase the risk associated with debt investments held by the funds, particularly for lower-quality and more thinly traded issues.

The funds’ investments may also be adversely affected by changes in economic conditions or political events that are beyond their or our control. For example, a market crash, a war, or the death of a major political figure may have significant adverse effects on the funds’ investment results.

Nature of Bankruptcy and Similar Proceedings. There are a number of significant risks when investing in companies involved in bankruptcy cases, including the following:

- Many events in a bankruptcy case are the product of contested matters and adversary proceedings that are beyond the control of the creditors. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of the funds. Further, positions based on established bankruptcy case law may prove to be incorrect.
- A bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the reorganization case becomes a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment.
- The duration of a bankruptcy 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 bankruptcy case are frequently high and may be paid out of the debtor's estate prior to any return to creditors. Reorganizations can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. We anticipate that Avenue Capital Group and/or the funds may be named as defendants in civil proceedings. 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 be subject to equitable subordination and lose their ranking and priority if they engage in certain inequitable conduct or 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 bankruptcy cases.
- Bankruptcy law in certain jurisdictions 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 fund'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 bankruptcy case, 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.
- If a fund seeks representation on creditor's committees, it may owe certain obligations generally to all similarly situated creditors that the committee represents and it may be subject to various trading or confidentiality restrictions. As the funds will indemnify any person serving on a committee or the board of directors on its behalf for claims arising from breaches of those obligations, indemnification obligations could adversely affect the return on any investment related to a reorganization.
- Certain non-U.S. jurisdictions may present different risks.

Claims. The funds may also invest in claims of creditors against debtors arising out of the ordinary course of business, ranging from obligations owed to creditors by such debtors for goods and services delivered prior to the filing of a bankruptcy, to causes of action against debtors for failure to honor prospective contracts, and including, without limitation:

- trade claims,
- wage claims,
- tax claims,
- environmental claims,
- personal injury claims,
- contract rejection claims,
- government claims,
- claims for administrative expenses,
- lease claims and
- other claims including securitized lease receivables, equipment note payments and litigation claims.

The 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 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 claims include:

- the possibility that the amount of the claim may be disputed by the obligor,
- difficulties in obtaining information regarding the obligor's true financial condition,
- fraud on the part of the assignor of the claim and
- logistical and mechanical issues that may affect the ability of the funds 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. Claims are also generally considered illiquid and the pricing of such investments can be subject to high volatility.

Sector Concentration. The aggregate return of the funds may be substantially adversely affected by the unfavorable performance of the overall relative performance of the distressed sector. Concentration in government-backed receivables and claims may subject the funds to greater volatility than a more diversified portfolio of investments.

Issuer Concentration. Because a significant portion of a fund's aggregate capital commitments may be invested in a single company, any single loss may have a significant adverse impact on the fund's capital. Accordingly, the fund's assets may be subject to greater risk of loss than if they were more widely diversified since the failure of one or a limited number of investments could have a material adverse effect on the fund. The funds are subject to a limited number of concentration limits (*e.g.*, industry and geography) such that portfolios are expected to be relatively concentrated, however, Avenue Europe's

funds generally are not subject to any requirement to diversify by industry. Moreover, given the research intensive nature of Avenue Capital Group's investment strategies, the exposure of certain of the funds will be highly concentrated in financially troubled or distressed companies and the aggregate return of the funds may be substantially adversely affected by the unfavorable performance of the overall relative performance of the distressed sector. Concentration in financially troubled or distressed companies may subject the funds to greater volatility than a more diversified portfolio of investments. In addition, because any fund may invest a higher percentage of its assets in a relatively small number of issuers, each fund is more susceptible to any single economic, market, political or regulatory event affecting those issuers than is a more broadly diversified fund.

Control Investments and Provision of Managerial Assistance. The funds may make control investments in issuers, obtain rights to participate substantially in and to influence substantially the conduct of the management of issuers or obtain rights to designate directors (and non-executive chairmen) to serve on the boards of directors of issuers. Control investments, or the obtaining of these rights, could give rise to conflicts of interest between the funds and the issuers, and expose the funds to risk of claims by the issuers and their security holders and creditors, risk of liability for environmental damage, product defect, failure to supervise management, violation of governmental regulations and other types of liability, in which the limited liability characteristic of business operations may be ignored. For example, a conflict of interest may arise when Avenue Capital Group designates one or more directors to the board of an issuer in which a fund managed by Avenue Capital Group invests because Avenue Capital Group's fiduciary duty to act in the best interest of the fund could potentially conflict with a firm-designated director's fiduciary duties with respect to that issuer.

The funds may also be exposed to risk in connection with the disposition of control investments, particularly if a fund (i) obtains material non-public information with respect to any portfolio company on whose board of directors a member of the fund or its affiliates serves or (ii) is subject to trading restrictions pursuant to the internal trading policy of such a portfolio company. Disposition of these investments may be more difficult than if Avenue Capital Group did not have a close relationship with the issuer. The funds may be required to make representations and warranties about the business and financial affairs of the investments typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities law. The funds may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations and warranties or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which will be borne by the funds and such liabilities may exceed the value of the funds' investments.

Legal Risks of Funds as Part of Larger Firm. Each of Avenue U.S., Avenue Europe, Avenue Asia and Avenue Credit is part of Avenue Capital Group, a larger corporate structure with multiple business lines in multiple jurisdictions that are governed by a multitude of legal systems and regulatory regimes, some of which are new and evolving. As a result, the funds, Avenue Capital Group and/or their respective affiliates are subject to a number of unusual risks, including changing laws and regulations, developing interpretations of such laws and regulations and increased scrutiny by regulators. Some of this evolution may result in scrutiny or claims against the funds, Avenue Capital Group and/or their affiliates directly for actions taken or not taken by the funds, Avenue Capital Group and/or their affiliates. Thus, the funds, Avenue Capital Group and/or their respective affiliates face the continuing risk of pending and potential litigation and regulatory action. These risks are often difficult or impossible to predict, avoid or mitigate in advance. The effect on the funds, Avenue Capital Group or any affiliate of any such legal risk, litigation or regulatory action could be substantial and adverse.

Risk of Minority Positions. The funds may hold minority positions in issuers. Accordingly, the funds may not be able to exercise control over such issuers. In addition, in certain situations, including where

the issuer is in bankruptcy or undergoing a reorganization, minority investors may be subject to the decisions taken by majority investors and the outcome of the funds' investments may depend on such majority controlled decisions, which decisions **may** not be consistent with the funds' objectives.

Investments in Pooled Investment Vehicles. A fund may acquire interests in other pooled investment vehicles, including investing in other pooled investment vehicles managed by Avenue Capital Group or its affiliates, that pursue various investment strategies, and invest in various asset classes. The fund may not participate in the management and control of such pooled investment vehicles or their underlying investments and may not have the opportunity to evaluate the specific investments made by them. In addition, both the fund and such pooled investment vehicles are likely to charge certain operating expenses, which would result in greater expense than if the fund invested directly in the investments of such pooled investment vehicles.

Functional Currency. The Internal Revenue Service may assert that a fund relying on the Euro as its functional currency is required to instead use the U.S. dollar. The statutes and regulations do not provide clear guidance on the issue of whether a fund is required to use the U.S. dollar as its functional currency, and this issue is therefore not free from doubt. If a fund relying on the Euro were required to instead use the U.S. dollar as its functional currency, the fund would be required to recognize foreign currency income or loss for all transactions denominated in Euros on a transaction-by-transaction basis. This requirement could result in an investor being required to recognize taxable income, even in a year in which the fund's overall operations (measured in Euros) produced a net loss.

Counterparty Risk. Some of the markets in which the funds may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the relevant fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a fund has concentrated its transactions with a single or small group of counterparties. The funds are generally not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds' internal counterparty review process, which evaluates the creditworthiness of their counterparties, may prove insufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the funds. Changes in the credit quality of the companies that serve as the funds' counterparties with respect to derivatives, swaps or other transactions supported by the counterparty's credit will affect the value of those instruments. Certain entities that have served as counterparties in the markets for these transactions have incurred significant financial hardships including bankruptcy and losses as a result of the credit crisis and making investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced such entities' capital and called into question their continued ability to perform their obligations under such transactions. By using derivatives, swaps or other transactions, a fund assumes the risk that its counterparties could experience similar financial hardships. In the event of default by, or the insolvency of, a counterparty, such fund may sustain losses or be unable to liquidate a derivative or swap position.

The funds are also subject to the risk of failure of any of the exchanges on which the funds' positions trade or of their clearinghouses. Because securities owned by a fund that are held by broker-dealers are generally not held in such fund's name, the bankruptcy of any such broker-dealer could have a greater adverse impact on such fund than if such securities were registered in such fund's name.

Systemic Risk. Credit risk may also arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the funds interact on a daily basis.

Projections. The funds may make investments relying upon projections developed by Avenue Capital Group, a prospective portfolio company or other third-party source concerning such company’s future performance and cash flow. Projections are inherently subject to uncertainty and factors beyond the control of Avenue Capital Group, the portfolio company or such other sources. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values.

Cyber Security Risks. With the increased use of technologies such as the Internet and the dependence on computer systems to perform necessary business functions, investment vehicles such as funds and their services providers may be prone to operational and information security risks resulting from cyber-attacks. In general, cyber-attacks result from deliberate attacks, but unintentional events may have effects similar to those caused by cyber-attacks. Cyber-attacks include, among other behaviors, stealing or corrupting data maintained online or digitally, denial-of-service attacks on websites, the unauthorized release of confidential information and causing operational disruption. Successful cyber-attacks against, or security breakdowns of, a fund, a general partner, Avenue Capital Group, a fund’s custodian and/or other third party service providers may adversely impact a fund or the investors. For instance, cyber-attacks may interfere with the processing of investor transactions, impact a fund’s ability to value its assets, cause the release of private investor information or confidential information of a fund, impede trading, cause reputational damage, and subject a fund to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and/or additional compliance costs. A fund may also incur substantial costs for cyber security risk management in order to prevent any cyber incidents in the future. A fund and the investors could be negatively impacted as a result. While a fund or a fund’s service providers have established business continuity plans and systems designed to prevent such cyber-attacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Similar types of cyber security risks are also present for issuers of securities or other instruments in which a fund invests, which could result in material adverse consequences for such issuers, and may cause a fund’s investment therein to lose value.

Fraud. Instances of fraud and other deceptive practices committed by senior management of certain companies in which the funds invest and/or third party service providers (*e.g.*, aviation contractors who buy and sell airplane parts from or to the funds and service providers who value tax lien investments of the funds) may undermine our due diligence efforts with respect to such companies and/or other investments, and if such fraud is discovered, negatively affect the valuation of the funds’ investments. In addition, when discovered, financial fraud may contribute to overall market volatility, which can negatively impact the funds’ investment programs.

Privacy and Data Protection Laws. A fund, general partner and/or Avenue Capital Group may be directly or indirectly subject to the requirements of the General Data Protection Regulation (Regulation (EU) 2016/679) (“GDPR”), which came into effect in the EU in May of 2018, which creates a range of new compliance obligations regarding the handling of personal data, and increases financial penalties for noncompliance significantly. Any applicable fund, general partner and Avenue Capital Group intend to comply with any obligations arising out of the GDPR but may not be able to accurately anticipate the way in which regulators and courts will apply or interpret the GDPR, including its applicability to such fund, general partner and Avenue Capital Group. If the GDPR is interpreted or applied in a manner inconsistent with such fund’s, general partner’s and Avenue Capital Group’s policies and practices that

are designed to ensure any required GDPR compliance, they may be fined or ordered to change their business practices in a manner that adversely impacts their operating results.

A fund, general partner and Avenue Capital Group are also subject to data protection laws passed by many states and by localities that require enhanced levels of cybersecurity and notification to users and/or regulators when there is a security breach for personal data. Compliance with these regulations, including the obligation to timely notify stakeholders in the event of a cybersecurity incident, may divert Avenue Capital Group's time and effort and entail substantial expense. Any failure by the fund or Avenue Capital Group to comply with these laws and regulations could result in negative publicity and may subject the Fund to significant costs associated with litigation, settlements, regulatory action, judgments, liabilities and other penalties, for which the fund may not have insurance coverage.

Risks Associated with Avenue Capital Group's Loan Investments

Success in the area of loan investing will depend, in part, on the ability to obtain loans on advantageous terms. In purchasing loans, the funds will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

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

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

All Bank Loans. Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the funds to directly enforce their rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the funds.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of

liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

Second Lien Loans. The funds may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not contract further.

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

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

Lender Liability Claims. There may be circumstances where a loan or other debt investment of the funds could be subordinated to claims of other creditors or the funds could be subject to lender liability claims. If a company that the funds are invested in were to go bankrupt, even though the funds may have structured their investment as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize such debt holding as an equity investment and subordinate or disallow all or a portion of the funds' senior debt claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower as described above for debt investments (see risk factor "Equitable Subordination.").

Additionally, should the funds need to collect on a defaulted loan, litigation could result. There is a high cost associated with any litigation and the results of litigation are always uncertain. Even before litigation is commenced, the funds could experience substantial costs in trying to collect on defaulted investments, such as legal fees, collection agency fees, or discounts related to the assignment of a defaulted loan to a third party.

Risks Associated with Avenue Capital Group's Distressed Investments

Bank Loans, Participations and Assignments. Avenue Capital Group's investment program may include investments in significant amounts of bank loans purchased directly through assignment (where the fund is the record holder) or indirectly through participation (participations arise when a fund acquires a beneficial economic interest in a debt obligation but is not the record holder of such instrument; in such instances, there is an agreement between or among the parties to the transaction with respect to the beneficial interest being transferred to the fund). Certain European jurisdictions may present different risks.

Assignments and participations 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, the funds will be bound by 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. Bank loans are subject to various risks including, without limitation:

- 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; and
- environmental liabilities that may arise with respect to collateral securing the obligations.

Assignments

The purchaser of an assignment of an interest in a loan typically succeeds to all the rights and obligations of the assigning institution and becomes a lender and record holder under the loan agreement with respect to that loan. As a purchaser of an assignment, a fund 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, however, are not always available to our funds based on a borrower's restrictions and where available are 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.

Participations

In circumstances where owning by assignment is not available or desirable, the fund may purchase loans through participation agreements. Investing through participation agreements is subject to unique risks, including limitations on the ability of the funds to directly enforce their rights with respect to participations. For example:

- In the event of the insolvency of the record holder, a fund, 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 fund may purchase a participation interest from a selling institution that agrees to be the record holder for the funds 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 fund 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 funds and may fail to consider the interests of the funds in connection with their votes.

In analyzing each bank loan participation, we compare the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the funds.

Bankruptcy Claims. The funds may invest in bankruptcy claims, including trade and other claims, which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid, generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the claim. The markets in bankruptcy claims are not generally regulated by U.S. federal or foreign securities laws or regulators. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, such investments may be adversely affected by 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.

The trade claims market, in particular, 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. 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:

- the possibility that the amount of the claim may be disputed by the obligor,
- difficulties in obtaining information regarding the obligor's true financial condition,
- fraud on the part of the assignor of the claim, and

- logistical and mechanical issues that may affect the ability of the fund or its agents to collect on the claim in whole or in part.

Equitable Subordination. Common law principles in the jurisdictions in which the funds invest can create lender liability for our funds if a lender (*i.e.*, one or more of our funds):

- intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer,
- engages in other inequitable conduct to the detriment of such other creditors,
- engages in fraud with respect to, or makes misrepresentations to, such other creditors or
- uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called “equitable subordination”).

The funds do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the funds should be equitably subordinated. Each jurisdiction will apply this common law doctrine differently and may present additional issues.

Participation on Creditors’ Committees. The funds may participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy, or may seek to negotiate directly with debtors with respect to restructuring issues. If a fund joins a creditors’ committee, the participants of the committee would be interested in obtaining an outcome that is in their respective individual best interests and there can be no assurance of obtaining results most favorable to the fund in such proceedings. By participating on such committees, the funds may be deemed to have duties to other creditors represented by the committees, which might thereby expose the funds to liability to such other creditors who disagree with the actions of the funds, as the case may be.

Sovereign and Other Governmental Debt Investments. The funds may invest their assets in sovereign and other governmental debt instruments, which involve special risks. The governmental authority that controls the repayment of the sovereign and other governmental debt may be unwilling or unable to repay the principal and/or interest when due in accordance with the terms of such securities due to:

- the extent of its cash reserves;
- the availability of sufficient foreign exchange on the date a payment is due;
- the relative size of the debt service burden to the economy as a whole; or
- the government debtor’s policy towards the International Monetary Fund and/or other political constraints to which a government debtor may be subject.

In addition, sovereign and other governmental debt instruments may be subject to credit spread risks resulting from exposures to changes in a sovereign and other governmental issuer’s probability of default, expected recovery rate and actual default. Some sovereign and other governmental issuers have encountered difficulties in servicing their external debt obligations, which led to defaults on certain obligations and the restructuring of certain indebtedness. If an issuer of sovereign and other governmental debt defaults on payments of principal and/or interest, the funds may have limited legal recourse against the issuer and/or guarantor. In certain cases, remedies must be pursued in the courts of the defaulting

party itself, and the funds' ability to obtain recourse may be limited. All of the funds' investments in sovereign and other governmental debt instruments will be subject to typical market risks.

DIP Loans. Debtor-in-possession ("DIP") loans involve a fundamental credit risk based on the borrower's ability to make principal and interest payments and the inherent risks in the bankruptcy process. DIP loans are subject to a court approval process in which parties-in-interest may be heard but there can be no assurance that the funds would be successful in obtaining favorable results. If our calculations as to the outcome or timing of a reorganization are inaccurate, a company that has filed for bankruptcy may not be able to make payments on a DIP loan on time or at all. In addition, DIP loans may be privately negotiated transactions, each of which has individualized terms. These positions may be illiquid and difficult to value. DIP loans may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the borrower and general market liquidity.

High Yield Debt Obligations. High yield debt obligations are generally unsecured and may be subordinated to certain other obligations of the obligor thereof. The lower rating of securities in the high yield sector reflects a greater possibility that adverse changes in the financial condition of an obligor or in general economic conditions or both may impair the ability of the obligor to make payments of principal and interest. In addition, the market for high yield debt securities is not liquid at all times and for all obligors. Particular issues may be held by only a few investors, many of such obligations are not registered under the Securities Act, most are not listed on a securities exchange and market-making activity, if any, may cease at any time during the life of such obligations. Due to potential market volatility, the market value of such high yield debt obligations at any time will vary, and may vary substantially, from the price at which such high yield debt obligations were initially purchased and from the principal amount of such high yield debt obligations. No assurance can be given as to the amount of proceeds of any sale or disposition of any high yield debt obligations (whether upon default or otherwise), or that the proceeds of any such sale or disposition would be sufficient to repay principal of and interest or other amounts due on the notes that **may** have been issued by a fund using such high yield debt obligations as collateral and pay other amounts payable prior thereto in an amount equal to the outstanding principal and accrued and unpaid interest of such high yield debt obligations.

Loan Origination. The funds may seek to originate loans, including, but not limited to, senior, second lien and mezzanine loans and other similar investments. The funds may subsequently offer such investments for sale to third parties; *provided, however*, that, there is no assurance that a fund will complete the sale of such an investment. In determining the target amount to allocate to an originated investment, we may take into consideration the fact that a fund may sell, assign or offer participations in such investment to third parties. Accordingly, if the fund is not successful in offering such participations, this could result in the fund being "overweighted" with respect to a particular borrower.

Investments in Equity Securities. The funds may invest their assets in equity securities, including preferred or common stocks. Investments in equity securities of small or medium-sized market capitalization companies will have more limited marketability than the securities of larger companies. In addition, securities of smaller companies may have greater price volatility. All of the funds' investments in stocks will be subject to normal market risks. While diversification among issuers may mitigate these risks, investors must expect fluctuations in value of equity securities held by the funds based on market conditions.

Options. The funds may purchase and sell ("write") options on equities on national and international securities exchanges and in the domestic and international over-the-counter market. The seller ("writer") of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing

the short position) of the underlying security, plus the premium received and gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying security, the loss on the put will be offset in whole or in part by any gain on the underlying security.

The writer of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the value of the underlying security less the premium received and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase or closing sale transaction. In entering into a closing purchase transaction, the funds will be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Stock Index and Market Options. The funds may also purchase and sell call and put options on stock indices and exchange traded funds (“ETFs”) listed on national securities exchanges or traded in the over-the-counter market for the purpose of realizing their investment objectives or for the purpose of hedging their portfolios. A stock index or ETF fluctuates with changes in the market values of the stocks included in the index or ETF. The effectiveness of purchasing or writing stock index or ETF options for hedging purposes will depend upon the extent to which price movements in the funds’ portfolios correlate with price movements of the stock indices or ETFs selected. Because the value of an index or ETF option depends upon movements in the level of the index or ETF rather than the price of a particular stock, whether the funds will realize gains or losses from the purchase or writing of options on indices or ETFs depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices or ETFs, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the funds of options on stock indices or ETFs will be subject to our ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Event Driven Situation Investing. Certain funds may focus on securities or indebtedness of companies that are engaging, or which have recently been engaged, in extraordinary transactions and in other special situations (“event driven situations”). Investing in event driven situations entails discovering value by analyzing companies experiencing corporate change. These situations include investing in companies that Avenue Capital Group believes are likely to become the subject of a takeover, merger, exchange offer, rights offering, restructuring, liquidation, spin-off or any other extraordinary event that Avenue Capital Group believes would be likely to increase the value of the companies’ debt or equity securities. Investments in event driven situations typically will entail a higher degree of risk than investments in companies that are not engaging in or have recently engaged in event driven situations. If an evaluation of the anticipated outcome of an event driven situation should prove incorrect, the funds could experience losses. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of Avenue Capital Group and its affiliates to reliable and timely information concerning material developments affecting an investment.

The funds may invest and trade in securities and obligations of U.S. or non U.S. companies which it believes are undervalued in the sense that, although they are not the subject of an announced event driven situation transaction, the companies are, in the view of Avenue Capital Group, potential candidates for such transaction. In such a case, if the anticipated transaction does not in fact occur, the funds may sell the investments at a loss. The funds may invest in the securities of a company engaging in an event driven situation after the event has been announced. Since the price offered for securities of a company involved in an announced transaction may be at a significant premium above the market price prior to the announcement, in the event the proposed transaction is not consummated the value of such securities held by the funds will decline significantly if their market price returns to a level comparable to that which exists prior to the announcement of the transaction.

Furthermore, the difference between the price paid by the funds for securities of a company involved in an announced transaction and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. If the proposed transaction appears likely not to be consummated or, in fact, is not consummated or is delayed, the market price of the securities will usually decline sharply, perhaps by more than the funds' anticipated profit.

Investing in securities in anticipation of a merger is extremely competitive. The funds compete with firms, including many of the larger investment banking firms, which have substantially greater financial resources, larger research staffs and more securities traders than are available to the funds.

We will attempt to assess all of the foregoing risk factors, and others, in determining the extent of the position the funds will take in the relevant securities and the price the funds are willing to pay for such securities. However, such risks cannot be eliminated.

Repurchase Agreements and Reverse Repurchase Agreements. A fund may invest in repurchase agreements and reverse repurchase agreements. In its purchase of repurchase agreements, such fund does not bear the risk of a decline in the value of the underlying security unless the seller defaults under its repurchase obligation. In the event of the bankruptcy or other default of a seller of a repurchase agreement, the fund could experience both delays in liquidating the underlying securities and losses, including possible decline in the value of the underlying security during the period while the fund seeks to enforce its rights thereto, possible lack of access to income on the underlying security during this period, and expenses of enforcing its rights.

Credit Derivative Transactions. As part of its investment strategy, a fund may enter into credit derivative transactions. Credit derivatives are transactions between two parties which are designed to isolate and transfer the credit risk associated with a third-party (the "reference entity"). Credit derivative transactions in their most common form consist of credit default swap transactions under which one party (the "credit protection buyer") agrees to make one or more fixed payments in exchange for the other party's (the "credit protection seller") obligation to assume the risk of loss if an agreed-upon "credit event" occurs with respect to the reference entity. Credit events are specified in the contract and are intended to identify the occurrence of a significant deterioration in the creditworthiness of the reference entity (mainly a default on a material portion of its outstanding obligations, a bankruptcy or a restructuring of its debt). Upon the occurrence of a credit event, credit default swaps may be cash settled (either directly or by way of an auction) or physically settled. If the transaction is cash settled, the amount payable by the credit protection seller following a credit event will usually be determined by reference to the difference between the nominal value of a specified obligation of the reference entity and its market value after the occurrence of the credit event (which sometimes may be established in an industry-wide auction process). If the transaction is physically settled, the credit protection buyer will deliver an obligation of the reference entity that is either specified in the contract or the general

characteristics are described therein to the credit protection seller in return for the payment of its nominal value.

Credit derivatives may be used to create an exposure to the underlying asset or reference entity, to reduce existing exposure or to create a profit through trading differences in their buying and selling prices. The funds may enter into credit derivatives transactions as protection buyers or sellers.

There are a number of uncertainties in the tax laws relating to credit default swaps. There can be no assurance that the characterization adopted by the funds with respect to a particular credit default swap will be respected by the Internal Revenue Service or a court, and any re-characterization by the Internal Revenue Service, if successful, could adversely affect the investors' investments in the funds.

Credit derivative transactions are an established feature of the financial markets and both the number of participants and range of products available have significantly increased over the years. Credit derivative transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the referenced instrument of the derivative, potential loss upon default of the reference instrument or issuer, and the shape of the curve of the applicable risk-free rate, among other factors. As such, there are many factors upon which market participants may have divergent views. Additionally, credit derivatives may require the posting of collateral. A bankruptcy of the collateral holder may result in losses to the extent posted collateral exceeds the obligations of the pledging party under the credit derivative transaction.

Transactions in certain derivatives are subject to trading and clearing on a U.S. national exchange and clearinghouse and to regulatory oversight, while other derivatives are subject to risks of trading in the "over-the-counter" ("OTC") markets or on non-U.S. exchanges. Certain credit index derivatives are currently required to be traded on a Swap Execution Facility and cleared through a registered clearinghouse. For swaps that are cleared through a clearinghouse, the funds will face the clearinghouse as legal counterparty and will be subject to clearinghouse performance and credit risk. Clearinghouse collateral requirements may differ from and be greater than the collateral terms negotiated with derivatives counterparties in the OTC market, and U.S. regulators have discretion to set collateral requirements for trades that are not cleared through a clearinghouse. OTC derivative dealers will be required to post margin to the clearinghouse through which they clear their customers' trades instead of using such margin in their operations, as they historically were allowed to do. This will further increase the dealers' costs, which costs are expected to be passed through to other market participants in the form of higher fees and less favorable dealer marks. In addition, the funds' assets are also subject to the risk of the failure of any of the exchanges on which its positions trade or of its clearinghouses or counterparties.

Other Derivatives. The funds may take advantage of opportunities in the area of swaps, options on various underlying instruments and certain other customized derivative instruments. The funds may enter into swap transactions, including credit default, total return, index and interest rate swap agreements, as well as options thereon, and may purchase or sell interest rate caps, floors and collars. In addition, the funds may take advantage of opportunities with respect to certain other derivative instruments which are not presently contemplated for use by the funds or which are currently not available. Derivative instruments contain much greater leverage than do non-margined purchases of the underlying instrument in as much as only a very small portion of the value of the underlying instrument is required to be posted as collateral in order to effect such investments. If the counterparty to such a swap defaults, the fund would lose any collateral deposits made with the counterparty in addition to the net amount of payments that it is contractually entitled to receive under the swap. Many derivatives instruments are traded on a principal to principal basis, in which performance with respect to such instruments is the responsibility of only the parties to the contract, and not of any exchange or clearinghouse. As a result, many of the protections afforded to participants on organized exchanges and in a regulated environment are not

available in connection with these transactions and the fund will be subject to counterparty risk relating to the inability or refusal of a counterparty to perform such derivatives contracts. If the counterparty's creditworthiness declines, the value of a swap agreement would be likely to decline, potentially resulting in losses of the fund. Other risks may include market risk, liquidity risk, legal risk and operations risk. Swaps generally do not involve delivery of securities, other underlying assets or principal. Accordingly, the risk of loss with respect to swaps generally is limited to the net amount of payments that the fund is contractually obligated to make, or in the case of the other party to a swap defaulting, the net amount of payments that the fund is contractually entitled to receive. If Avenue Capital Group is incorrect in its forecast of market values, interest rates or currency exchange rates, the investment performance of the funds would be less favorable than it would have been if these investment techniques were not used.

Special risks may apply to instruments which are invested in by the funds in the future which cannot be determined at this time or until such instruments are developed or invested in by the funds. For example, certain types of derivative instruments may be highly illiquid and it is possible that the funds will not be able to terminate such derivative instruments prior to their expiration date or that the penalties associated with such a termination might impact the funds' performance in a material adverse manner. If the funds seek to participate through the use of such derivative instruments, the funds will not acquire any voting interests or other shareholder rights that would be acquired with a direct investment in the underlying securities or financial instruments. Accordingly, the funds will not participate in matters submitted to a vote of the shareholders. In addition, the funds may not receive all of the information and reports to shareholders that the funds would receive with a direct investment. Further, the funds will pay the counterparty to any such derivative instrument structuring fees and ongoing transaction fees, which will reduce the investment performance of the funds. Finally, certain aspects of the appropriate U.S. federal income tax treatment of such derivative instruments are uncertain and, if a fund's U.S. federal income tax treatment of such instruments proves to be inappropriate, an investor's after tax return from its investment in a fund may be adversely affected.

Recent financial reform legislation may require the funds to comply with margin requirements and with certain clearing and trade-execution requirements in connection with its derivative activities, although the full application of those provisions is uncertain at this time. The financial reform legislation may also require the counterparties to the funds' derivative instruments to spin off some of their derivatives activities to a separate entity, which may not be as creditworthy as the funds' current counterparty. The new legislation and any new regulations could:

- significantly increase the cost of derivative contracts (including through requirements to post collateral which could adversely affect a client's available liquidity);
- materially alter the terms of derivative contracts;
- reduce the availability or desirability of derivatives;
- reduce the ability to monetize or restructure existing derivative contracts; and
- increase a client's exposure to less creditworthy counterparties.

In particular, the Dodd-Frank Act amendments to the Advisers Act require a large proportion of transactions in the derivatives markets to be conducted on a swap execution facility. The impact of the swap execution facilities on transaction liquidity and pricing cannot be determined at this time. Currently, the clearing mandate applies to certain interest rate and credit index swaps. Swaps that are not cleared through registered clearinghouses are potentially subject to regulations including increased mandatory margin requirements without the benefit of protections afforded to participants in cleared swaps (for example, centralized counterparty, guaranteed funds and customer asset segregation). Price movements of

futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives trading.

Risks of Clearing Houses, Counterparties or Exchange Insolvency. The liquidity of a secondary market in derivatives is subject to the risk of trading halts, suspensions, exchange or clearing house equipment failures, government intervention, insolvency of a brokerage firm, clearing house or exchange or other disruptions of normal trading activity, including prime brokers refusing to clear or settle any trade.

Synthetic Obligations. Synthetic obligations, *i.e.*, swap transactions, structured investments or other investments purchased from, or entered into by a fund, with respect to a reference debt security or other obligation, present risks in addition to those resulting from direct purchases of the reference obligations underlying such synthetic obligations. With respect to each synthetic obligation, the relevant fund will usually have a contractual relationship only with the counterparty of such synthetic obligation, and not the reference obligor on the reference obligation. The fund generally will have no right directly to enforce compliance by the reference obligor with the terms of the reference obligation nor any rights of set-off against the reference obligor (and may be subject to setoff rights exercised by the reference obligor against the counterparty or another person or entity), nor have any voting or other consensual rights of ownership with respect to the reference obligation. The fund will not directly benefit from any collateral supporting the reference obligation and will not have the benefit of the remedies that would normally be available to a holder of such reference obligation. In addition, in the event of the insolvency of the counterparty, the fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the reference obligation. Consequently, the fund will be subject to the credit risk of the counterparty as well as that of the reference obligor.

Structured Products. Structured products, including collateralized debt obligations, or CDOs, collateralized bond obligations, or CBOs, collateralized loan obligations, or CLOs, structured notes, credit-linked notes and other types of structured products, representing a non-recourse or limited-recourse obligation issued by a special purpose vehicle, may present risks that are greater than those presented by other types of collateralized loan obligations. Holders of structured products bear risks of the underlying investments, index or reference obligation and are subject to counterparty risk. The holder of a structured product may have the right to receive payments to which it is entitled only from the issuer of the structured product, and generally does not have direct rights against the issuer of, or the entity that sold, assets underlying the structured product. Certain structured products may be thinly traded or have a limited trading market and may have the effect of increasing a fund's illiquidity to the extent that the fund, at a particular point in time, may be unable to find qualified buyers for, and may have difficulty valuing, these securities. CBOs, CLOs and other CDOs are typically privately offered and sold, and thus, are not registered under the securities laws. Structured products may also be subject to prepayment risk, credit risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured finance obligation changes based on multiples of changes in interest rates or inversely to changes in interest rates). In addition, the performance of a structured product will be affected by a variety of factors, including its priority in the capital structure of the obligor thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

Forward Trading. The funds may invest 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 funds 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 we would otherwise recommend, to the possible detriment of the funds. Market illiquidity or disruption could result in major losses to the funds.

Futures Transactions. Futures transactions involve the execution and clearing of trades on an exchange, the laws and regulations of which will vary depending on the country in which the transaction occurs. The funds may not be afforded certain protections, including the right to use domestic alternative-dispute-resolution procedures depending on the exchange on which it participates in futures transactions. Also, funds received to margin foreign futures transactions may not be provided the same protections in all jurisdictions. In addition, the price of any futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the exchange rate between the time the order is placed and the futures contract is liquidated or the option contract is liquidated or exercised.

Liquidity of Futures Contracts. The funds may use futures as part of their investment program. Avenue Capital Group will determine and pursue all steps that are necessary and advisable to ensure compliance with the U.S. Commodity Exchange Act and the rules and regulations promulgated thereunder. Futures positions 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 particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be entered into nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved beyond the daily limits for several consecutive days with little or no trading. Over-the-counter instruments generally are not as liquid as instruments traded on recognized exchanges. These constraints could prevent the funds from promptly liquidating unfavorable positions and subject the funds to substantial losses. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that may be indirectly held or controlled in particular commodities.

Hedging Transactions. The distressed market in which the funds may invest is subject to fluctuations and the market value of any particular investment may be subject to substantial variation. The entire market or, particular securities traded on a market may decline even if earnings or other factors improve since the prices of debt securities and equity securities are subject to numerous economic, political, procedural and other factors that have little or no correlation to the performance of a particular company. The funds may utilize a variety of financial instruments, such as derivatives, exchange-traded funds, options, shorting securities, interest rate swaps, caps and floors, futures and forward contracts, both for investment purposes and for risk management purposes. When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the funds from achieving the intended hedging effect or expose the funds to risk of loss. While the funds may enter into hedging transactions to seek to

reduce risk, such transactions may result in a poorer overall performance for the funds than if they had not engaged in any such hedging transaction. We may determine not to hedge a position and may not identify appropriate risks to hedge. Moreover, it should be noted that the funds' portfolios will always be exposed to certain risks that cannot be hedged.

In connection with a hedging transaction, the funds' may be required to allocate funds or provide a credit line to be used as collateral for the margin capital of the hedge. Such a requirement would tie up a portion of the funds' capital that could otherwise have been available for investment. This could cause a fund to be less invested in its core investment strategy than it would have been absent such hedging transaction, and could possibly result in an adverse effect on the overall returns of the funds.

Furthermore, the funds' ability to enter into hedging transactions may be limited by their compliance with CFTC Rule 4.13(a)(3)'s "de minimis" requirements with respect to the funds' commodity interest positions.

Tax Liens. Certain aspects of the appropriate U.S. federal income tax treatment of tax lien investments are uncertain and, if a fund's U.S. federal income tax treatment of such instruments proves to be inappropriate, an investor's after tax return from its investment may be adversely affected.

Risks Relating to the Energy and Utility Sectors

Risks Associated with Investment in the Energy and Utility Sectors. The funds will make investments in the energy and utility sectors. They will invest in companies involved in, or supporting, the production and distribution of energy and power and the related infrastructure. These companies are sensitive to fluctuations in fuel supply and demand, interest rates, special risks of constructing and operating facilities, lack of control over pricing, merger and acquisition activity and regulation. Such fluctuations may, among other things, increase compliance costs and other costs of doing business. Furthermore, the energy markets may be subject to short-term volatility due to a variety of factors, including weather, international political and economic developments, breakdowns in the facilities for the production, storage or transport of energy and utility products, acts of terrorism, changes in government regulation and sudden changes in fuel prices.

Nature of Investments in Oil and Natural Gas. Certain of the companies in which the funds invest may be subject to the risks inherent in acquiring or developing recoverable oil and natural gas reserves, including capital expenditures for the identification and acquisitions of projects, the drilling and completing of wells and the conduct of development and production operations. The presence of unanticipated pressures or irregularities in formations, miscalculations or accidents may cause such activity to be unsuccessful, which may result in losses. Furthermore, successful investment in oil and natural gas properties and other related facilities and properties requires an assessment of:

- recoverable reserves,
- production rates,
- future oil and natural gas prices,
- operating and capital costs,
- potential environmental and other liabilities, and
- other factors.

Such assessments are necessarily inexact and their accuracy inherently uncertain. Also, the revenues generated by certain of the companies in which the funds invest may be dependent on the future prices of and the demand for oil and natural gas. Oil and gas investments may have significant shortfalls in projected cash flow if oil and gas prices decline from levels projected at the time the investment is made. Various factors beyond the control of the funds will affect prices of oil, natural gas and natural gas liquids, including the worldwide supply of oil and natural gas, political instability or armed conflict in oil and natural gas producing regions, the price of non-U.S. imports, the value of the U.S. dollar, the level of consumer demand, the price and availability of alternative fuels, the availability of pipeline capacity and changes in existing government regulation, taxation and price control. Further, to the extent the funds invest in or receive royalty interests, the funds will generally receive revenues from those royalty interests only upon sales of oil, gas and other hydrocarbon production or upon sale of the royalty interests themselves. There can be no assurance that reserves sufficient to provide the expected royalty income will be discovered or produced.

Volatility of Oil and Natural Gas Prices. The performance of investments of the funds may be substantially dependent upon prevailing prices of oil and natural gas. Historically, the markets for oil and natural gas have been volatile, and such markets are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to wide fluctuation in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, speculation and a variety of additional factors that are beyond the control of Avenue Capital Group or the funds.

The funds' ultimate performance will be impacted by, among other things, changes in oil, natural gas and natural gas liquids prices. Oil, natural gas and natural gas liquids prices have been, and are likely to continue to be, volatile and subject to wide fluctuations in response to any of the following factors:

- relatively minor changes in the supply of and demand for oil, natural gas, natural gas liquids or coal;
- market uncertainty and the condition of various economies (including interest rates, levels of economic activity, the price of securities and the participation by other investors in the financial markets);
- political conditions in international oil producing regions;
- terrorist acts;
- the extent of domestic production and importation of oil, natural gas, natural gas liquids or coal in certain relevant markets;
- the level of consumer demand;
- weather conditions;
- the competitive position of oil, natural gas, natural gas liquids or coal as a source of energy as compared with other energy sources;
- the refining capacity of oil, natural gas and natural gas liquids;
- the effect of foreign, federal and state regulation on the production, transportation and sale of oil and other price controls, taxes and environmental laws and regulations;
- the price of non-U.S. imports;

- the value of the U.S. dollar;
- the availability of pipeline capacity; and
- a variety of other factors beyond the funds' control.

Any substantial and extended decline in the price of oil, natural gas or natural gas liquids would have an adverse effect on the value of the funds' revenues, profitability and cash flows from operations.

In addition, estimates of hydrocarbon reserves by qualified engineers are often a key factor in valuing certain oil and gas assets. These estimates are subject to wide variances based on changes in commodity prices and certain technical assumptions. Accordingly, it is possible for such reserve estimates to be significantly revised from time to time, creating significant changes in the value of the investments.

Volatile oil, natural gas and natural gas liquids prices make it difficult to estimate the value of developed properties for acquisition and divestiture and often cause disruption in the market for oil, natural gas and natural gas liquids developed properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Nature of Investments in the Power Industry and Utility Sector. For much of its history, the power industry, and particularly the utility sector within this broader industry, was characterized by institutional stability and predictability of financial performance. The advent of deregulation, privatization, technological change and market volatility has created a much less stable sector with substantially greater variability of company performance. There can be no assurance that the pace or direction of the changes will be in accord with expectations, nor that the industry changes will benefit investments made by the funds. Investing in power facilities and related assets is subject to a variety of risks, not all of which can be foreseen or quantified, including operating, economic, environmental, commercial, regulatory, political and financial risks. There is no assurance that the funds' investments will be profitable or generate cash flow sufficient to service their debt or provide a return on or recovery of amounts invested therein. The operation of power facilities and certain other types of energy-related infrastructure or facilities involves many risks, including higher than anticipated operating and maintenance costs, loss of sale and supply contracts or fuel contracts, bankruptcy of key customers or suppliers, the breakdown or failure of pipelines, transmission lines, power generation equipment or other equipment or processes and performance below expected levels of output or efficiency. Although each project typically contains certain redundancies and back-up mechanisms and insurance is maintained to protect against the effects of certain operating risks, such redundancies and back-up mechanisms may not cover every operating contingency, and the proceeds of such insurance may not be adequate to cover lost revenues or increased expenses. Actual cash flow generating ability of the funds' portfolio companies will be influenced by (among other things):

- the technology employed in the power generation plants or other assets;
- demand/pricing considerations;
- changes of regulations affecting the power industry; and
- competition from other power generation plants that may have lower production costs and operating and maintenance costs.

Certain Legal and Regulatory Risks in the Energy and Utility Sectors. The energy and utility sectors are subject to comprehensive United States and non-U.S. federal, state and local laws and regulations.

Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect the portfolio companies and the prospects of the funds. Other power assets may be taxed or need to purchase offsets under proposed environmental legislation in the United States and existing or proposed environmental legislation in other parts of the world, which could affect economic viability. The funds may invest in portfolio companies believed to have obtained all material governmental approvals required as of the date thereof to acquire and operate their facilities. In addition, the funds may be required to obtain the consent or approval of applicable regulatory authorities in order to acquire or hold certain ownership positions in portfolio companies. A portfolio company could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such company. Moreover, additional regulatory approval requirements, including without limitation, renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future due to a change in laws and regulations, a change in the companies' customers or for other reasons. There can be no assurance that a portfolio company will be able to: (i) obtain all required regulatory approvals that it does not currently have or that it may be required to have in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements could prevent operation of a facility or sales to or from third parties or could result in additional costs to a portfolio company. Regulatory changes in a jurisdiction where a portfolio investment is located may make the continued operation of the portfolio investment infeasible or economically disadvantageous and any expenditures made to date by such portfolio investment may be wholly or partially written off. The locations of the portfolio investments may also be subject to government exercise of eminent domain power or similar events. Any of these changes could significantly increase the regulatory-related compliance and other expenses incurred by the portfolio investments and could significantly reduce or entirely eliminate any potential revenues generated by one or more of the portfolio investments, which could materially and adversely affect returns to the funds.

Power generation and transmission, as well as oil, natural gas and coal storage, handling, processing and transportation, are extensively regulated; statutory and regulatory requirements may include those imposed by energy, zoning, environmental, safety, labor and other regulatory or political authorities. Failure to obtain or a delay in the receipt of relevant governmental permits or approvals, including regulatory approvals, could hinder operation of an investment and result in fines or additional costs. In addition, some of the funds' investment acquisitions and dispositions may be subject to approval under the U.S. Federal Power Act of 1920, as amended. Obtaining permits and approvals or complying with ongoing regulatory requirements may be costly and/or time-consuming to obtain. Moreover, the adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations or changes in the persons charged with political oversight of such laws or regulations, could have a material adverse effect upon a portfolio company of the funds and could necessitate the creation of new business models and the restructuring of investments in order to meet regulatory requirements, which may be costly and/or time-consuming.

Environmental Matters. Energy and utility companies are subject to numerous environmental laws and regulations in each country in which they operate. Some of the most onerous requirements regulate air emissions of pollutants such as sulfur dioxides, nitrogen oxides and particulate matter. In the United States and Europe, emission standards for sulfur dioxides, nitrogen oxides and particulate matter are stringent and will become more restrictive over the next several years. Additionally, in the United States, generators are now subject to limits on their emissions of mercury. In Europe and under the laws of several U.S. states, generators also face new requirements on their emissions of greenhouse gases, specifically including carbon dioxide. It is possible that the U.S. Congress could enact new federal emissions limits on utility emissions of carbon dioxide in the near future. The uncertain and ever

changing regulatory environment in which generators operate in the United States and Europe makes it likely both that generators will face increased operating costs in the years ahead and that the relative competitive position of various fuel types and generation technologies will change. Certain possible changes in the environmental laws and regulations applicable to generators in the United States or Europe could affect the performance of one or more of the funds' investments to an extent that would create a material adverse effect to the funds. The environmental liability risks related to power generation and other power facilities or other tort liability in excess of insurance coverage may adversely affect the value of the funds' portfolio companies and the overall performance of the funds.

There can be no guarantee that all costs and risks regarding compliance with environmental laws and regulations can be identified. New and more stringent environmental and health and safety laws, regulations and permit requirements or stricter interpretations of current laws or regulations could impose substantial additional costs on portfolio companies or potential investments. Compliance with such current or future environmental requirements does not ensure that the operations of the portfolio companies will not cause injury to the environment or to people under all circumstances or that the portfolio companies will not be required to incur additional unforeseen environmental expenditures. Moreover, failure to comply with any such requirements could have a material adverse effect on a portfolio company, and there can be no assurance that portfolio companies will at all times comply with all applicable environmental laws, regulations and permit requirements. Past practices or future operations of portfolio companies could also result in material personal injury or property damage claims.

Under certain circumstances, environmental authorities and other parties may seek to impose personal liability on investors of a fund subject to environmental liability. However, an investor in the funds may reduce its risk of such personal liability by avoiding activities with respect to the fund's portfolio investments other than as specifically contemplated by the applicable operative agreement.

Force Majeure Events. The portfolio companies in which the funds invest may be subject to catastrophic events and other force majeure events during the construction, technical and/or operational phases. These events could include fires, floods, earthquakes, adverse weather conditions, assertion of eminent domain, strikes, wars, riots, terrorist acts, "acts of God" and similar risks. These events could result in the partial or total loss of an investment or significant down time resulting in lost revenues, among other potentially detrimental effects. Some force majeure risks are generally uninsurable and, in some cases, investment project agreements can be terminated if the force majeure event is so catastrophic that it cannot be remedied within a reasonable time period.

Adequacy of Insurance. Each project generally will be obligated under the applicable investment agreement to maintain insurance customary for that type of project, provided that such insurance requirement may be limited to insurance that is available on commercially reasonable terms, which may not exist. The proceeds of insurance applicable to covered risks may not be adequate to cover lost revenues or increased expenses. There can be no assurance that each portfolio company will have the benefit of business interruption insurance, funded debt service reserve accounts or other liquidity support sufficient to enable it to remain current on all payments due on its loans during any period of interruption to operations. Furthermore, in the event of total or partial loss to any project, certain items of equipment may not be replaceable promptly as their large and project-specific character may mean that replacements are not readily available. Accordingly, notwithstanding that there may be guarantee coverage, warranty coverage and/or insurance coverage for loss to a project, the location of such project, the large size of some of the equipment and the extended period needed to manufacture replacement units could give rise to significant delays in replacement, could impede such project's operation and such portfolio company's ability to make payments on the funds' loans.

Infrastructure Risks. The funds' portfolio companies may rely heavily on infrastructure assets for the storage and transportation of energy and power outputs. From time to time, the funds may invest in issuers that engage in energy and power projects in undeveloped areas. Where there is a lack of existing infrastructure, midstream assets typically require significant capital initially, but ongoing capital requirements are modest relative to many other segments. In addition, the demand, pricing and terms for oilfield services in an issuer's existing or anticipated service areas largely depends upon the level of exploration and development activity for both crude oil and natural gas in the region of the investment. The ability of an issuer to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver oil and natural gas to commercial markets. Accordingly, such energy and power project sites may lack necessary infrastructure build-out to support such issuer's expected production growth.

Additionally, even in developed areas, the funds' portfolio companies run the risk that existing infrastructure could be inefficiently managed and/or damaged or destroyed, causing a delay in or cancellation of the issuer's business operations. Causes of infrastructure damage or destruction may include traffic accidents, natural disasters, man-made disasters, defective design and construction, slope failure, bridge and tunnel collapse, road subsidence, toll rates, fuel prices, environmental legislation or regulation, general economic conditions, labor disputes and other unforeseen circumstances and incidents. Certain of these events have affected infrastructure in the past and the inability of the funds' portfolio companies to use such infrastructure could have a material adverse effect on the financial condition and business operations of the issuers of the funds' investments.

Projections and Third-Party Reports. There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and their values. Estimates of oil and gas reserves, by necessity, are projections based on engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and gas reserves and of future net cash flows necessarily depend on a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions concerning future oil and gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of the future net cash flows expected from such reserves may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves.

Risks Relating to the Aircraft and Aviation Industry

Investments in the Aircraft and Aviation Industry. Investments in aircraft and aviation assets historically and characteristically involves a high magnitude of risk, including, the following:

- The supply and demand of aircraft is affected by various cyclical factors that are not under the funds' control. These cycles may produce sharp decreases or increases in aircraft values and lease rates, and when leases for aircraft expire, industry conditions may prevent the aircraft from being re-leased or, where applicable, sold on satisfactory terms. As a result, any decreases in the values of, and rental rates for, aircraft that may result from various industry or other unanticipated factors may have an adverse effect on the funds' operations and cash flow and impair its investments.

- The availability for sale or lease of new, technologically advanced aircraft and the imposition of stringent noise or emissions regulations or mandatory airworthiness directives may make certain aircraft or engine types less desirable in the marketplace. Compliance with current or future regulations, taxes or duties imposed to deal with environmental concerns may cause the funds to incur higher costs and to generate lower net revenues, and may adversely affect the funds' ability to lease or sell such aircraft or engines. Avenue Capital Group expects that its ability to manage these technological risks by modifying or selling aircraft will be limited.
- The maintenance and operation of aircraft and engines are strictly regulated by the Federal Aviation Administration in the U.S. and similar governmental authorities in non-U.S. jurisdictions. These rules and regulations govern such matters as certification, registration, inspection, operation and maintenance procedures, personnel certification, and record keeping. The cost of compliance with such requirements is significant, and Avenue Capital Group will endeavor, whenever practicable, to have lessees agree to bear all or a significant portion of the costs of compliance with governmental regulations. However, should a lessee fail to properly maintain the aircraft or engine, or a lease terminates before a major overhaul is mandated, the funds may be required to spend substantial sums to repair or re-condition the aircraft/engine before it can be re-marketed. Future regulatory changes may also increase the cost of operating and/or maintaining aircraft, which may adversely affect their residual value and the profitability of the funds, as can the failure of a lessee to comply with the maintenance provisions as set forth in the lease.
- Economic recessions, war, the price of petroleum, the availability of more attractively priced and/or more efficient aircraft, price discounting by manufacturers of new aircraft, technical and regulatory obsolescence, and more recently terrorism, can have a profound effect on aircraft values, especially in the short term. Most of these circumstances cannot be predicted and these circumstances may adversely affect the funds.

In addition, Avenue relies upon third-party service providers to service aircraft-related leases and refurbish, store, value, and sell aircrafts and their parts at the end of the life and/or lease of the aircrafts.

Risk of Supply and Demand; Decline in Aircraft Value, Lease Rates and Sale Price. Many factors may affect the value of an aircraft and aircraft parts or the lease rate or purchase price which the funds may obtain for the lease or sale of their aircraft. The oversupply of specific aircraft types or aircraft parts in the market is likely to depress aircraft/aircraft part values, lease rates and sale prices for that type of aircraft and the parts for that type of aircraft. The supply and demand of aircraft and aircraft parts is affected by various cyclical factors that are not under Avenue Capital Group's control, including:

- air travel and cargo demand; interest rates;
- the availability of credit; fuel costs and general economic conditions affecting lessee operations;
- manufacturer production level;
- passenger demand;
- retirement and obsolescence of aircraft models;
- manufacturers merging or exiting the industry or ceasing to produce aircraft types;
- reintroduction into service of aircraft previously in storage;

- airline restructurings and bankruptcies;
- general economic conditions and geopolitical events, manufacturer production levels and technological advances;
- airport and air traffic control infrastructure constraints; and
- governmental regulation.

Any decrease in values of lease rates and sale prices for used commercial aircraft which may result from the above factors or other unanticipated factors may have a material adverse effect on the funds' operations and cash flow and impair the funds' investments.

Effect of Aircraft Liens and Unknown Contingent Liabilities. In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, air navigation charges (including charges imposed by Eurocontrol), landing charges, crew wages, repairer's charges, salvage or other liens ("aircraft liens") are likely, depending on the jurisdiction in question, to attach to the aircraft. The aircraft liens may secure substantial sums that may, in certain jurisdictions or for limited types of aircraft liens (particularly fleet liens), exceed the value of the particular aircraft to which the aircraft liens have attached. Although the financial obligations relating to these aircraft liens are the responsibilities of the lessees, if they fail to fulfill their obligations, aircraft liens may attach. In some jurisdictions, aircraft liens may give the holder thereof the right to detain or, in limited cases, sell or cause the forfeiture of the aircraft. If such a contingent liability becomes known and the fund is called on to pay it, it may adversely affect the funds.

Aircraft Age. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Furthermore, older aircraft typically are less fuel-efficient than newer aircraft. Variable expenses like fuel, crew size or aging aircraft corrosion control programs and related airworthiness directives could make the operation of older aircraft less economically feasible and may result in increased lessee defaults and also cause the fund to incur some of these increased maintenance expenses and regulatory costs.

The governments of some countries have considered regulations restricting or prohibiting the import of aircraft above a certain age. If passed, such regulations may impact the ability of the funds to re-lease or sell some of the aircraft on favorable terms or at all.

Technological Risks. The introduction of superior aircraft technology or a new line of aircraft may make certain aircraft models or types to become outdated and therefore less desirable in the marketplace, which may adversely affect the funds' ability to lease or sell the aircraft. As manufacturers introduce technological innovations and new models or types of aircraft, these new technologies and aircraft models or types may be more attractive for potential lessees or purchasers, while the funds' aircraft could become less desirable to potential lessees or purchasers.

Re-Leasing. The funds' ability to re-lease aircraft, as well as its ability to obtain lease rates and terms comparable to those contained in the initial leases of the aircraft, may be impaired by various factors including general economic conditions affecting the aircraft and aviation industry, the supply and demand for a particular aircraft type, the high cost of fuel, the continued political and economic uncertainties in certain parts of the world and the circumstances under which the aircraft is returned under the expiring lease. In addition, the ability to re-lease may be further adversely impacted by any future terrorist attacks or armed hostilities, or an outbreak of epidemics similar to the Avian Bird Flu or Ebola.

Avenue Capital Group cannot assure potential investors that the funds will be able to re-lease aircraft upon the expiration or early termination of their leases without incurring significant costs or significant off-lease periods or without any adverse effect on the lease rates, especially during any period of downturn in demand for aircraft subject to operating leases. The funds may be required to incur significant costs to rectify lessee defaults relating to maintenance. If the funds are unable to re-lease an aircraft on attractive terms or at all, it may attempt to sell or otherwise dispose of the aircraft but may not be able to do so on economically attractive terms or at all.

Restructuring of Leases. Under certain circumstances, including when a lessee is late in making payments or fails to make payments in full under its lease, the funds (or a service provider on behalf of the funds) may be requested to restructure a lease. Restructuring may involve anything from a simple rescheduling of payments, a reduction of rental payments, or an easing of return conditions upon the termination of a lease, in each case without receiving all or any portion of the past due amounts.

If any leases are restructured, the funds expect that the reduced or deferred rental payments would be payable over all or some part of the remaining term of the lease. The funds may be required to agree to such reductions or deferrals in the event no viable substitute lessee is available.

The funds may be unable to agree upon acceptable terms for some or all of the requested restructurings and as a result may exercise its remedies under those leases. If the funds, in the exercise of their remedies, repossesses an aircraft, there can be no assurance that they will be able to re-lease the aircraft promptly or at favorable rates. The terms and conditions of potential lease restructurings may result in significant reductions of rental payments under the leases. These reductions may adversely affect the funds.

Risks Relating to Lessees. The funds will be dependent on the lessees to perform their obligations under the leases, including the payment of rent and the required maintenance and insurance of the aircraft. The failure of any lessee to perform such obligations may adversely affect the ability of the funds to achieve its investment objectives.

The ability of each lessee to perform its obligations under its lease will depend primarily on such lessee's financial condition, which may be affected by factors beyond the funds' control, including competition, airfare levels, air cargo rates, passenger and air cargo demand, operating costs (including the price and availability of jet fuel and labor costs), labor difficulties, economic conditions in the countries in which the lessee operates and governmental regulation of or affecting the air transportation business. As a general matter, airlines with weak capital structures are more likely than well-capitalized airlines to seek operating leases and, at any point in time, a varying number of lessees may experience payment difficulties. As a result of their weak financial condition, a large portion of lessees over time may consistently be significantly in arrears in their rental or maintenance payments. Any future terrorist attacks or attempts, or armed hostilities, could exacerbate the weakened financial condition of the lessees and further increase the risk of an increase in delayed, missed or reduced rental payments. Some lessees encountering financial difficulties may seek a reduction in their lease rates or other concessions such as a decrease in their contribution toward maintenance obligations. The funds can give no assurances that lessees will be able to perform their financial and other obligations under the leases in the future. A delayed or missed rental payment from a lessee decreases the revenues of the funds and may adversely affect the funds.

Under most leases, the lessee is primarily responsible for maintaining the aircraft and complying with all governmental requirements applicable to the lessee and the aircraft, including, without limitation, operational, maintenance, and registration requirements. Failure of a lessee to perform required maintenance with respect to an aircraft during the term of a lease could result in a diminution in value of such aircraft, an inability to lease the aircraft at market lease rates or a potential grounding of such aircraft, and likely will require the funds to incur maintenance and modification costs upon the expiration

or earlier termination of the applicable lease, which could be substantial, to restore such aircraft to an acceptable maintenance condition prior to sale or re-leasing.

Lessees may experience periodic difficulties that are not financial in nature, which could impair their performance of their maintenance obligations under their leases. These difficulties may include the failure to perform the required aircraft maintenance program satisfactorily and labor difficulties.

The funds will not be in possession of any aircraft while the aircraft are on lease to the lessees. Consequently, the ability of the funds to determine the condition of an aircraft or whether the lessees are properly maintaining the aircraft will be limited to periodic inspections performed on behalf of the funds by third-party service providers or aircraft inspectors. A continuous failure by a lessee to meet its maintenance obligations under the relevant lease could have various effects including, but not limited to the following:

- it could result in a grounding of the aircraft;
- in the event of a re-lease of the aircraft, it would likely cause the fund to incur integration and other costs, which may be substantial, in restoring the aircraft to an acceptable maintenance condition;
- it could result in a lower rental rate or shorter term under any new lease which the fund might enter into following repossession of the aircraft; and
- it would be likely to adversely affect the value of the aircraft.

There can be no assurance that in the event a lessee defaults under a lease, any security deposit paid or any letter of credit provided by the lessee or a third party will be sufficient to cover the lessee's outstanding or unpaid lease obligations and maintenance requirements.

Licenses and Approvals. Some leases require specific licenses or approvals for different aspects of the leases. For example, approval from governmental or regulatory authorities may be required for certain payments under the leases and for the import, re-export or deregistration of the aircraft. Subsequent changes in applicable law or administrative practice may increase such requirements. In addition, once government approval is obtained, it might be withdrawn or expire without renewal. The funds or lessee may not be able to obtain the required governmental approvals. Any of these events could adversely affect the funds' ability to re-lease or sell aircraft and, therefore, negatively impact the funds.

Lessee Concentrations. Local economic and political conditions can influence the performance of lessees located in a particular region. The effect of these conditions on payments to the funds will be more or less pronounced depending on the concentration of the number of lessees in that region.

A variety of events can adversely affect the market and economy in a particular country or region, including natural disasters such as earthquakes, hurricanes, floods and volcanic eruptions, political instability or unrest, civil disturbances, acts of war and terrorist actions. Such regional factors also may include regulatory changes (including deregulation) and aggressive competition from low cost carriers, stricter environmental regulations, adverse regional economic conditions with decreased discretionary travel and lower regional political stability. A recession or other worsening of economic conditions, political instability or a terrorist attack in one or more countries or regions, particularly if combined with either or both high fuel prices and declining local currencies, may have a material adverse effect on the ability of lessees in particular regions to meet their financial and other obligations under the leases, which in turn may have a material adverse effect on the funds.

International Lessees. The international nature of many of the lessees' business exposes them to trade and economic sanctions, laws and other restrictions imposed by the U.S. and other governments. In recent years, some governments have increased their oversight and enforcement activities with respect to these laws and restrictions and it is expected that the relevant agencies will continue to increase these activities. A violation of these laws, sanctions or regulations could result in severe criminal or civil penalties, and the lessees may be subject to other liabilities, which could adversely affect such lessees' businesses and results of operations and therefore have a material adverse effect on the funds.

With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes, limitations on the removal of funds or other assets, political or social instability or adverse diplomatic developments. Any of these actions and the resulting instability may adversely affect the funds' ownership interest in an aircraft or the ability of lessees which operate in these markets to meet their lease obligations consistently and these lessees may be more likely to default than lessees that operate in developed legal systems and economies.

Liability Risk As Lessor. Section 44112 of Title 49 of the United States Code provides that lessors of aircraft or engines generally will not be liable for any personal injury or death, or damage to or loss of property, provided that the lessor is not in actual possession or control of the equipment at the time of such injury, death or damage. Under common law, the owner of an aircraft or engine may be held liable for injuries or damage to passengers or property, and such damage awards can be substantial. Because there is little case law interpreting Section 44112, there can be no assurance that the provisions of Section 44112 would fully protect the lessor and the fund from all liabilities in connection with any injury, death, damage or loss that may be caused by any aircraft or engine it owns. Therefore, Avenue Capital Group expects to typically require that a lessee indemnify the lessor and/or the funds for, or insure the lessor and/or the funds against, such claims by third parties. Nonetheless, in the event that Section 44112 were not to apply in a particular action, there is the possibility the lessee might not have the financial resources to fulfill its indemnity obligations. It should be noted, however, that this description is limited to United States law, and to the extent the law in non-U.S. jurisdictions is applicable (e.g., in a jurisdiction where an accident occurs), different rules may apply. For example, certain non-U.S. jurisdictions may impose strict liability upon an owner of an aircraft or an engine.

Avenue Capital Group will typically require lessees to maintain those types of insurance customary and appropriate in the air transportation industry, including comprehensive liability insurance and aircraft hull insurance. There can be no assurance that lessees' insurance will cover all types of claims that may be asserted against the funds. Any inadequate insurance coverage, default by an insurer or default by lessees in fulfilling their indemnification or insurance obligations or the lack of political risk insurance will negatively affect the proceeds that would be received by the funds upon an event of loss under the respective leases or upon a claim under the relevant liability insurance.

Consignment Arrangements. The funds expect from time to time to enter into arrangements with aircraft consignment firms that will assist in managing the funds' inventory of aircraft parts and parting out and selling these parts. These arrangements with consignment firms could expose the fund to certain risks, including:

- credit risk,
- operational/execution risk,
- failures in inventory management,
- poor sales execution and

- physical damage to inventory due to natural disasters (such as earthquakes, hurricanes, floods and volcanic eruptions).

Any of these events could adversely affect the funds.

Risks Associated with Real Estate Investments

General Risks of Real Estate Ownership. The funds may acquire, indirectly, debt interests in real estate. The real estate investments of the funds will be subject to the risks generally incident to the ownership and the development and/or redevelopment of real property, including:

- the risk that construction may not be completed within budget or on schedule because of cost overruns, work stoppages, shortages of building materials, the inability of contractors to perform their obligations under construction contracts, defects in plans and specifications or in construction or other factors;
- uncertainty of cash flow to meet fixed and other obligations;
- adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates;
- changes in fiscal policies;
- competition from other properties; and
- uninsured losses and other risks that are beyond the control of the funds such as the threat of terrorism and their consequences.

There can be no assurance of profitable operations because the cost of owning the funds' investments may exceed the income produced, particularly since certain expenses related to real estate and its development and ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time and are largely beyond the control of the owner.

Real Estate Investments Are Illiquid. Investments in real estate or interests in real estate are highly illiquid and subject to industry cyclicality, downturns in demand, market disruptions and the lack of available capital for potential purchasers. Accordingly, there can be no assurance that the funds will be able to realize on investments in a timely manner or that there will be purchasers of commercial space or residential units that meet the funds' investment objectives. In some cases, the ability to dispose of projects may be hampered by the need to obtain governmental approvals or authorizations.

Joint Venture Partners; Joint Venture Risks. Certain funds expect to co-invest with third parties (as well as funds managed by an affiliate of Avenue Capital Group) through partnerships, joint ventures or other entities (including special purpose vehicles) in many investment opportunities. These funds also may make investments in operating companies controlled by others. The funds may share control or have limited control over these entities and, therefore, may have only a limited ability to protect their interests in such investments. Such investments may involve risks not present in investments where another party is not involved, including the possibility that a partner or a co-venturer may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of the fund, or may be in a position to take action contrary to the fund's interests. In addition, the fund may under certain circumstances be liable for the actions of its partners or

co-venturers. See also Item 8 under the heading “Transactions with Affiliates” for additional information regarding risks of participating in joint ventures.

Risks of Acquiring Real Estate Loans and Participations. Real estate loans acquired by the funds may be at the time of their acquisition, or may become after acquisition, nonperforming for a wide variety of reasons. Such nonperforming real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write down of the principal of such loans. However, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such real estate loan, replacement “takeout” financing will not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that we may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the funds. The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a real estate loan including, without limitation, lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some jurisdictions, foreclosure actions can take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Risks Arising from Investments in Real Estate Acquired from Distressed or Bankrupt Organizations. Certain real estate investment opportunities may originate from owners which are insolvent or in serious financial difficulty. As a result, the recourse to the sellers and/or the standards by which such properties are being serviced or operated may be adversely affected.

Real Estate Equity Investments. Equity interests in real estate are generally incident to the ownership of real property. In addition, the funds’ ownership of equity interests in real estate may have tax consequences for certain investors in the funds that do not apply in the case of the funds’ ownership of debt interests in real estate.

Other Investments. As we consider appropriate, and to the extent consistent with the funds’ investment strategies, we may invest a portion of the funds’ assets in one or more money market funds, collective investment trusts, mutual funds and/or exchange-traded funds. When any such investments are made, a fund investor will effectively be paying, in addition to the compensation payable to Avenue Capital Group, such fund investor’s proportionate share of any management fees, or other compensation, charged by the manager of such money market fund, collective investment trust, mutual fund or exchange traded fund, as well as a *pro rata* portion of the expenses incurred by such entity.

Use of Leverage. All funds have the ability to use security-level leverage in respect of their investments, and certain of our funds invest in asset classes (derivatives and options) that include implicit leverage. All funds also have the ability to use fund-level leverage as part of their investment strategy(ies), although most of our funds historically have not done so. Going forward, however, we expect that our funds may (i) borrow money or enter into transactions having a similar leveraging effect from any source or with any person, (ii) execute promissory notes, drafts and other similar instruments for such purpose, (iii) secure the payment thereof by mortgages, pledges, charges or assignments of or security interest in fund assets or in any persons in which funds may have an interest, and (iv) refinance, recast, modify or extend any of such obligations and the instruments securing or evidencing the same. For a detailed description of the specific leverage restrictions with respect to a fund and/or the manner in which leverage may be employed by a fund, please refer to that fund’s offering documents.

Certain of the funds employing Avenue U.S.'s Real Estate strategy and the private funds employing Avenue U.S.'s Performing Loans strategy, may obtain leverage using any form or combination of financial leverage instruments, including reverse repurchase agreements, credit facilities such as bank loans or commercial paper, and the issuance of preferred shares or notes. These funds may use fund-level leverage opportunistically and may choose to increase or decrease leverage, or use different types or combinations of leveraging instruments, at any time based on Avenue Capital Group's assessment of market conditions and the investment environment. There can be no assurance that a fund will use any form of leverage as part of its investment program, or that it will do so successfully.

Leverage creates risks, including the likelihood of greater volatility of net asset value and the risk that fluctuations in the costs to borrow may affect the return to holders of interests in the funds. To the extent the income derived from investments purchased with proceeds received from leverage exceeds the cost of leverage, the funds' distributions will be greater than if leverage had not been used. Conversely, if the income from the investments purchased with such proceeds is not sufficient to cover the cost of the financial leverage, the amount available for distribution to investors will be less than if leverage had not been used. In the latter case, the funds may nevertheless maintain leveraged position if such action is deemed to be appropriate based on market conditions.

The costs of a financial leverage program will be borne by the relevant funds and consequently will result in a reduction of the net asset value of the funds. Leverage increases the size of a fund's portfolio. Because certain funds may pay fees based on the size of the funds' portfolios, without deduction for potential exposure, whether created by leverage or otherwise, during periods in which a fund is using leverage, the fees paid by the fund for investment advisory services will be higher than if the fund did not use leverage. This may create a conflict of interest between Avenue Capital Group, on the one hand, and holders of interests in the funds, on the other hand.

Any lender in connection with a credit facility may impose specific restrictions as condition to borrowing. The credit facility fees may include, among other things, up front structuring fees and on-going commitment fees (including fees on amounts undrawn on the facility) in addition to the traditional interest expense on amounts borrowed. The credit facility may involve a lien on the relevant fund's assets. Similarly, to the extent a fund issues preferred shares or notes for which it seeks a credit rating from one or more rating agencies, the fund may be subject to fees, covenants and investment restrictions required by the rating agency as a result. Such covenants and restrictions imposed by a rating agency or lender may include asset coverage or portfolio composition requirements that are more stringent than those imposed by applicable law.

For administrative convenience, we expect that funds will, from time to time, borrow capital in lieu of drawing down capital commitments and apply subsequent drawdowns to repay such borrowings and interest thereon ("administrative borrowings"). The use of administrative borrowings may (i) increase a fund's costs and expenses by incurring interest that would not otherwise be required of the fund and (ii) decrease the preferred return that would be payable to the fund's investors if their capital commitments are drawn down for a reduced time period.

The funds also expect to enter into other transactions that may give rise to a form of leverage including, among others, swaps, futures and forward contracts, options and other derivative transactions.

Short Selling. The funds' investment program may include short selling. Short selling involves selling securities which may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to return the borrowed securities to the lender at a later date. Short selling allows the seller to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which a fund engages in short sales will depend upon its investment strategy and perception of market direction. A short sale creates the

risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the funds of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase at the time a fund desires to close out such short position. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Securities regulators of many jurisdictions have implemented certain restrictions and disclosure requirements with respect to short selling of securities and may impose additional restrictions in the future. The restrictions on, and disclosures of, the funds' short sales could have an adverse impact on the markets and investments in which the funds transact.

Limitations on the short selling of securities could interfere with the ability of the funds to execute certain aspects of their investment strategies, including its ability to hedge certain exposures and execute transactions to implement its risk management guidelines and any such limitations may adversely affect the performance of the funds.

Securities Lending. The risks in lending portfolio securities, as with other extensions of credit, consist of the failure of another party, in this case the approved intermediary, to comply with the terms of agreement entered into between the lender of the securities (*i.e.*, a fund) and the approved intermediary (*i.e.*, the prime broker). Such failure to comply can result in the possible loss of rights in the collateral put up by the borrower of the securities, the inability of the approved intermediary to return the securities deposited by the fund and the possible loss of any corporate benefits (including, without limitation, certain voting rights) accruing to the fund from the securities deposited with the approved intermediary.

Risks Associated with Social Impact Investments

General Risks Related to Social Impact Investments. Social impact investments, when sought by the funds, may not provide as favorable returns or protection of capital as other investments. The funds may structure certain investments using non-standard terms that are less favorable for the funds than those traditionally found in the marketplace for investment strategies that do not link social impact to financial returns. Moreover, the funds may determine to forgo an investment that could provide favorable returns because such investment would not have sufficient social impact.

Specific risks exist in the types of investments that the funds may seek to make based on their investment objectives. The funds' investments may focus on geographic areas that are experiencing weakened financial positions (including high unemployment rates, disease, high poverty rates, high foreclosure rates, and low incomes) that may be more susceptible to negative effects of changes in the economy or the availability of public assistance. Such geographic focus may decrease the likelihood of success of the funds' investments.

Moreover, the funds may invest in social impact projects that involve investments in multiple locations, and the financial returns thereon will depend on the success of the social impact project in each location. The funds expect that some of their investments will be made in reliance on innovative and untested business strategies. For example, if a fund lends capital as part of the investment in connection with an innovative business strategy, repayment of such a loan may be contingent on the achievement of a certain threshold of success over which such fund has no control.

Investments in Impact – and Mission-Oriented Companies. The funds expect to make loans to impact- and mission-oriented companies which may make decisions or otherwise pursue courses of action that may not be in the short-term operating or financial interest of the funds (for example, in terms of

increasing profitability of the portfolio company), but instead may be in the interest of achieving certain social outcomes. Conversely, the funds may make loans to certain companies that, while at the time of the funds' investment seek impact- or mission-oriented strategies, cease to pursue such strategies in the interest of achieving economic outcomes. As a result, there can be no assurance that such companies will achieve both successful economic and social outcomes, or that such companies will achieve either result.

Risks Associated with “Double Bottom Line” Investments. Certain funds will take into account the potential social impact when making decisions regarding the selection, management and disposal of investments. In certain situations, the potential social impact may outweigh financial considerations. For example, the funds may choose to invest in a social impact project that has a lower expected financial return because such project has the potential to make a greater social impact than other investments. In addition, the funds may reject an opportunity to increase the financial return of an existing investment in order to preserve the social impact of such investment. Further, the funds may refrain from disposing of an underperforming investment for a period of time in order to minimize the negative social impact of such disposition and the funds may forebear payment or otherwise choose not to exercise their rights as creditors. As a result of the foregoing, the funds may achieve lower returns than if they did not take into account the social impact of investments and investment-related decisions. On the other hand, the funds may determine in any particular situation to take steps to preserve their financial returns, notwithstanding any adverse social impact.

Community Development. The funds anticipate engaging in activities that they believe will promote the growth and development of the communities of certain companies, which may include advising and collaborating with governmental agencies (including federal, state and local departments of such agencies), non-profit entities, debt providers, larger corporations and other service providers in such communities, among other activities. While the firm believes that such activities will ultimately be beneficial to the funds' investment strategy, there can be no assurance that such activities will positively affect the funds' investment returns or social or other impact.

Dependence on Third Parties. The funds will invest in social impact projects that are managed by, or that otherwise depend upon the performance of, third parties (including co-investors, nonprofits, public institutions and other third-party business partners). Such investments involve additional risks not present in investments where a third party is not involved, including the possibility that a manager, co-investor, non-profits, public institutions, or other business partner may have interests or objectives that are inconsistent with those of the funds or may be in a position to take action contrary to the funds' investment objectives. In addition, the funds may in certain circumstances be liable for actions of a manager, co-investor or other third-party business partner. The success of a particular project may be highly dependent upon the skills and attention of these third parties, and actions taken, or failed to be taken, by such third parties may adversely affect the funds.

Dependence on Government Funding, Tax Credits and Other Subsidies. The success of the funds' investments may depend on government funding, tax credits or other public or private sector subsidies, and the funds' investments may be structured in a manner or with terms that are necessary or appropriate to support the ability of the project to attract equity investors. For example, these terms may require the funds to forebear payment or may preclude the funds from exercising certain remedies for a certain period of time. There is a risk that the funds' investments could fail to qualify or re-qualify for anticipated funding opportunities or tax credits, which may result in the funds' investment being unable to repay a loan or meet operational expenses. If the funds' investments do not generate enough income to cover expenses and mandatory debt service, the funds may be required in certain instances to contribute additional capital to the investment to protect their investments from foreclosure actions. In addition, government programs and funding opportunities could expire or be repealed due to budget cuts or other

unforeseen legislative mandates. As a result of the foregoing, the funds may experience lower financial returns.

Limited Operating History and Competition Associated with Certain Social Impact Investments.

Investments in social impact projects will involve a high degree of business and financial risk. These projects may (a) be in an early stage of development and not have a proven operating history, (b) be operating at a loss or have significant variations in operating results, (c) be engaged in a rapidly changing business with products subject to a substantial risk of obsolescence, (d) require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position, (e) rely on the services of a limited number of key individuals, the loss of any of whom could significantly adversely affect a project's performance, (f) face intense competition, including competition from companies and projects with greater financial resources, more extensive development, marketing and other capabilities, and a larger number of qualified management and technical personnel, (g) utilize innovative and untested operational and business strategies, including new business partnerships and teams, and (h) otherwise have a weak financial condition or be experiencing financial difficulties that could result in insolvency, liquidation, dissolution, reorganization or bankruptcy of the project. Further, there is often less publicly available information concerning such investments than for larger, more established businesses. Such risks may adversely affect the performance of such investments and result in substantial losses to the funds.

Lending Risks. The funds will make loans, including, but not limited to, senior, second lien and mezzanine loans and other similar investments. The funds' success in this area will depend, in part, on their abilities to make loans on advantageous terms. In making loans, the funds will compete with a broad spectrum of lenders, many of which have substantially greater financial resources and are better known than the funds. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors. Because such loans will be made to borrowers pursuant to loan agreements, the funds will be subject to the risk that a borrower will not perform its obligations under such agreement, including the payment of interest and the repayment of principal. Although the funds intend to make loans only to borrowers that the firm believes to be creditworthy, there can be no assurance that a borrower will not default on a loan and that loss on a transaction will not be sustained as a result. The funds will retain all fees received in connection with making or structuring the terms of lending investments. The funds may subsequently offer such investments for sale to third parties; provided, however, that there is no assurance that the funds will complete the sale of such an investment and in many cases the funds may hold loans to maturity.

Non-Recourse Obligations. The funds may invest in certain loans that are non-recourse obligations of issuers. Such loans are payable solely from proceeds collected in respect of collateral pledged by an issuer to secure such obligations. None of the security holders, officers, directors or incorporators of the issuers, trustees, any of their respective affiliates or any other person or entity will be obligated to make payments on the securities. Consequently, the funds, as holders of the obligations, must rely solely on distributions of proceeds of collateral debt obligations and other collateral pledged to secure obligations for payments due in respect of principal thereof and interest thereon. If distributions of such proceeds are insufficient to make payments on the securities, no other assets will be available for such payments and following liquidation of all the collateral, the obligations of the issuers to make such payments will be extinguished.

Regulation of Lending Activity. A substantial portion of the funds' investment activities will consist of extending loans to companies. This lending activity may be regulated and restricted by the laws of each and any individual country or local jurisdiction in which such loans are extended, where the collateral (if any) for such loan is located, or where the borrower is located. Such regulations and restrictions may require the funds or the firm (or any entity through which the funds make investments) to become licensed or register with one or more local governmental authorities, may restrict the terms on which the

funds are able to extend loans, may cause delays in the funds' pursuing any particular lending opportunity, may prevent entirely the funds from pursuing any particular lending opportunity (or from extending credit or making loans in any particular jurisdiction) or may impose additional costs and administrative burdens on the activities of the funds (and any entities through which the funds make investments). Such regulations and restrictions are complex and may vary significantly by jurisdiction. They may also be revised or expanded by any given local governmental authority in response to changing legal or market conditions. Such regulations and restrictions, and any future modifications thereto, may have a significant adverse effect on the funds' investment performance or ability to execute their investment strategy.

The firm expects that certain of the funds will make a substantial portion of its investments through a two tier structure of companies, each organized as a société à responsabilité limitée (a "S.à r.l.") under the laws of the Grand Duchy of Luxembourg. The firm does not expect that the activity of either S.à r.l. will be subject to Luxembourg financial licensing requirements based on current Luxembourg law and the regulatory practice of the CSSF, and accordingly does not expect to make an application for either S.à r.l. to be authorized as a regulated financial professional in Luxembourg. However, it is not certain that either S.à r.l. will be excluded from such requirements and requirement for authorization. Further, the firm's expectation is based on the current regulatory practice of the CSSF, which can evolve and change quickly. One or both of these entities may be subject to licensing requirements and other regulations under Luxembourg law, which may have a significant adverse effect on the funds' investment performance or ability to execute the funds' investment strategy.

Item 9. Disciplinary Information

This Item is not applicable to us.

Item 10. Other Financial Industry Activities and Affiliations

Material Financial Industry Affiliations of Avenue Capital Group

Avenue U.S. currently has direct relationships with the following private funds:

- Avenue Aviation Opportunities Fund, L.P.
- Avenue Aviation Opportunities Fund II (Onshore), L.P.
- Avenue Aviation Opportunities Fund II (Offshore Master), L.P.
- Avenue Aviation Opportunities Fund II (Offshore), L.P.
- Avenue COPPERS Opportunities Fund, L.P.
- Avenue Credit Opportunities Fund, L.P.
- Avenue Credit Opportunities Fund II, L.P.
- Avenue Employee Participation Plan, LLC
- Avenue Energy Opportunities Fund, L.P.

- Avenue Energy Opportunities Fund II, L.P.
- Avenue Gabriel Fund, L.P.
- Avenue PPF Opportunities Fund, L.P.
- Avenue Real Estate Fund, L.P.
- Avenue Real Estate Fund (Parallel), L.P.
- Avenue Real Estate Employee Participation Plan, LLC
- Avenue Special Opportunities Fund I, L.P.
- Avenue Special Opportunities Co-Investment Fund I, L.P.
- Avenue Special Opportunities Fund II, L.P.
- Avenue Strategic Opportunities Fund, L.P.
- Avenue Special Situations Fund VI (A), L.P.
- Avenue Special Situations Fund VI (B-Feeder), L.P.
- Avenue Special Situations Fund VI (B), L.P.
- Avenue Special Situations Fund VI (C-Feeder), L.P.
- Avenue Special Situations Fund VI (C), L.P.
- Avenue Special Situations Fund VI (Master), L.P.
- Avenue Sustainable Solutions Fund, L.P.
- Avenue Sustainable Solutions Fund SCSp
- Falcon Energy Opportunities Fund, L.P.
- MAGS Capital II, LLC
- MAGS Capital IV, LLC

Avenue U.S. serves as a sub-adviser to a third-party investment manager in respect of the Sub-Advised Public Fund.

Avenue U.S. has relationships with the following entities (general partners or managing members (in accordance with the 2005 SEC Letter) of private funds that are advised by Avenue U.S.):

- Avenue Aviation Opportunities Partners, LLC
- Avenue Aviation Opportunities Partners II (Onshore), LLC
- Avenue Aviation Opportunities Partners II (Offshore), LLC

- Avenue Capital Partners VI, LLC
- Avenue COPPERS Opportunities Fund GenPar, LLC
- Avenue Credit Opportunities Partners, LLC
- Avenue Credit Opportunities Partners II, LLC
- Avenue Energy Opportunities Partners, LLC
- Avenue Energy Opportunities Partners II, LLC
- Avenue Gabriel GenPar, LLC
- Avenue PPF Opportunities Fund GenPar, LLC
- Avenue Real Estate GenPar, LLC
- Avenue SO Capital Partners I, LLC
- Avenue SO Capital Partners II, LLC
- Avenue Strategic Opportunities Fund GenPar, LLC
- Avenue Sustainable Solutions Partners GenPar, S.à r.l.
- Avenue Sustainable Solutions Partners, LLC
- Falcon Energy Opportunities Partners, LLC
- GL Avenue Employee Management, LLC

Avenue Europe currently has direct relationships with the following private funds:

- Avenue-ASRS Europe Opportunities Fund, L.P.
- Avenue Europe Capital Solutions Fund, L.P.
- Avenue Europe Capital Solutions Feeder, L.P.
- Avenue Europe Employee Participation Plan, LLC
- Avenue Europe Opportunities Fund, L.P.
- Avenue Europe Opportunities Fund, Ltd.
- Avenue Europe Opportunities Intermediate Fund, L.P.
- Avenue Europe Opportunities Master Fund, L.P.
- Avenue Europe Private Opportunities Fund, L.P.

- Avenue Europe Private Opportunities Co-Investment Fund, L.P.
- Avenue Europe Select Opportunities Fund, L.P.
- Avenue Europe Special Situations Fund II Continuation Vehicle (Euro), L.P.
- Avenue Europe Special Situations Fund II Continuation Vehicle (U.S.), L.P.
- Avenue Europe Special Situations Fund III (Euro), L.P.
- Avenue Europe Special Situations Fund III (U.S.), L.P.
- Avenue Europe Special Situations Fund IV (U.S.), L.P.
- Avenue-SLP European Opportunities Fund, L.P.
- Avenue Pantheon Broadway Fund, L.P.

Avenue Europe may provide investment advice with respect to a portion of the assets of Avenue COPPERS Opportunities Fund, L.P. and Avenue PPF Opportunities Fund, L.P., either directly or indirectly, pursuant to global services agreements and/or sub-advisory agreements entered into with either or both Avenue U.S.

Avenue Europe has relationships with the following entities (general partners or managing members (in accordance with the 2005 SEC Letter) of private funds that are advised by Avenue Europe and certain entities used to carry on Avenue Europe's business):

- Avenue-ASRS Europe Opportunities Fund GenPar, LLC
- Avenue EPO Partners, LLC
- Avenue Europe Capital Partners II, LLC
- Avenue Europe Capital Partners III, LLC
- Avenue Europe Capital Partners IV, LLC
- Avenue Europe Capital Solutions Partners, LLC
- Avenue Europe Opportunities Fund GenPar, LLC
- Avenue Europe Select Opportunities Partners, LLC
- Avenue Luxembourg S.A.R.L.
- Avenue-SLP European Opportunities Fund GenPar, LLC
- GL Avenue Employee Management, LLC
- Avenue Broadway Partners, LLC

In addition, Avenue Europe has relationships with the following entities (sub-advisers to private funds that are advised by Avenue Europe) that are Avenue Europe's relying advisers:

- Avenue Europe Management, LLP (authorized by the U.K. Financial Conduct Authority, formerly known as the U.K. Financial Services Authority, since 2004)
- Avenue Iberia Asesores, S.L.
- Avenue Italia Advisors S.r.l.

Avenue Asia currently has direct relationships with the following private funds:

- Avenue Asia Employee Participation Plan, LLC
- Avenue Asia Special Situations Fund V, L.P.

Avenue Asia and Avenue Europe may provide investment advice with respect to a portion of the assets of Avenue Gabriel Fund, L.P., either directly or indirectly, pursuant to global services agreements and/or sub-advisory agreements entered into with Avenue U.S.

Avenue Asia has relationships with the following entities (general partners or managing members (in accordance with the 2005 SEC Letter) of private funds that are advised by Avenue Asia and certain entities used to carry on Avenue Asia's business):

- Avenue Asia Capital Partners V, LLC
- GL Avenue Employee Management, LLC

In addition, Avenue Asia has relationships with the following entities (sub-advisers to private funds that are advised by Avenue Asia) that are Avenue Asia's relying advisers:

- Avenue Asia Advisors Pvt Limited
- Avenue Asia Singapore Pte Ltd.
- Bo Yuan Jun He Consulting (Beijing) Co., Ltd.
- IH Services HK Limited
- GL Advisors Australia Pty. Ltd.
- GL Advisors Hong Kong Limited (holding a Type 9 (asset management) license with the Securities and Futures Commission of Hong Kong since August 2015)

In October 2006, Morgan Stanley became an indirect minority owner of Avenue. From time to time, certain funds may utilize Morgan Stanley for prime brokerage, consulting and other services.

Avenue Capital Group is also affiliated with Amroc Investments, LLC. Marc Lasry and Sonia Gardner, the Senior Principals of Avenue Capital Group, own Amroc. As of January 1, 2008, all of Amroc's employees became employees of Avenue Capital Group entities and there are no commissions or other fees paid to Amroc for sourcing investments. We do not believe that Avenue Capital Group's relationship with Amroc is material to our ongoing business activities.

Avenue U.S. is also affiliated with TLOA Servicing, LLC, a company formed for the purpose of supporting the tax lien investments of Avenue Strategic Opportunities Fund, L.P. Avenue Capital Group expects to work with local partners in certain jurisdictions, including through joint ventures. See Item 8

under the heading “Risks Related to Our Investment Strategies – Risks Associated with Real Estate Investments – Joint Venture Partners; Joint Venture Risks.”

A number of entities with which Avenue Capital Group is affiliated serve as the general partners of private funds whose investment programs are managed by Avenue Capital Group and/or by affiliates of Avenue Capital Group.

Other Activities

Except as otherwise set forth in a fund’s offering documents, no Avenue Capital Group person is obligated to devote any specific amount of time to the affairs of the funds or managed accounts. Avenue Capital Group persons spend substantial time on other business activities, including those related to various existing and future pooled investment vehicles and other client accounts sponsored, formed, offered and managed by Avenue Capital Group and its affiliates. See Item 8 under the heading “Methods of Analysis, Investment Strategies and Risk of Loss – Risks Associated with Avenue Capital Group’s Investment Strategies - Other Activities.”

Furthermore, the Senior Principals of Avenue Capital Group, and other officers and employees of Avenue Capital Group and its affiliates from time to time serve on the boards of directors, credit committees, or other committees, of one or more entities in which one or more of the Avenue funds or managed accounts has invested. In addition, certain Avenue Capital Group persons, or entities affiliated with such persons from time to time provide certain services to Avenue Capital Group, the funds, one or more of Avenue Capital Group’s other affiliates, and/or one or more of the investments or companies in which the funds invest. In particular, Mr. Furst is responsible for directing the investment activities of Avenue Europe’s funds, and dedicates his time predominantly to the leadership of Avenue Europe’s Distressed strategy; however, Mr. Furst also serves as Avenue Capital Group’s Chief Investment Officer and spends a portion of his time providing high-level investment oversight globally. As a result, there may be a number of conflicts of interest which may arise, which could adversely affect the funds and/or managed accounts of Avenue Capital Group. Please see the disclosure provided elsewhere in this brochure under Item 8 as well as in the offering documents of the applicable fund.

Avenue Capital Group persons engage in a broad range of investment management activities, including sponsoring and managing other private funds and/or affiliated special purpose acquisition companies and other activities. Certain Avenue Capital Group persons also expect to sponsor and operate future pooled investment vehicles and other client accounts that pursue similar investment objectives or other lines of investment activity. Although the relationships and activities of Avenue Capital Group persons should enable these entities to offer attractive opportunities and services to the funds and investors, such relationships and activities, in the ordinary course of business, may also give rise to circumstances in which the interests of these entities and other affiliates of the Avenue Capital Group persons conflict with the interests of the funds and investors, including, by way of example but not limitation, competition with other investment vehicles (proprietary or third-party managed) in which investors may also have an interest, purchasing and investments in entities in which investors may have an interest, or taking or advocating positions in certain transactions that may be considered adverse to the interests of investors.

The Avenue Capital Group persons, the funds, the general partners of such funds (if applicable) or their respective members, officers, directors, employees, principals or affiliates may come into possession of material, non-public information. The possession of such information may limit the ability of the funds to buy or sell a security or otherwise to participate in an investment opportunity.

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

Code of Ethics; Personal Trading

We have adopted a written code of ethics that applies to Avenue Capital Group, our employees and certain related persons. Our code of ethics is administered by our Chief Compliance Officer or his designees. Employees are given training with respect to our code of ethics when they are hired and annually thereafter. Each client may obtain a copy of our code of ethics by submitting a written request to Andrew K. Schinder at 399 Park Avenue, 6th Floor, New York, New York 10022 or by contacting Mr. Schinder at (212) 878-3500.

The following general principles and standards of conduct are established by our code of ethics:

- We must operate at the highest level of ethical standards in keeping with our fiduciary duties to clients, and in compliance with all applicable laws.
- We have a duty to place the interests of clients first and to address and/or mitigate conflicts of interest.
- Information about our operations and investment strategies, as well as information about investors in our funds or our managed account clients (other than, possibly, their name), unless otherwise consented to by the investor, is strictly confidential and will not be disclosed to anyone outside Avenue Capital Group and its consultants and agents, unless required by law or a government agency and upon prior notice to the Chief Compliance Officer.
- Our employees may not use any confidential information or otherwise take inappropriate advantage of their position for the purpose of furthering any private interest or as a means of making any personal gain.
- Our employees and their immediate families may not accept any benefit from a client, an investor in one or more of our funds or person who does business with us, except for normal business courtesies and non-cash gifts of nominal value, except as otherwise provided for by our code of ethics.
- Insider trading is prohibited and may expose an employee to stringent penalties.

Our code of ethics deals with a range of topics including, without limitation, the following:

- Categories of persons related to Avenue Capital Group who are covered by the code of ethics.
- Opening of personal securities accounts by covered persons.
- Pre-approval requirement for most personal securities transactions.
- Submission to Avenue Capital Group of information concerning personal securities holdings and transactions.
- Restrictions on trading in securities of particular issuers.
- Gifts, entertainment and investee company promotions (*i.e.*, any discounted or complimentary goods or services provided by an investee company to a firm employee, such as hotel rooms).

- Charitable contributions.
- Political contributions and payments.
- Reporting of violations and our whistle-blower policy.
- How the code of ethics is administered.
- How exceptions to the code of ethics may be granted by our Chief Compliance Officer.

Each covered person is required to acknowledge that he or she has received and reviewed, and understands the Code of Ethics.

Participation or Interest in Client Transactions

We do not presently intend to engage in principal transactions, but we do have the right to engage in such transactions and may do so in the future. During the most recent fiscal year, Avenue Capital Group did not engage in principal transactions. Further, any fund that is deemed to hold “plan assets,” as defined under ERISA, is prohibited from entering into such transactions.

A principal transaction occurs when an investment adviser, acting for its own account (or the account of an affiliate) buys a security from, or sells a security to, a client’s account, whereas an agency cross trade occurs when a person acts as an investment adviser in relation to a transaction in which such investment adviser, or any person controlling, controlled by, or under common control with such investment adviser, acts as broker for both such advisory client and for another person on the other side of the transaction. The funds have different procedures with respect to completing principal and agency cross transactions that are set forth in each fund’s operative documents. Accordingly, the portfolio managers are required to identify any potential principal transaction, and any potential agency cross trade between two or more funds, prior to effecting the transaction and to contact Avenue Capital Group’s Chief Compliance Officer. The Chief Compliance Officer, in consultation with outside counsel (if necessary), will determine whether or not the trade would constitute a principal transaction or an agency cross trade, and if so, whether such transaction is permissible and what procedures must be followed to complete the transaction. Avenue Capital Group has the right to cause the funds to engage in agency cross trades for reasons consistent with the investment and operating guidelines of the funds. These transactions, if effected, may or may not be subject to commissions.

The funds may, from time to time, make an investment in a portfolio company in which one or more of Avenue Capital Group’s other clients invests in a different part of the capital structure. There may be instances where such a portfolio company may seek to take an action where the funds’ and the other clients’ interests in such portfolio company may conflict. Moreover, there may be situations in which a fund determines to invest in an issuer in which another fund managed by Avenue Capital Group or its affiliates maintains an investment. Furthermore, a private fund may invest in the interests of another fund managed by Avenue Capital Group and/or its affiliate(s). See Item 8 (“Methods of Analysis, Investment Strategies and Risk of Loss – Risks Associated with Avenue Capital Group’s Investment Strategies – Conflicts of Interest – Investments Involving Other Clients”). To the extent that the funds hold securities in a portfolio company with rights, preferences and privileges that are different than those held by other clients in the same portfolio company, Avenue Capital Group’s Principals and their representative affiliates may be presented with decisions when the interests of the funds and the other clients are in conflict. It is possible that a fund’s interests may be subordinated or otherwise adversely affected by virtue of the other clients’ involvement and actions relating to their investment. Avenue Capital Group has adopted procedures to address and, in some cases, mitigate the actual conflicts of

interest that may arise. Exceptions to these procedures must be approved in advance by the Chief Compliance Officer.

In some circumstances, where Avenue Real Estate Fund, L.P. and/or Avenue Real Estate Fund (Parallel), L.P. own a real estate asset outright or acts as the “operating partner” in a joint venture arrangement, employees of Avenue Capital Group or an affiliate may perform asset-level management functions of a type normally performed by an owner of real estate, including, among others:

- asset and business plan level financial reporting functions;
- supervision of service providers;
- administration/negotiation of relationships with tenants;
- negotiation with purchasers of for-sale residential units;
- interaction with government agencies and civic bodies; and
- design, planning and execution of tenant improvements and capital improvement projects.

When Avenue U.S. provides these services, such real estate fund(s) may compensate Avenue U.S. or affiliates for the cost of performing them.

In certain circumstances, Avenue Capital Group and its employees may receive discounted or complimentary goods or services provided from an investee company in which one or more funds invests. Avenue Capital Group’s compliance manual addresses such practices in its policy regarding gifts, entertainment and investee company promotions.

Avenue Capital Group may, from time to time, recommend a security in which Avenue Capital Group, directly or indirectly, has an interest. For instance, it may be expected that one or more of the funds may invest capital in another of the funds or in securities of issuers in which one or more of the other funds hold positions. In addition, the general partners of certain of the funds have invested their own capital in their funds. Given the likely frequency of these occurrences, clients and investors in the funds will not be provided with notification of them. This may represent a conflict of interest for Avenue Capital Group.

We will not be engaged as an investment adviser to advise investors as to the appropriateness of investing in the funds or managed accounts we manage. Although we will not receive any compensation for selling interests in the funds, we will receive compensation in our capacity as manager of these funds based in part upon the amount invested in the funds. See Item 14 (“Client Referrals and Other Compensation – Compensation for Client Referrals; Placement Agents for Funds”).

Accounts that are beneficially owned by Avenue Capital Group’s employees, Principals and affiliates may from time to time transact in claims of distressed companies. These transactions will be subject to our personal account trading policy.

Item 12. Brokerage Practices

Selection of Brokers

In effecting securities transactions, Avenue Capital Group generally seeks to negotiate with brokers a combination of the most favorable commission and the best price obtainable on each transaction.

Consequently, brokers are selected primarily on the basis of their execution capability and trading expertise consistent with the effective execution of the transaction.

In determining the broker or dealer to be used or the reasonableness of a commission rate or spread, Avenue Capital Group may consider one or more of the following (in addition to the commission rate or spread):

- the utility and reliability of brokerage services,
- execution capability and performance,
- financial condition,
- investment information,
- market insights,
- access to analysts and management, and
- idea generation.

In determining the appropriate broker-dealer to execute a transaction, certain other non-execution related factors, such as access to research and other resources used in connection with a fund transaction, may also be included in the decision-making process. However, there is no express dollar amount attributable to non-execution benefits provided (*i.e.*, neither Avenue Capital Group nor the funds “pay up” to execute orders), and there is no written or verbal agreement or other *quid pro quo* understanding to provide order flow in exchange for such non-execution related goods and services. As such, these are not soft dollar or commission sharing arrangements (see below). Accordingly, the commissions charged by brokers may be greater than the amount another broker might charge if Avenue Capital Group determines in good faith that the amount of these commissions is reasonable in relation to the value of the brokerage services and research information provided by the brokers. Avenue Capital Group’s authority to select the broker or dealer to be used may be limited by legal restrictions such as those imposed under the U.S. Employee Retirement Income Security Act of 1974 (ERISA).

Consistent with the requirements of best execution, brokerage commissions may be directed to brokers in recognition of investment research and information furnished as well as for services rendered in the execution of orders by such brokers. By allocating transactions in this manner, Avenue Capital Group is able to supplement its research and analysis with the views and information of brokerage firms. The funds may also allocate a portion of their brokerage business to brokerage firms whose employees participate as brokers in the introduction of investors to the funds or who agree to bear the expense of capital introduction, marketing or related services by third parties.

Avenue Capital Group effects securities transactions, to the extent permitted by law, with brokerage firms that may be affiliated with Avenue Capital Group or with investment companies registered under the Investment Company Act of 1940 to which Avenue U.S. provides advisory services, if it reasonably believes that the quality of execution and the commission are comparable to that available from other qualified firms (see Item 10 under the heading “Other Financial Industry Activities and Affiliations – Material Financial Industry Affiliations of Avenue Capital Group”).

Certain broker-dealers, through which the Sub-Advised Public Fund may effect securities transactions, will be affiliated persons (as defined in the Investment Company Act) of Avenue Capital Group or the Sub-Advised Public Fund. Avenue Capital Group has adopted certain policies incorporating the

standards of Rule 17e-1 issued by the SEC under the Investment Company Act which require that the commissions paid to affiliates of the Sub-Advised Public Fund be reasonable and fair compared to the commissions, fees or other remuneration received or to be received by other brokers in connection with comparable transactions involving similar securities during a comparable period of time. The rule and procedures also contain review requirements and require Avenue Capital Group to furnish reports to the trustees of the Sub-Advised Public Fund and to maintain records in connection with these reviews.

Soft Dollar and Directed Brokerage Arrangements

We do not currently engage in soft dollar arrangements, but we reserve the right to do so in the future. Notwithstanding the foregoing, certain non-execution products and services may be provided by executing brokers, including, without limitation, research and other resources used in connection with executing a fund transaction. There is no expectation of order flow or any agreement to “pay up” for these products or services, however, and Avenue Capital Group does not believe that these constitute soft dollar items. To the extent that soft dollars are used, any products or services acquired using soft dollars will be consistent with Section 28(e) of the Securities Exchange Act of 1934. MiFID II creates new obligations for investment managers and may cause investment managers to pay for research on an unbundled basis. It is not clear that such a research payment would be treated as a “commission” for purposes of Section 28(e) of the Securities Exchange Act of 1934. See Item 8 “Methods of Analysis, Investment Strategies and Risk of Loss – Risks Associated with Avenue Capital Group’s Investment Strategies – Risks Relating to the European Region – MiFID II.”

During the most recent fiscal year, Avenue Capital Group did not use any soft dollar items or engage in directed brokerage transactions.

Aggregation of Orders

If Avenue Capital Group has determined to purchase (or sell) an investment at the same time for more than one fund, Avenue Capital Group will generally place combined orders for all such funds simultaneously, and if all such orders are not filled at the same price, it will generally average the prices paid. Similarly, if an order on behalf of more than one fund cannot be fully executed under prevailing market conditions, Avenue Capital Group will allocate (or sell, as applicable) the investments among the different funds on a basis that it considers equitable. Situations may occur where the funds could be disadvantaged because of the investment activities conducted by Avenue Capital Group for other funds. From time to time, Avenue U.S., Avenue Europe, Avenue Asia or Avenue Credit may enter trades for funds managed by one of their affiliated investment advisers and such affiliates may enter trades for funds managed by Avenue U.S., Avenue Europe, Avenue Asia or Avenue Credit.

Allocation Procedures

In addition to our responsibilities with respect to the management and investment activities of the funds and any managed accounts, we and our affiliates will have similar responsibilities with respect to various other existing pooled investment vehicles and managed accounts (such clients, together with clients of Avenue Capital Group, are referred to as “Avenue Capital Group clients”). The existence of such multiple vehicles and accounts necessarily creates a number of potential conflicts of interest.

We expect that investments will be allocated between and among Avenue Capital Group clients, particularly where the investment objectives and policies of the Avenue Capital Group clients overlap (in whole or in part). There are, or are expected to be, differences between and among the Avenue Capital Group clients, which may affect how a transaction is allocated with respect to, among other considerations:

- investment objectives,
- investment strategies,
- investment parameters and restrictions,
- portfolio management personnel,
- tax considerations,
- liquidity considerations of the investment as well as the funds,
- hedging considerations,
- legal and/or regulatory considerations,
- potential volatility of the investment,
- asset levels,
- fee levels,
- timing and size of investor capital contributions and redemptions,
- cash flow considerations,
- market conditions,
- existing exposures to an investee company's securities or other instruments, and
- other criteria we deem relevant (the nature and extent of the differences will vary from client to client).

In addition, certain investments may be purchased in odd lots, or there may exist stub amounts, either of which are not readily allocable to multiple clients. Notwithstanding the differences between and among Avenue Capital Group clients, and the possible existence of hard to allocate investments, there may be circumstances where some or all of the Avenue Capital Group clients participate in an aggregated order where we believe it is in the best interest of all Avenue Capital Group clients participating in such order. In all such instances, we will assess whether the investment should be allocated on a *pro rata* basis, targeted asset value basis or other basis.

Avenue Capital Group will not always allocate aggregated orders among Avenue Capital Group clients on a *pro rata* basis. There will be circumstances where:

- only some of the Avenue Capital Group clients participate in the aggregated order;
- the level of participation between and among the Avenue Capital Group clients in the aggregated order is not on a *pro rata* basis; and/or
- investment transactions between and among the Avenue Capital Group clients vary in other respects.

Such non-*pro rata* allocations of aggregated orders between and among the Avenue Capital Group clients will be made in the discretion of Avenue Capital Group when deemed:

- appropriate given the differences between the clients involved,
- appropriate because the target holdings of the particular investment that Avenue Capital Group has established with respect to the clients involved differ from client to client, and/or
- otherwise to be in the best interests of the clients involved.

From time to time we may review Avenue Capital Group clients' exposure to certain investments and determine exposure asset value targets for clients. Where the exposure targets are used prior to entering a transaction, Avenue Capital Group may prepare a report that sets forth (i) the target exposures, on an asset value basis, for certain clients with respect to specific investments and (ii) a consistent methodology for the allocation of transactions in these investments among these clients. After that, until the applicable asset value exposure targets are achieved or modified, purchases or sales, as applicable, in the relevant investments (which will generally be made on an aggregated basis) will be allocated to Avenue Capital Group clients in the amounts (expressed as a percentage of the aggregate amount purchased or sold) determined pursuant to the report rather than on a *pro rata* basis.

It is our general policy that no Avenue Capital Group client will receive inappropriate preferential treatment or otherwise be treated unfairly; and we will seek to uphold this policy when making decisions regarding investment allocations.

In connection with certain funds' investment programs, the funds (along with other Avenue Capital Group clients) have made and will make investments through special purpose entities domiciled in Luxembourg. The private funds' offering documents provide that the funds shall bear all investment expenses. Each fund shall bear its allocable share of special purpose entity expenses associated with employees' salaries and office space rent in Luxembourg in accordance with Avenue Capital Group's expense allocation policy.

The Sub-Advised Public Fund may invest in securities that are similar to investments that may be held by private funds managed by Avenue Capital Group and its affiliates. Where a particular investment would be eligible for investment both by the Sub-Advised Public Fund and a private fund managed by Avenue Capital Group and/or its affiliates, prior to purchasing such investment, Avenue Capital Group and its affiliates will prepare a report that sets forth the target exposures, on an asset value basis, for the applicable public and private funds with respect to the identified investments (as determined for each fund by such fund's portfolio manager). Thereafter, until the applicable asset value exposure targets are achieved or modified, purchases or sales, as applicable, in the relevant investments (which will generally be made on an aggregated basis) will be allocated to the applicable public and/or private funds in the amounts (expressed as a percentage of the aggregate amount purchased or sold) proportionate to each fund's applicable asset value exposure target. When the Sub-Advised Public Fund and a private fund participate in an aggregated trade on an investment with an asset value target, to the extent such investments are allocated non *pro-rata*, such allocations must be approved, in advance, by the Chief Compliance Officer.

Currently, the Performing Loans strategy has two funds and is walled off from the rest of Avenue Capital Group's strategies. As such, the strategy will source and invest separately and will not aggregate orders with other strategies. The allocations between the two Performing Loans funds are made on an available cash or targeted net asset value basis, and the Performing Loans strategy maintains similar books and records as Avenue Capital Group's other strategies.

Trade Errors and Net Asset Value Computation Errors

We have adopted a policy for the purpose of addressing trade errors that may arise, from time to time, with respect to the securities transactions of the private funds and any managed accounts. An example of a trade error is the sale of a security when it should have been purchased. Pursuant to the policy, we will seek to identify and correct any trade errors in an expeditious manner. Trade errors that result in losses for a private fund or managed account that are the result of our gross negligence or willful misconduct, as determined by us, will be reversed, and we will be responsible to make the affected funds and managed accounts whole. Trade errors that result in losses for a private fund or managed account that are not the result of our gross negligence or willful misconduct, as determined by us, will be reversed and we may, but are not required to, bear such losses in whole or in part. Any such losses we do not bear will be borne by the affected funds and/or managed accounts. Trade errors that result in losses for a public fund or any fund that is deemed to hold “plan assets,” as defined under ERISA, whether or not they are the result of our gross negligence or willful misconduct, will be reversed, and we will be responsible to make the affected public fund whole. Gains from trade errors will be credited to the affected funds or managed accounts. Gains from trade errors may not be used to offset losses from trade errors. “Soft dollars” or “client commissions” will not be used, either directly or indirectly, to correct trade errors. We document each trade error and maintain a trade error file. The determination of whether or not a trade error has occurred will be in our sole discretion.

Item 13. Review of Accounts

Each fund and managed account is maintained, supervised and reviewed on a regular basis by its respective investment principles. Matters reviewed include specific investments held, the percentage of assets in various types of asset classes and the relative and absolute performance of each account. The investment principles for each Avenue Capital Group fund are listed in that fund’s confidential offering memorandum.

With respect to the private funds for which Avenue Capital Group serves as the investment manager, each investor receives annual audited financial statements of each such fund. In addition, investors in the various private funds receive additional financial statements and reports as described in the confidential offering memorandum for each private fund. Investors in the Sub-Advised Public Fund should receive periodic reports from the third-party investment manager that Avenue U.S. sub-advises.

With respect to other clients for whom we may serve as the investment manager on a managed account or sub-advisory basis, we will provide such clients with reports and statements, the content and frequency of which will be as agreed.

Item 14. Client Referrals and Other Compensation

Compensation for Client Referrals; Placement Agents and Distributors for Funds

Avenue Capital Group may retain the services of one or more placement agents and distributors in connection with the solicitation of prospective investors. Avenue U.S. has retained Merrill Lynch Alternative Investments, LLC, Spoonhill Asset Management, Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co., Credit Suisse Securities (USA) LLC, Magenta Capital Services, Ltd., Citigroup Global Markets Limited, UBS Financial Services Inc., Morgan Stanley Smith Barney, Inte Securities LLC, FallLine Securities, LLC and/or Andes Capital Group, LLC (and, in certain cases, one or more affiliates of these entities) as placement agents for certain private funds. Avenue Europe has retained Morgan

Stanley & Co., Credit Suisse Securities (USA) LLC, Barclays Capital Inc., UBS Financial Services Inc., Magenta Capital Services, Ltd., Picton S.A., Citigroup Global Markets Limited, J.P. Morgan Securities LLC, Andes Capital Group, LLC, Bradley Woods & Co. Ltd. and, in certain cases, one or more affiliates of these entities, as placement agents. Avenue Asia has retained Probitas Funds Group, LLC as a placement agent for certain funds. Avenue Credit may in the future retain the services of one or more placement agents in connection with the solicitation of prospective investors. Avenue Credit does not presently retain any third-party placement agents.

Typically, placement agents and distributors retained by Avenue Capital Group are paid a fee based upon a percentage of the investor's investment or of Avenue Capital Group's management fee. These fees are borne by the particular firm. If an investor that is placed with Avenue Capital Group by one of the placement agents or distributors we have retained has a brokerage or other relationship with that placement agent or distributor, that investor may pay additional fees to the placement agent or distributor if the terms of its relationship with the placement agent or distributor so provide. To the extent applicable, solicitations by third party placement agents of prospective managed clients and funds not sponsored by Avenue Capital Group are made in accordance with SEC Rule 206(4)-3 adopted under the Advisers Act.

Item 15. Custody

We have custody, as defined in Rule 206(4)-2 under the Advisers Act, of the assets of certain of the private funds as a result of the service of certain of our affiliates as general partners of some of the private funds we manage and our ability to remove the independent directors of some of the private funds we manage. The private funds are audited annually and deliver audited financial statements to their investors within 120 days' of the applicable fiscal year-end. Avenue U.S. does not have custody of the Sub-Advised Public Fund's assets.

Item 16. Investment Discretion

Item 4 includes a description of the investment discretion that we exercise.

Item 17. Voting Client Securities

We have policies and procedures in place for the voting of proxies, processing of corporate actions and participating in class action lawsuits and related settlements on behalf of the funds and managed accounts we advise. The proxy policy is designed to ensure compliance with the proxy voting, disclosure and record keeping requirements under SEC Rules 206(4)-6 and 204-2 adopted under the Advisers Act. Our policies and procedures are also designed to ensure that all proxy and corporate action proposals are thoroughly reviewed and voted in the best interest of each fund, provide disclosure to fund investors and ensure that certain documentation is retained. As a general matter, clients may not direct our vote in a particular solicitation.

Avenue Capital Group's objective is to ensure that its proxy voting and corporate action activities on behalf of the funds are conducted in a manner consistent, under all circumstances, with the best interest of the funds.

Proxy Voting

With respect to certain proxy proposal issues, we vote in accordance with predetermined “for” or “against” designations, except when we determine the best interests of the client require a contrary vote. We vote other proxy proposals on a “case by case” analysis in the best interests of the client.

In the event that Avenue Capital Group votes contrary to the proxy voting guidelines, we will document the basis for our contrary voting decision.

In addition, Avenue Capital Group may choose not to vote proxies in certain situations or for certain funds, such as (i) where a fund has informed Avenue Capital Group that it wishes to retain the right to vote the proxy, (ii) where Avenue Capital Group deems the cost of voting would exceed any anticipated benefit to the fund, (iii) where the proxy is received for a fund that has been terminated, or (iv) where a proxy is received by Avenue Capital Group for a security it no longer manages on behalf of a fund. Avenue Capital Group will document the basis for the decision not to vote.

We may be subject to conflicts of interest in the voting of proxies. If at any time Avenue Capital Group becomes aware of an actual conflict of interest relating to a particular proxy proposal, Avenue Capital Group will handle the proposal as follows:

- If the proposal is designated in the proxy voting policies as “For” or “Against,” the proposal will be voted by Avenue Capital Group in accordance with the proxy voting policies; or
- If the proposal is designated in the proxy voting policies above as “Case by Case” (or not addressed in the proxy voting policies), if it is clear how to vote in the best interest of the funds entitled to vote then the vote may proceed, otherwise, Avenue’s Conflicts Committee will attempt to resolve the conflict of interest and will seek to resolve the conflict pursuant to the procedures set forth in “Conflict Resolution in Proxy Voting and Corporate Actions” below.

Each investor in a private fund and each managed account client may obtain information on how we voted with respect to the securities of such fund or managed account, as applicable, and obtain a copy of proxy voting policies and procedures by submitting a written request to Andrew K. Schinder at 399 Park Avenue, 6th Floor, New York, New York 10022 or by contacting Mr. Schinder at 212-878-3500.

With respect to any public fund, Avenue U.S. shall in due course provide information to the public fund regarding how the public fund’s proxies and corporate actions were voted to enable the public fund to make the required disclosures regarding the proxy voting.

Corporate Actions

Avenue Capital Group has adopted procedures to address and, in some cases, mitigate the conflicts of interest that may arise with respect to corporate actions and proxy voting where multiple funds hold different securities of the same issuer. In cases where either a specific right, such as a vote with respect to a security or the grant of a waiver, or an ongoing right, such as an opportunity to serve on a creditor’s committee or otherwise engage in discussions with an issuer, arises, and Avenue Capital Group does not identify a conflict of interest, the following procedures will apply:

- Avenue Capital Group will be responsible for determining whether the course of action that is in the best interest of the relevant fund is clear;

- Avenue Capital Group will exercise the right or ongoing right in the best interest of the relevant fund(s); and
- The Chief Compliance Officer will be notified prior to the exercise of the right.

Conflict Resolution in Proxy Voting and Corporate Actions

If Avenue Capital Group identifies a conflict of interest with respect to corporate actions and proxy voting where multiple funds hold different securities of the same issuer, then Avenue Capital Group will notify the Chief Compliance Officer and convene its Conflicts Committee to attempt to resolve the conflict. If the Conflicts Committee cannot do so, Avenue Capital Group will follow the procedures set forth in each fund's organizational documents. The funds' organizational documents generally provide that:

- In the case of a public fund, the Board of Directors (or Trustees) of the public fund may direct the vote on behalf of the fund; and
- In the case of a private fund, an independent committee established by the fund or independent representative appointed to handle such matters or, if permitted under the fund's organizational documents, an independent third-party, may vote on behalf of the fund.

Class Actions

Avenue Capital Group has adopted a policy with respect to the participation of its clients in class action lawsuits and related settlements. Avenue Capital Group employs a third party that provides a list of outstanding class actions. Avenue Capital Group's Compliance Department, along with the applicable Senior Portfolio Manager, review an internal report showing all Avenue investments for which Avenue Capital Group clients may participate in a class action in order to determine whether participation in the class action is in the best interest of the Avenue Capital Group clients. Avenue Capital Group may determine that it may not be in Avenue Capital Group clients' best interest to participate in a class action if, among other reasons:

- The Avenue Capital Group clients have appointed a person to an interested party's Board of Directors;
- The Avenue Capital Group clients are negotiating or may seek to negotiate a transaction with an interested party; or
- The level of resources that would need to be allocated to the class action effort is disproportionate to the perceived potential benefit to the Avenue Capital Group clients.

In the event of a conflict of interest between or among Avenue Capital Group clients in connection with a class action matter, Avenue Capital Group (and its affiliates, if applicable) will analyze the interests of the pertinent Avenue Capital Group clients in order to determine the appropriate course of action (e.g., allowing the class action to proceed with respect to similarly situated Avenue Capital Group clients and/or declining to participate in a class action on behalf of other similarly situated Avenue Capital Group clients).

Item 18. Financial Information

We have included herewith a balance sheet for Avenue U.S.'s most recent fiscal year. Avenue Asia, Avenue Europe and Avenue Credit do not require or solicit prepayment of more than \$1,200 in fees from

the funds, six months or more in advance, and therefore are not required to include a balance sheet for their most recent fiscal year.