



Form ADV, Part 2, Brochure

January 29, 2019

RBC CM Fund Partners, LLC, Collateral Manager Advisory Business

**This brochure provides information about the qualifications and business practices of RBC CM Fund Partners, LLC (the "Advisor"), an indirectly wholly-owned subsidiary of Royal Bank of Canada. Contact us at (212) 428-6265 if you have any questions about the content of this brochure. This information has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or any state securities authority. Additional information about the Advisor is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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#### ITEM 4: ADVISORY BUSINESS

This Brochure relates to advisory services offered by RBC CM Fund Partners, LLC (“Advisor,” “we,” or “us”), an indirect wholly-owned subsidiary of Royal Bank of Canada (“RBC”). The Advisor is newly registered as an investment adviser with the Securities and Exchange Commission (“SEC”).

##### ADVISORY SERVICES

The Advisor offers investment advisory services primarily focused on senior secured term loan and revolving investments to a variety of institutional clients through (i) separately managed accounts (“SMAs”); and (ii) pooled investment vehicles in the form of collateralized loan obligations (“CLOs”). SMAs together with CLOs are referred to herein collectively as “Clients.” The Advisor also may accept non-discretionary Clients for which it makes recommendations on existing portfolio(s) or prospective investments or transactions.

The CLOs are organized to be excluded from the definition of “investment company” and therefore are not required to register under the Investment Company Act of 1940 and the securities or interests of such CLOs are exempt from registration under the Securities Act of 1933. Each CLO issuer is expected to be a non-U.S. entity that issues various tranches of senior and mezzanine notes (“Senior Notes”) and subordinated non-rated residual notes (commonly referred to as “Equity”, and, together with the Senior Notes, the “Notes”) pursuant to the terms and conditions of an indenture (“Indenture”). The Senior Notes issued by each CLO are secured by a portfolio consisting primarily of leveraged loans selected and managed by the Advisor.

The documentation governing each Client relationship, which may include prospectuses, offering circulars, private placement memoranda, management agreements, Indentures, subscription agreements and other documents governing the Client relationship, including any agreements with Clients and/or investors (collectively, “Client Documentation”) contains, among other things, detailed specifications and requirements regarding the types of investments and overall composition of a Client portfolio (such as diversity, ratings, concentration, etc.), and the Advisor’s role and authority. Except in the case of an SMA, generally, investment guidelines for Clients are not tailored to the individual needs of any particular investor or CLO debt investor (“Note Holder”). Often, certain Note Holders can be expected to influence investment criteria or portfolio guidelines. Also, the Advisor expects to enter into side letter agreements or other similar separate agreements with certain Note Holders that have the effect of establishing rights under or altering or supplementing the terms of a CLO’s governing documents (with respect to each such Note Holder, such side letter is part of the Client Documentation).

Entities affiliated with the Advisor (“Advisor Related Parties”) have in the past, and may in the future, serve as warehouses for CLOs to accumulate loans intended to be transferred to a CLO prior to its offering to investors.

The Advisor may, from time to time, prepare written commentary on general market conditions. The commentary is designed to educate and inform current and prospective Clients, Note Holders, investors, consultants and other business contacts. The Advisor does not charge a fee for providing these commentaries and may determine in its discretion to initiate or discontinue this practice at any time. The Advisor may provide such commentary, in its sole discretion, to certain Clients, Note Holders, investors and prospects, and not others.

The description of the Advisor's advisory services and Clients is not exhaustive; consequently, the Advisor may provide other advisory services to other types of Clients not described herein.

#### ASSETS UNDER MANAGEMENT

As of October 31, 2018, the Advisor managed approximately \$475 million in assets.

#### *ITEM 5: FEES AND COMPENSATION*

The Advisor receives advisory fees and incentive compensation in accordance with Client Documentation.

#### SMA's

For SMA's, the Advisor generally will be paid a quarterly management fee, which is usually based on the net asset value ("NAV") of all assets held in a Client's account. The management fee is equal to a mutually agreed upon annual fee prorated and multiplied by the SMA's NAV as of each calendar quarter-end, reduced for periods of less than a complete quarter. The management fee is calculated and accrued monthly and is generally payable quarterly in arrears, subject to any different payment and calculation terms in a Client's investment management agreement. To the extent there is a deviation between the general descriptions provided in this brochure and the provisions and disclosures in such Client Documentation applicable to a specific Client, the terms of the Client Documentation shall govern.

#### CLO's

As compensation for its services as the collateral manager of CLO's, the Advisor expects to receive an advisory fee, paid as a senior management fee and a subordinated management fee. Fees are negotiated on a case-by-case basis and, as such, there will be no set CLO fee schedule. The senior management fee has a higher priority in a CLO's priority of payments waterfall whereas the subordinated fee generally ranks below certain payments to Senior Note Holders, subject to satisfaction of any requirements set forth in the Indenture. The collateral manager is often eligible for incentive compensation (a percentage of the cash flow generated by the CLO portfolio) provided that the Equity has achieved the internal rate of return ("IRR") threshold set forth in the Indenture. CLO fees are calculated by the CLO Trustee and not the collateral manager and only the CLO Trustee has the authority to cause such fees to be paid by the CLO. The senior and subordinated fees are typically paid quarterly in arrears, consistent with the Indenture.

#### CALCULATION OF FEES

Notwithstanding the general parameters set forth above, Client fees are subject to negotiation. The fees actually charged to each Client and investor reflect the negotiated fee rate applicable to each. Under such circumstances, fees can differ among Clients as well as among investors in the same Client. Fees vary across Clients based on the type of service provided, size of the account, and the overall relationship between the Advisor and the Client. Fees are negotiable and paid more or less frequently depending upon the terms of the Client Documentation. Consistent with the Client Documentation, the Advisor, at its sole discretion, can elect to reduce, waive or calculate differently the fees with respect to any investor, whether through different classes or through separate written agreements with investors.

## PREPAYMENT OF FEES

The Advisor does not accept prepayment of fees.

## OTHER FEES

Subject to the terms of Client Documentation, the Advisor invests Client assets in investments that charge additional fees, such as, money market funds, short term investment vehicles, tax blocker entities, co-investment vehicles and other eligible investments. Such fees may be payable to the Advisor or other Advisor Related Parties, resulting in the receipt of multiple layers of fees by the Advisor and/or other Advisor Related Parties to the extent permitted by the Client Documentation. The Advisor has an incentive to select investments that increase the total fees paid to the Advisor and/or other Advisor Related Parties.

The Advisor or Advisor Related Parties receive fees, remuneration or profits from transactions in Client portfolios involving affiliated entities in addition to any management and performance fees described herein, which creates potential conflicts of interest. Please see Item 11, Code of Ethics, Participation or Interests in Client Transactions and Personal Trading.

## EXPENSES

In addition to the fees described above, Clients often bear (or reimburse the Advisor, as the case may be) the costs and expenses described below, to the extent permitted under Client Documentation.

In respect of CLOs, expenses may include:

- Expenses incurred in connection with the formation, qualification and registration and/or exemption from qualification and registration of CLOs, and the interests and the offering, distribution and processing of interests in CLOs under applicable U.S. federal and state law and foreign law, including but not limited to legal, accounting and auditing fees and expenses, printing and duplication expenses, mailing expenses, filing fees, solicitation and marketing expenses and other related expenses, and insurance (e.g., “directors and officers” or similar professional liability insurance).
- Costs and expenses relating to a CLO’s ongoing operations, as set forth in greater detail in the Client Documentation, will generally include, but are not limited to, the following: (i) all fees, costs and expenses related to the purchase, holding and sale of portfolio investments including assignment fees, delayed compensation and other costs customarily related to trading in relevant markets; (ii) fees and expenses paid to an administrator, a custodian or other service providers; (iii) fees and expenses paid to professional advisors regarding tax, accounting or legal matters related to the CLO or its investments; (iv) fees and expenses paid to directors, registered office fees, bank service fees, investment or trading related fees, brokerage commissions or spreads, prime broker fees, clearing and settlement charges; (v) expenses associated with any borrowing, financing or credit facility incurred by the CLO to finance the CLO’s investment activity or operations consistent with the Client Documentation, and legal fees and expenses incurred in connection with the negotiation of such financings; (vi) research expenses, consultant, operator or servicer fees, structuring and ongoing costs related to the analysis, purchase, sale, monitoring or valuation of investments, including transactions not consummated; (vii) due diligence related to the analysis, purchase, sale, monitoring or valuation of investments, including transactions not consummated, and travel

costs and expenses associated with the foregoing; (viii) costs and expenses associated with regulatory and licensing requirements that are applicable to the CLO, such as annual or periodic filings and reporting obligations, or its investment program (such as costs associated with complying with trading limitations); (ix) any fees for bookkeeping, auditing, accounting or recordkeeping services obtained or maintained on behalf of the CLO; (x) costs related to internal accounting, risk management and trading systems; (xi) expenses relating to the valuation or appraisal of investments (including valuation providers); (xii) distribution, marketing and offering costs and expenses, including costs and expenses incurred in connection with meetings, reports and communication with existing and prospective CLOs and investors, including an annual meeting of CLO investors, and the use of placement agents and finders; (xiii) taxes, litigation or indemnification costs or damages including indemnification obligations of CLOs related to or in connection with a portfolio investment (including investments that have been disposed of) or arising under contracts with service providers; (xiv) costs and expenses incurred in connection with the winding up and liquidation of a CLO; (xv) any other expenses related to the investment, financing, monitoring, enhancement, disposition or reporting of CLO assets; (xvi) costs and expenses associated with an investor advisory committee, independent client representative or other similar person or body retained to represent the interests of CLOs or Note Holders, and (xvii) trading vehicle and/or other special purpose vehicle such as a tax blocker or co-investment vehicle facilitating a CLO's investment activity or investment objective, the CLO's pro rata share of costs and expenses associated with its investment in such vehicles.

- To the extent set forth in Client Documentation, costs and expenses incurred by the Advisor on its own behalf, including but not limited to: (i) costs and expenses associated with liability insurance, and risk-specific insurance; (ii) costs and expenses associated with data feeds and related technology, such as news feeds, data services, equipment and software incurred in connection with the provision of investment management, administrative or other services by the Advisor (e.g., news and quotation services); (iii) third parties providing back office operations support to the Advisor, market data, modeling services and related software, trade order management systems and related software, portfolio management and monitoring software; and (iv) costs and expenses related to compliance matters, filings, regulatory requirements and regulatory investigations or requests (e.g., Form PF and other regulatory filings, notices or disclosures of the Advisor). Some expenses, such as expenses associated with liability insurance and technology services, typically are invoiced and paid (and, thus, allocated) in advance of the relevant period. Other expenses, including ordinary and extraordinary legal, accounting, auditing, and record keeping fees paid to CLO administrators, custodians, Trustees or the equivalent thereof, and certain other fees and expenses authorized under a Client's Documentation.

In respect of SMAs, expenses charged to SMAs generally include management fees, all costs and expenses related to the SMA's portfolio investments and all costs and expenses agreed to between the Client and the Advisor in the Client Documentation. Costs and expenses typically born by an SMA relating to its portfolio investments include: brokerage commissions and other trading execution and settlement related costs and fees; custody fees; and interest incurred on borrowings, if any. Moreover, some of the costs and expenses identified above in respect of CLOs may also be borne by SMAs when the SMA participates in a portfolio investment alongside a CLO through one or more special purpose vehicles or the SMA derives a benefit from the incurrence of a cost or expense, such as research, due diligence or technology services.

When the Advisor incurs expenses on behalf of multiple Clients, it will seek to allocate the expenses among the applicable Clients in accordance with its practices in effect from time to time.

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

The Advisor may receive performance-based compensation from eligible Clients, as set forth in the relevant Client Documentation. Additionally, the Advisor and Advisor Related Parties have other pecuniary interests in Clients, such as personal or proprietary investments. Each of these arrangements create a variety of risks and conflicts, including, but not limited to, those described below.

Any performance-based compensation is structured in a manner designed to comply with the applicable requirements of the Investment Advisers Act of 1940 (the “Advisers Act”). In the case of CLOs, performance-based fees are generally paid as a percentage of available cash flow, not appreciation of assets, and only after Equity holders have achieved a specified IRR (not the appreciation of portfolio assets) consistent with the terms of the Indenture.

The receipt of performance-based compensation, and the presence of different pecuniary interests in Client accounts, creates a potential conflict of interest between the Advisor’s interest to generate revenue for itself, and its personnel and affiliates, and the interests of Clients and investors (including Note Holders). Specifically, performance-based fee arrangements and ownership of pecuniary interests create an incentive for the Advisor to make investments that are considered riskier or more speculative than those that would be otherwise recommended under a different fee arrangement. In most cases, the payment of performance-based compensation is dependent on portfolio performance creating an incentive for the Advisor to make decisions that may conflict with the interests of some investors or Note Holders or any class thereof. For example, the performance-based fee structure could create an incentive for the collateral manager to take greater risks or otherwise manage the CLO portfolio in a manner which seeks to maximize IRR for Equity holders relative to investors holding Notes with higher creditworthiness like Senior Notes. Focusing on increasing yield could contribute to a decline in the creditworthiness of the portfolio and could result in potential defaults or volatility. However, Client Documentation typically contains specific investment guidelines and restrictions that constrain the Advisor’s discretion to select speculative investments. This is particularly relevant with respect to CLOs where the Indentures limit the portfolios to certain types of investments, as well as diversification, credit quality and concentration by industry and issuer.

The Advisor also has an incentive to favor Clients paying higher fees or in which the Advisor and other Advisor Related Parties have greater pecuniary interests when allocating investment opportunities. The Advisor seeks to mitigate this conflict through disclosure and our allocation policy as described below.

“Side-by-side management” refers to the simultaneous management of multiple types of Client accounts and/or investment products. As discussed above, the Advisor manages investments for a variety of Clients that will pursue similar, competing or complementary investment objectives, policies or strategies. Side-by-side management gives rise to a variety of potential and actual conflicts of interest for the Advisor, its personnel and Advisor Related Parties, including the incentive to favor certain Clients with performance-based fees, higher fee-paying Clients or those Clients where the Advisor and Advisor Related Parties, and their respective personnel have a pecuniary interest. The Advisor has a trade allocation policy designed to

mitigate this conflict by seeking to allocate investment opportunities among eligible Clients in a manner deemed by the Advisor to be fair and equitable over time, subject to, and consistent with, Client guidelines, objectives and strategies. Certain Clients have specific targeted investment strategies, investment objectives or risk parameters as described in Client Documentation. To mitigate this potential conflict with respect to clients with the same or materially similar mandates, the Advisor intends to allocate investments pro-rata across Client Accounts in accordance with their respective assets under management. However, in certain circumstances, eligible Clients may receive larger allocations or the entire allocation of an investment opportunity where the Advisor determines, in its reasonable discretion, that such opportunity aligns with a Client's specific investment target, investment guidelines, target returns or risk parameters. The application of these considerations can result in a non-pro rata allocation of an investment opportunity to some Clients (including Clients in which the Advisor or Advisor Related Parties or their respective personnel have a direct or indirect pecuniary interest) when other Clients receive a smaller allocation or none. See Item 11. "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for more information regarding the Advisor's allocation policy.

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

As described in Item 4 "Advisory Business", the Advisor advises SMAs and CLOs. Investors in SMAs and CLOs may include high net worth individuals, banks, insurance companies, family offices, endowments, pensions, and other institutional investors. Investors in CLOs are qualified institutional investors.

Minimum investment amounts for CLOs are set forth in the Client Documentation. Minimum amounts for SMAs are individually negotiated with Clients with the Advisor making a determination of the appropriate minimum amount taking into account, among other things, the nature of the investment strategy and investment objective. Accordingly, there is no set minimum amount for SMAs and such amounts could vary.

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

##### STRATEGY

The Advisor invests primarily in a diversified pool of senior secured term loans and revolver loans for non-investment grade companies with typically between \$40 million and \$ 1 billion in earnings before interest, taxes, depreciation, and amortization ("EBITDA"). The minimum tranche size typically considered for investment is greater than \$150 million, with certain exceptions, in an attempt to maintain adequate liquidity.

The Advisor employs a comprehensive framework to analyze each credit and debt structure. In selecting individual securities, the Advisor's analysis typically includes the following categories, where applicable:

- Top Down Analysis: macroeconomic environment, industry cyclicity & volatility, competitive framework, third-party diligence and loan market conditions.
- Bottoms Up Analysis: strength of products & services, company / sponsor strategy, industry position, barriers to entry, long-term prospects, peer comparisons and management track record.
- Quantitative Analysis: financial performance & health, project cash flows, plans to de-lever, ability to meet obligations & repay debt, collateral valuation, downside analysis and recovery analysis.



- Instrument Analysis: seniority, covenant analysis, liquidity and collateral valuation.
- Ratings: the Advisor utilizes a proprietary ratings model that replicates rating agency methodologies to form its own opinion of the probability of loss.

The Advisor may also utilize total return swaps in connection with bank loans, typically 1 to 3 years in duration.

## RISKS

*There can be no assurance that our investment strategies will be successful, that Clients will achieve their investment objectives or that losses will not occur. Investing involves significant risks and is suitable only for persons who can bear the economic risk of the loss of their entire investment, have a limited need for liquidity in their investment and meet the conditions set forth in Client Documentation. Accordingly, Clients and investors should give careful consideration to the following risk factors in evaluating the merits and suitability of the Advisor's strategies. The following should not be considered and does not purport to be a summary of all the risks associated with the Advisor's investment strategies. Rather the following are risks which the Advisor reasonably believes to be material or unique relative to the particular investment strategies or methods the Advisor employs. For CLOs, a description of risks relevant to a Client can be found in the final confidential offering circular, prospectus or other Client Documentation. A copy of such documents is available at no charge upon investor request. Investors should consult their own legal, tax and financial advisors, prior to making an investment in a CLO or engaging the Advisor as a manager.*

While the Advisor seeks to manage Client accounts so that the risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Mandates may be limited to certain types of investments and may not be diversified by asset type. An investment in a CLO or Client account managed by the Advisor is not a complete investment program. Investors are responsible for appropriately diversifying their assets to guard against the risk of loss.

**Non-Investment Grade Loans.** The Advisor primarily invests in credit markets, including leveraged, non-investment grade loans. Such loans are considered a higher risk than other types of investments because historically they have experienced a higher default rate than other asset classes. As a result, there can be no assurance that the ultimate recovery on a defaulted instrument will not result in a capital loss, adversely affecting a Client portfolio.

**Default Risk.** If there is a default on a loan, reference loan, bond or other instrument in a Client portfolio, the defaulted borrower often ceases to fund its obligations as they become due. The defaulting borrower usually becomes subject to lengthy and substantial workout negotiations or restructuring, often resulting in a reduction in interest rates on obligations, a write-down of principal and/or change in the terms, conditions or covenants with respect to the defaulted obligation, all of which can be substantial; including the possibility that equity of the borrower will be issued in exchange for the original obligation, in whole or in part. While loans are often secured by collateral, losses can result from default and foreclosure. The value of the underlying collateral, the creditworthiness of the obligor and the priority of the lien will have a significant

impact on the potential recovery of a defaulted asset. There is no assurance that the liquidation proceeds of collateral will be sufficient to satisfy the entire outstanding balance of principal and interest on a defaulted loan, resulting in a possible loss of all or part of an investment in a Client portfolio.

**Investments in Loans; Lack of Liquidity and Transparency.** Leveraged loans and interests therein, including derivatives and structured finance obligations, have significant liquidity and market value risks as they are not traded in organized markets or exchanges but rather are traded over the counter by commercial banks and other institutional investors. Because leveraged loans are privately syndicated, loans are not purchased or sold as easily as publicly traded securities and purchasers and sellers do not have the protections and certainty provided by an established market or regulatory regime. Further, market data regarding trading activity and pricing is not widely available as would be the case for certain other investments.

**Valuation Risk.** Valuation of positions in Client portfolios (which can be used to determine the amount of management fees and calculate the Advisor's performance track record data) will involve uncertainties and judgment determinations, and if such valuations should prove to be incorrect, Clients could be adversely affected. Independent pricing information may not be available or reliable. Certain assets will be difficult to value and be subject to varying interpretations of value and on certain occasions will need to be valued by the Advisor. While the methods used to mark the hard-to-value assets are intended to be fair, there is no assurance that this will be the case and independent verifications of such valuations should not be expected.

**Pre-Payment Risk.** Leveraged loans are generally subject to pre-payment in whole or in part at any time at the option of the obligor, at par plus accrued unpaid interest. Prepayments on loans will occur as a result of a number of factors that are often difficult to predict, and not within the control of the Advisor. Consequently, there is a risk that loans purchased at a price greater than par will experience a capital loss as a result of a prepayment at par. Likewise, there is no assurance that proceeds received from a prepayment can or will be invested in other assets of comparable value or bearing at least the same rate of interest.

**Risks related to Ratings.** The Advisor performs its own independent credit analysis but also, when relevant to investment guidelines, takes rating agency assessments into consideration in reaching its judgments concerning the portfolios under its management. Credit ratings of borrowers represent the opinions of the rating agencies regarding the likelihood of payment of certain obligations when due but are not a guarantee of the creditworthiness of obligors or the repayment of (or payment of interest on) a credit obligation. In addition, rating agencies may not make timely changes to credit ratings in response to evolving events, so that the financial condition of an obligor at any given time could be better or worse than what the current rating indicates. Therefore, the ratings assigned to a borrower or its loan by a rating agency may not fully reflect the true risks of holding a credit in a Client portfolio.

**Swaps and Other Derivatives.** To the extent consistent with Client Documentation, the Advisor may invest on behalf of its Clients in derivatives, principally total return swaps ("TRS") in connection with bank loans. A TRS is a derivative transaction whereby the TRS payer agrees to pay asset appreciation plus reference asset coupon and receives asset depreciation and a swap spread over LIBOR. The TRS payer is synthetically short the asset and the TRS receiver is synthetically long the asset. The TRS receiver earns a levered return on the asset via the daily uncleared margining features of the derivative. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as deviations between

the actual and the theoretical value of such derivatives. Changes in the volatility of the price of an underlying security or index may make a large difference to the theoretical value of a derivative instrument. Derivatives are subject to a wide variety of contractual terms including a range of “early termination events” permitting the counterparty to liquidate the position prematurely. Derivatives may be extremely illiquid, and in many cases, derivative positions may be offset only by transacting with the counterparty to the derivative. Derivatives are also subject to valuation, liquidity and credit risks, risks related to movements in the price of an underlying reference instrument and counterparty risks (i.e., the failure of a counterparty to fulfill its contractual obligations). In addition, certain derivatives are subject to mandatory central clearing and exchange trading. Central clearing and exchange trading are intended to reduce counterparty credit risk and increase liquidity but do not render derivatives transactions risk free. Unforeseeable events outside the control of the Advisor, can have significant impacts on reference obligations or their issuers, interest and exchange rates which, in turn, can have large and sudden effects on prices of derivative instruments.

**Leverage Risk.** Losses incurred on leveraged investments will increase in direct proportion to the degree of leverage employed. Clients will also incur interest expense on the borrowings used to leverage its positions. The use of leverage also may result in the forced liquidation of positions (which may otherwise have been profitable) as a result of margin or collateral calls, depending on a Client’s structure. To the extent the assets have been leveraged through the borrowing of money, the purchase of investments on margin or otherwise, the interest expense and other costs and premiums incurred in relation thereto may not be recovered. If gains earned by the portfolio fail to cover such costs, the net asset value of the portfolio may decrease faster than if there had been no borrowings. Moreover, to the extent the Advisor can adjust leverage levels, the Advisor could increase (or decrease) leverage at times when it is not advantageous to do so and, as a result, the value of your investment can decrease.

- CLOs: The leverage level is generally fixed at the outset of the respective CLO but varies during the life of the CLO based upon realized losses and gains, and repayments by tranche after the end of the reinvestment period.
- SMAs: Typically, the Advisor’s SMAs do not utilize leverage but are not necessarily precluded from doing so. Accounts that hold CLO equity and debt securities and CLO warehouse vehicle investments are affected by the leverage employed by such CLOs or CLO warehouse vehicles. The level of leverage may increase the risk of loss of the CLO investments. The level of leverage may increase the risk of loss of the CLO investments.

**Risks Related to Holding CLO Interests.** The value of interests in CLOs generally will fluctuate with, among other things, the financial condition of the obligors/issuers of the underlying portfolio of assets of the related CLO (“CLO Collateral”), market conditions, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Interests in CLOs are issued on a non-recourse basis and holders of interests in CLOs must rely solely on distributions on the CLO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CLO Collateral are insufficient to make payments on the interests in CLOs, no other assets will be available for payment of the deficiency and following liquidation of the CLO Collateral, the obligations of such issuer to pay such deficiency will be extinguished.

**Cash Position.** When the Advisor believes that changes in market, economic, political or other conditions warrant, it may not reinvest cash proceeds received by a Client in additional loans and may invest in cash or

cash equivalents. Such investments may adversely affect a Client's performance. Maintaining a cash position may be more advantageous for Senior Note Holders over Equity Note Holders whose return is based solely on the residual amount remaining once Senior Note Holders have been paid.

**Changes to LIBOR.** Regulators and law-enforcement agencies in a number of different jurisdictions have conducted and continue to conduct civil and criminal investigations into potential manipulation or attempted manipulation of LIBOR (the London Interbank Overnight Rate) submissions to the British Bankers' Association. LIBOR is currently being reformed, including (i) the replacement of the British Bankers' Association with ICE Benchmark Administration Limited as LIBOR administrator, (ii) a reduction in the number of tenors for which LIBOR is calculated, and (iii) modifications to the LIBOR submission and calculation procedures. Investors should be aware that: (a) any of these changes or any other changes to LIBOR could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be; (b) if the applicable rate of interest on any investment is calculated with reference to a tenor which is discontinued, such rate of interest will then be determined by the provisions of the affected investment, which may include determination by the relevant calculation agent in its discretion; (c) the administrator of LIBOR will not have any involvement in the investment or the Notes and may take any actions in respect of LIBOR without regard to the effect of such actions on the investment or the Notes; and (d) any uncertainty in the value of LIBOR or, the development of a widespread market view that LIBOR has been manipulated or any uncertainty in the prominence of LIBOR as a benchmark interest rate due to the recent regulatory reform may adversely affect liquidity of the investment or the Notes in the secondary market and their market value. Any of the above or any other significant change to the setting of LIBOR could have a material adverse effect on the value of, and the amount payable under, (i) any investment which pays interest linked to a LIBOR rate and (ii) the Notes.

On July 27, 2017, the head of the UK Financial Conduct Authority (the "FCA") made remarks indicating that the FCA does not intend to sustain LIBOR by using its influence or legal powers to persuade or compel banks to submit rates for the calculation of Libor as a benchmark rate beyond 2021. Accordingly, LIBOR may be discontinued as a benchmark rate by the end of 2021. If discontinued as a benchmark rate, it is uncertain whether broad replacement conventions in the leveraged loan markets will develop and, if conventions develop, what those conventions will be and whether they will create adverse consequences for the CLOs or Clients or the holders of any Notes or investors in Private Funds. If no such conventions develop, it is uncertain what effect broadly divergent interest rate calculation methodologies in the markets will have on the price and liquidity of leveraged loans and the ability of the Advisor to seek to mitigate interest rate risks.

**Concentration Risk.** The concentration of investments in any one obligor would subject a Client to a greater degree of risk with respect to defaults by such obligor, and the concentration of investments in any one industry or country would subject a Client to a greater degree of risk with respect to economic downturns relating to such industry or country. Any concentration with respect to any particular obligor, industry or country could ultimately result in significant losses to a Client.

**Lower Credit Quality Securities.** Interests in CLOs may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may have the lowest quality ratings or may be unrated, may have been downgraded or placed on "credit watch" for future downgrades. Lower rated and unrated securities can have large uncertainties or major risk exposures to adverse

conditions and can be considered to be speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal. The market values of interests in CLOs also may tend to be more sensitive to changes in market or economic conditions than other securities. The value of the leveraged loans underlying a CLO may also be affected by changes in the market's perception of the entity issuing or guaranteeing them, or by changes in government regulations and tax policies.

**Liquidity of Markets.** Markets periodically experience significant falloffs in liquidity. While these may be attributable to changes in interest rates or other macro-economic factors, the cause is not always apparent or predictable. During these periods of market illiquidity, the Advisor might not be able to sell assets in its Clients' portfolios or might only be able to do so at unfavorable prices. Because interests in CLOs themselves could be illiquid, they can be difficult to value and the valuations are often based on models or an indicative price from a dealer, rather than on prices at which the security was actually sold in the secondary market. As a result, Notes could experience large movements in price.

**Subordination of Interests in CLOs.** Subordinate interests in CLOs such as Equity generally are fully subordinated to the CLO's senior tranches. Thus, investments in a particular CLO tranche can rank behind other creditors of the CLO and an investment in Equity will rank behind all creditors of the CLO (including the management fees of the Advisor). To the extent that any losses are incurred by a CLO in respect of its related CLO Collateral, these losses will be borne first by the holders of the Equity, next by the holders of any related subordinated Notes, and finally by the holders of the related Senior Notes. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any Senior Notes are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the documentation governing the CLO. Remedies pursued by such holders could be adverse to the interests of the holders of any Equity. Investments in Equity will be the first to absorb any losses by the CLO on its underlying portfolio. This can result in a complete or partial loss of an investment.

**Mandatory Redemption of CLO Senior Tranches.** Under certain circumstances, cash flows from CLO Collateral that otherwise would have been paid to the holders of its mezzanine Notes and Equity will be used to redeem the related Senior Notes higher in the capital structure pursuant to the Client Documentation. This could result in an elimination, deferral, or reduction in the interest payments, principal repayments or other payments made to investors who hold such interests in CLOs, which would adversely impact their returns.

**Optional Redemption of CLO Senior Tranches.** An optional redemption by a CLO of its Notes (which generally can be required at the request of a majority of the controlling class as set forth in the Client Documentation) could require the collateral manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the CLO Collateral sold (and which in turn could adversely impact the holders of any related Equity).

**Market Volatility Risk.** The value of a Client's investments may decline due to changing economic, political, regulatory or market conditions beyond the control of the Advisor. Economic, political, regulatory or market developments can affect a single obligor, obligors within an industry, economic sector or geographic region, or the market as a whole. Different parts of the market and different types of investments can react differently to these developments. Every investment has some level of market volatility risk.

**Risks Associated with Bankruptcy Cases.** Bankruptcy cases are adversarial and may be lengthy. While creditors generally are afforded an opportunity to object to significant actions in bankruptcy proceedings, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of Clients. If the Advisor were determined to have taken over management and functional operating control of a debtor, it could lose Clients' ranking and priority as a creditor. Reorganizations can involve substantial legal, professional and administrative costs, are subject to unpredictable and lengthy delays and, during the reorganization process, the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that Clients' influence with respect to a class of investments can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high. The Advisor invests principally in securities and other financial instruments of North American issuers with assets located in this region (with a focus on U.S. based issuers and assets), although the Advisor may invest in securities and other financial instruments of other issuers domiciled, or with assets located, elsewhere, particularly Europe. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. The law and process in such jurisdictions may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. While the Advisor generally favors jurisdictions where it believes the rule of law is clear, well-developed and respected, there can be no assurance that the outcome of bankruptcy or insolvency proceedings, particularly in jurisdictions outside the U.S., will result in a favorable outcome. In addition, as more companies conduct operations internationally, multi-jurisdictional bankruptcy or insolvency proceedings are increasing in prevalence and the foregoing factors may result in unique challenges that impact the potential recovery and timing thereof. On behalf of one or more Clients, the Advisor may elect to serve on creditors' committees, official or unofficial, equity holders' committees or other groups to seek to preserve or enhance such Client's position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Advisor concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to its Clients, it may be necessary to resign from that committee or group if such conflict cannot be appropriately resolved, and Clients may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if a Client is represented on a committee or group, the Advisor and its Clients may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

**Counterparty Risk.** Clients will be subject to the credit risk of counterparties with whom the Advisor trades. If a trading counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, trade term disputes or other reasons, Clients should expect significant delays in obtaining a recovery (if any) in such circumstances.

**Restrictions on the Advisor's Ability to Manage.** Client Documentation such as a CLO Indenture or management agreement, often place contractual restrictions, which may be significant, on the Advisor's discretion. During certain periods or in certain specified circumstances, the Advisor will not be able to effect purchases or sales which it would otherwise choose to effect in the absence of such restrictions. Alternatively, the Advisor may be able to transact for other Clients without such restrictions.

**Competition; Availability of Investments.** There is a high degree of competition for attractive assets in the credit markets. There can be no assurance that the Advisor will be able to identify or successfully pursue and obtain investment opportunities in all market conditions. Among other factors, market conditions, regulations impacting liquidity and loan origination, interest rates, and competition for suitable investments from public and private funds, CLOs and other investors will reduce the availability of investment opportunities.

**Settlement Risk.** Leveraged loans are subject to settlement periods in excess of the securities standard of trade date plus two days and may not settle on a delivery versus payment basis as is common for other types of investments. Leveraged loan settlement periods can extend to trade date plus seven days or more depending upon a number of factors not in the control of the Advisor. Therefore, counterparties to leveraged loan trades, including Clients, are subject to ongoing market risk to the extent that lengthy settlement periods occur. Moreover, settlement of leveraged loan trades can be a manual process, prolonging the settlement period and increasing operational risk. Further, during the prolonged settlements, the underlying credit outlook, positive or negative, or the terms of the loan evolve in accordance with the terms of the underlying credit agreement (i.e., LIBOR resets, pre-payments, etc.) or otherwise.

**Participations Risk.** Interests in loans may be acquired indirectly by purchasing a participation interest from a selling institution, which may be an Advisor Related Party or a Client. Holders of participation interests are subject to additional risks not applicable to a holder of a direct interest in a loan. Participations in a selling institution's portion of a loan typically result in a contractual relationship only with such selling institution, not with the borrower. In the case of a participation interest, the holder will generally have the right to receive payments of principal, interest and any fees to which it is entitled only from the institution selling the participation and only upon receipt by such selling institution of such payments from the borrower. By holding a participation interest in a loan, the holder generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set off against the borrower or voting rights with respect to amendments or waivers, and may not directly benefit from the collateral supporting the loan in which it has purchased the participation. As a result, the holder will assume the credit risk of both the borrower and the institution selling the participation, which remains the legal owner of record of the applicable loan.

**Public and Private Side Risk.** Loans are negotiated, structured, administered and, as the situation arises, amended on the basis of the obligor providing its lenders with confidential information about the borrower's business and financial condition. At times, such information contains material, non-public information ("MNPI"). The Advisor is prohibited from improperly disclosing or improperly using MNPI in connection with the purchase or sale of a security for its benefit or for the benefit of itself, or any other person, including Clients; however, the Advisor may use MNPI in accordance with its policies and procedures for the benefit

of Clients in connection with the purchase and sale of senior loans. In this regard, it is not uncommon for transactions to occur in the loan market on the basis of asymmetrical information (i.e., one loan participant has public information while its counterparty has MNPI) and the Advisor will be trading in loans with counterparties who have access to MNPI while it does not and vice versa. The Advisor can elect to participate on either the “public” or “private” side with respect to an issuer; however, the Advisor will likely operate primarily on the private side, resulting in securities trading restrictions with respect to securities of that issuer. Accepting MNPI in respect of one Client may result in the Advisor having to abstain from purchasing or selling securities of an issuer, which may be to the detriment of another Client. For example, the Advisor may elect to accept MNPI with respect to an investment to be held by one Client even though doing so restricts trading in existing positions of the same issuer purchased for other Client accounts while on the public side.

**No Independent Advice.** The terms of the Client Documentation and arrangements under which a Client is organized and operated will be established by the Advisor or an affiliated entity that serves as general partner or managing member of such investment vehicle, and will not be the result of arm’s-length negotiations or representations of investors by separate counsel. Investors should therefore seek their own legal, tax and financial advice prior to making an investment.

**Business and Regulatory Risks.** Legal, tax and regulatory changes in the U.S. and outside the U.S. could occur and likely will adversely affect Clients, investors and the Advisor. The regulatory environment for private investment vehicles is evolving, and changes in such regulation may adversely affect the value of investments held by Clients. In addition, the financial markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. Legal, tax, and regulatory changes, as well as judicial decisions, could adversely affect the implementation of the Advisor’s investment strategy. Alternatively, new U.S. or non-U.S. rules or legislation regulating Clients, investors or the Advisor are likely to be adopted, and the possible scope of any rules or legislation is unknown. There can be no assurances that Clients, investors or the Advisor will not in the future be subject to regulatory review or discipline. The effect of any regulatory changes or developments on Clients, investors or the financial markets will be expected to affect the manner in which the Advisor performs its advisory services. The effect of any future regulatory change could be substantial and adverse and is beyond the control of the Advisor.

**Political Uncertainty Risk.** The United States markets, as well as non-U.S. markets in which Clients may invest in the future or to which Clients or obligors/issuers of instruments held in Client accounts are exposed, may experience political uncertainty and/or change (e.g., Brexit or other policy shifts) that subjects investments to heightened risks. These heightened risks may include: greater fluctuations in currency exchange rates; increased risk of default (by both government and private issuers); greater social, economic, and political instability (including the risk of war or terrorist activity); governmental involvement in the economy; less governmental supervision and regulation of the securities markets and market participants; controls or restrictions on foreign investment, capital controls and limitations on repatriation of invested capital and on the ability to exchange currencies; inability to purchase and sell investments or otherwise settle security or derivative transactions (i.e., a market freeze); unavailability of currency hedging techniques; and slower clearance. During times of political uncertainty, the global securities, derivatives and



currency markets often become more volatile. There also may be a lower level of monitoring and regulation of markets while a country is experiencing political uncertainty, and the activities of investors in such markets and enforcement of existing regulations may become more limited. Markets experiencing political uncertainty may have substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates may have negative effects on such countries' economies and securities markets. There can be no assurance that political changes or policy decisions, directly or indirectly, will not cause a Client to suffer a loss of any or all of its investments or, in the case of fixed income investments, interest thereon.

**Information Technology Security Risk.** The Advisor employs information technology systems, consisting of end-user computers and devices, infrastructure, applications and communications networks to support the Advisor's business operations. Systems, networks and devices can nevertheless be breached and the Advisor, its Clients and investors could be negatively impacted as a result of a cybersecurity breach. Cybersecurity breaches can include unauthorized access to systems, networks or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow or otherwise disrupt operations, business processes or website access, functionality or cause corruption of sensitive and confidential information. Cybersecurity breaches will cause disruptions and impact the Advisor's business operations potentially resulting in a financial loss to Clients due to interference with the Advisor's ability to initiate or close out positions and monitor Client portfolios, violations of privacy law, regulatory fines and penalties, reputational damage or additional compliance costs. The Advisor seeks to mitigate attacks on its systems; however, such measures cannot provide absolute security. The Advisor will not be able to directly control the risks of third party systems to which the Advisor relies upon or connects. Any breach in security of the systems that the Advisor relies upon could disrupt its business and its ability to provide services to Clients and will cause Clients to suffer, among other things, financial losses, disruption of business, liability to third parties, regulatory intervention and/or reputational damage. Any of the foregoing can have a material adverse effect on the Advisor, its Clients, investors and Client portfolios.

#### *ITEM 9: DISCIPLINARY HISTORY*

The Advisor and its management personnel do not have any reportable disciplinary events to disclose.

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

The Advisor is an indirect wholly-owned subsidiary of RBC. RBC, through its subsidiaries and affiliates, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending and related products and services on a global basis. These products and services include: securities brokerage, trading, and underwriting; investment banking, strategic advisory services (including mergers and acquisitions), and other corporate finance activities; wealth management products and services including financial, retirement, and generational planning; asset management and investment advisory and related record-keeping services; origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, commodities, and foreign exchange products; securities clearance, settlement financing services, and prime brokerage; private equity and other principal investing activities; proprietary trading of securities, derivatives, and loans; banking, trust, and lending services, including deposit-taking, consumer and commercial lending, including mortgage loans, and related services; insurance and annuities sales and research across the following disciplines: global equity strategy

and economics, global fixed-income and equity-linked research, global fundamental equity research, and global wealth management strategy. RBC is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended and additional information about RBC can be found in publicly available filings with the SEC.

The Advisor has employees who are employees of Royal Bank of Canada, NY Branch. The Advisor does not believe that this poses a material conflict because these employees are seconded to the Advisor and spend substantially all of their time on the activities of the Advisor.

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

CODE OF ETHICS

The Code of Ethics is available separately upon your request. All our employees, officers and directors are subject to our Code of Ethics and must certify receipt and compliance with the Code of Ethics annually.

The Code of Ethics guides our standards of business conduct as a fiduciary to our clients as well as other policies and procedures that outline our practices surrounding personal trading in securities, confidentiality of client information, and the misuse of non-public information.

The Code of Ethics requires employees (1) to pre-clear all personal trades for their own accounts or accounts over which they have an interest or control (other than personal trades in certain exempt securities); and (2) to report personal securities holdings at the time of hire, as well as annually thereafter; quarterly, employees certify adherence to the Code of Ethics, and annually to the accuracy of their personal holdings and transactions.

CONFLICTS OF INTEREST

The Advisor manages internal, proprietary investment vehicles (“Internal Investments”) using substantially the same strategies as its Clients. Managing these vehicles side-by-side with Client accounts investing in the same or similar securities creates conflicts of interests much like those discussed under “Item 6: Performance Based Fees and Side by Side Management” above, including the incentive to favor the Internal Investments due to the Advisor’s pecuniary interests in those investments. However, the Advisor believes that it has policies and procedures designed to mitigate these conflicts, including but not limited to policies and procedures requiring it to allocate investment opportunities among Clients and Internal Investments in a manner deemed by the Advisor to be fair and equitable over time, subject to, and consistent with, guidelines, objectives and strategies of the Clients and the Internal Investments, and without factoring in the level or structure of the management fee paid to the Advisor.

Various potential and actual conflicts of interest may arise as a result of the investment banking, commercial banking, asset management, financing and financial advisory services and products provided by an Advisor Related Party, as well as in connection with the investment, trading and brokerage activities of Advisor Related Parties.

One or more Advisor Related Parties may:

- have placed or underwritten, or acted as a financial arranger, structuring agent or advisor in connection with the original issuance of, or may act as a broker or dealer with respect to, participate or make a market in, certain of the investments held by a Client;
- act as trustee, paying agent and in other capacities in connection with certain of the investments held by a Client or other classes of securities issued by an issuer of or obligor on an investment held by a Client or an affiliate thereof;
- be a counterparty to issuers or obligors of certain of the investments held by a Client under swap or other derivative agreements;
- lend to certain obligors of investments held by Clients or their respective affiliates or receive guarantees from the issuers or obligors of those investments or their respective affiliates (which may include economic interests in obligations or securities that are senior to, or have interests different from or adverse to, those Client investments);
- provide investment banking, asset management, commercial banking, financing or financial advisory services to the obligors with respect to investments held by a Client or their respective affiliates;
- as principal or agent, have an equity interest, which may be a substantial equity interest, in certain issuers of the investments held by Clients or their respective affiliates;
- from time to time, act in two or more different capacities or roles (including as advisor, investor or creditor) in transactions or in relation to other services provided by any Advisor Related Party and may pay or receive fees, commissions or other benefits and allow or receive discounts or rebates in respect of each such capacity or role or as a result of any other matter referred to herein); or
- have officers, agents, employees or managers who serve as directors (or in other capacities in which they may control or influence the policies or management) of any of the issuers or obligors of investments owned by a Client.
- act as a selling institution with respect to a loan participation or assignment.

Due to certain of these relationships and ownership interests, a Client's purchase, holding and sale of certain investments will enhance the profitability to, or the value of investments held by, an Advisor Related Party. In addition, certain of these relationships and ownership interests may create interests on the part of the Advisor or an Advisor-Related Party that are contrary to the interests of a Client.

When an Advisor Related Party underwrites or originates a loan, the Advisor has an incentive to purchase the loan for its Clients so that it is no longer held on the books of the Advisor Related Party. This risk is mitigated by the Advisor's investment process in which an investment committee of the Advisor evaluates purchases of loans underwritten or originated by an Advisor Related Party on the same basis as loans underwritten or originated by third-party lenders to ensure that any such purchases are consistent with the Advisor's investment strategy. In addition, Clients will receive the same market clearing price as other market participants in respect of a loan underwritten or originated by an Advisor Related Party.

When acting as a trustee, paying agent or in other service capacities with respect to a Client investment, an Advisor Related Party will be entitled to fees and expenses senior in priority to payments to the holders of such investment.

When acting as a trustee for other classes of securities issued by the issuer of or obligor on a Client investment or an affiliate thereof, an Advisor Related Party will owe fiduciary duties to the holders of such other classes of securities, which classes of securities may have differing interests from the holders of the class of securities of which the Client investment is a part.

As a counterparty under swaps and other derivative agreements, an Advisor Related Party might take actions adverse to the interests of a Client or Client investment, including, but not limited to, demanding collateralization of its exposure under such agreements (if provided for thereunder) or terminating such swaps or agreements in accordance with the terms thereof that might result in financial stress upon the issuer or obligor that is or is affiliated with the derivatives or swap counterparty.

In making and administering loans and other obligations, the Advisor Related Party might take actions including, but not limited to, restructuring a loan, foreclosing on or exercising other remedies with respect to a loan, requiring additional collateral or other credit enhancement, charging significant fees and interest, placing the obligor in bankruptcy or demanding payment on a loan guarantee or under other credit enhancement.

Advisor Related Parties may from time to time enter into financing and derivative transactions (including repurchase transactions) with third parties and with respect to Client investments or the Notes, and the Advisor Related Parties in connection therewith may acquire or establish long, short or derivative financial positions with respect to a Client investment or the Notes, or one or more portfolios of financial assets similar to the portfolio of Client investments, including the right to exercise voting rights with respect to such Client investments, Notes or other assets.

As part of their regular business, an Advisor Related Party may also provide one or more of a wide range of investment banking, commercial banking, asset management, investment advisory (including issuance of research), financing and financial advisory services and products to, and purchase, hold and sell, both for their respective accounts or for the account of their respective clients, on a principal or agency basis, a wide range of loans, securities, and other obligations and financial instruments and engage in private equity investment activities.

The Advisor Related Parties may, by virtue of the relationships described above or otherwise, at the date hereof or at any time hereafter, be in possession of information regarding certain of the issuers of Client investments and their respective affiliates, that is or may be material and that is or may not be known to the general public. None of the Advisor or the Advisor Related Parties have any obligation to disclose to any Client, Note Holder or investor any such relationship or information, whether or not confidential.

An Advisor Related Party may serve as the placement agent for a CLO Client or its Notes and will be paid fees and commissions for such service by the CLO Client from the proceeds of the issuance of the Notes. In its capacity as placement agent, an Advisor Related Party will privately place the Notes in negotiated transactions at varying prices. While the Advisor Related Party may retain a portion of the Notes, it is not

required to own or hold any Notes and may sell any Notes held by it at any time in one or more negotiated transactions or otherwise at varying prices to be determined, in each case, at the time of sale. All of the transactions described above involve the potential for conflicts of interest between the Advisor or an Advisor Related Party and Clients.

The Advisor's personnel are sometimes offered gifts and entertainment from counterparties with whom the Advisor conducts business. This can include tickets to sporting events, meals, and other items of value. The Advisor has a gift and entertainment policy designed to address the potential conflict of interest related to the receipt of gifts or entertainment from the trading counterparties.

The Advisers Act imposes certain requirements designed to decrease the possibility of conflicts of interest between an investment adviser and its clients. In some cases, transactions may be permitted subject to fulfillment of certain conditions. The Advisor has instituted policies and procedures designed to prevent conflicts of interest from arising and, when they do arise, to ensure that they effect transactions for Clients in a manner that is consistent with its fiduciary duty to its Clients and in accordance with applicable law. The Advisor and Advisor Related Parties seek to ensure that potential or actual conflicts of interest are appropriately resolved taking into consideration the best interest of the Client.

#### PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

**Allocation of Investment Opportunities.** The Advisor advises multiple Clients with similar investment strategies. In general, the Advisor will allocate investments pro-rata across Client accounts in accordance with their respective assets under management. However, where an investment opportunity is appropriate for more than one Client, the Advisor does have discretion to determine whether allocations will be on a basis other than pro-rata. This could result in a Client receiving no allocation of a particular investment or receiving an allocation of an investment which is less than it would otherwise have received if the Advisor did not have multiple Clients. The Advisor has policies and procedures designed to allocate investment opportunities to Clients in a manner it deems to be fair and equitable taken as a whole over time, consistent with the Client's investment strategy, guidelines and objectives. Accordingly, the Advisor weighs factors it deems relevant when determining which Client portfolios receive particular investment allocations and to what extent. Such factors include, among others, investment objectives, target returns/yields, risk tolerance, investment guidelines, limitations and restrictions, market conditions, internal investment policies, expected duration of the investment, maturity constraints, cash positions or needs, existing and target issuer and industry exposures, issue size, tax gains/losses and any other factor deemed relevant by the Advisor in good faith. To the extent that a Client does not participate in an allocation or an aggregated order, and the Advisor seeks to transact separately or at a different time, such Client may receive a better or worse execution or not be able to execute at all, depending on market conditions at the time of execution. Differences in allocations will result in different performance for Clients that may have similar investment objectives.

More specifically, the Advisor's focus on constructing fully invested portfolios may result in: (i) certain investment preference being given to new Clients, (ii) allocating one or more investments to CLO warehouse vehicles or other proprietary or Client accounts that maintain such investments temporarily in anticipation of contributing such investment(s) to a newly organized CLO or other pooled investment vehicle, and/or (iii)

making such investments available to certain Clients who have or are expected to have a substantial amount of cash to invest/ramp up.

Allocations to certain of such Client accounts and to those accounts with performance-based fees or compensation or higher fee rates result in an increased economic benefit to the Advisor and Advisor Related Parties. There can be no assurance that any particular investment opportunity will be allocated in a particular manner and further, the Advisor may employ allocation methodologies which differ from, or be inconsistent with, previously used methodologies. Investment opportunities that are presented to Advisor Related Parties (other than the Advisor) or their officers, directors, employees or agents, do not fall within the Advisor's allocation policies and procedures to the extent they are not presented directly to the Advisor.

The Advisor and Advisor Related Parties, from time to time, acquire, hold, or sell for their own accounts, investments which may also be appropriate for Clients. The Advisor may not offer these investment opportunities to its Clients or share with or inform them of such opportunities before the Advisor or Advisor Related Parties make such investments. Further, there is the possibility that the Advisor or Advisor Related Parties will invest in opportunities that the Advisor declined to recommend for Client investment. Accordingly, there may be instances where all or substantially all of an investment opportunity will be allocated to the Advisor or Advisor Related Parties but not to unaffiliated Clients. This can result in the potential for an increased economic benefit to the Advisor or Advisor Related Parties as compared to Clients.

**Cross-Trades.** Pursuant to its Client Documentation and disclosures to Clients, the Advisor, from time to time, effects certain cross-trades between Client accounts, *i.e.*, transactions directly between two different Clients. For example, the Advisor might arrange for one Client which is liquidating its portfolio or a particular investment, to sell all or part of that investment or that portfolio to another Client, which Client might be ramping up its investment portfolio. In such cases, the Advisor's interest may conflict with those of the relevant Clients or the interests of one Client participating in the cross-trade may conflict with the interests of the other Client participating in that trade. The Advisor has policies and procedures designed to address the conflicts which arise in the context of cross trades and to comply with the applicable requirements of the Advisers Act.

**Principal Transactions.** The Advisor engages, to the extent not prohibited by its Client Agreements or applicable law and consistent with its disclosure to Clients, in principal transactions (*i.e.*, transactions between Client accounts and those of the Advisor or its affiliates). A potential conflict of interest arises in that the Advisor or an Advisor Related Party may benefit from such a transaction with a Client. The Firm expects that principal cross-transactions will arise primarily but not exclusively when an entity funded or owned by the Advisor, or an Advisor Related Party, transfers one or more warehoused assets to a newly launched CLO or other pooled investment vehicle managed by the Advisor. When the Advisor engages in principal transactions, it will seek to comply with the applicable requirements of the Advisers Act, including disclosure to and consent of the Client in accordance with the Client Documentation, including the consent of investors or any investor committee appointed pursuant thereto.

**Pricing of Cross and Principal Transactions.** The Advisor endeavors to assure that assets transferred in a cross or principal transaction are assigned a price that is fair to all participating Clients. In determining pricing, the Advisor will act in accordance with its relevant policies and procedures which may include using the price as provided by a third party (including broker quotes and pricing services) and as approved and

documented by the Advisor portfolio manager and, in the case of a principal transaction, as disclosed to the Client or its investor committee prior to the transaction in accordance with applicable law.

#### SECURITIES TRADING BY THE ADVISOR AND OUR AFFILIATES

The Advisor and Advisor Related Parties act in a variety of capacities to a wide range of clients. From time to time in the course of those duties, confidential information may be acquired that cannot be divulged or acted upon for advisory or other clients. Similarly, we may give advice or take action with regard to certain clients, including Clients, which may differ from that given or taken with regard to other clients. This includes the advice given or actions taken with respect to certain securities or investment managers. In some instances, the actions taken by affiliates with respect to similar services and programs may conflict with the actions taken by us. This is due to, among other things, the differing nature of the affiliate's investment advisory service and differing processes and criteria upon which determinations are made.

In addition, we or our affiliates may have a position in or enter into "proprietary" transactions in securities purchased or sold for clients in the normal course of our business as a broker-dealer. We or our affiliates may benefit from those securities positions or transactions.

#### *ITEM 12: BROKERAGE PRACTICES*

Subject to Client Documentation, the Advisor has the authority to select trading counterparties, investment amount and price when making investment decisions on behalf of its Clients and seek "best execution" in executing transactions on behalf of its Clients. In seeking best execution, the Advisor is not obligated to choose the counterparty with the lowest possible execution cost, but primarily considers whether the transaction represents the best qualitative execution under the circumstances.

The Advisor's strategies focus primarily on credit markets. Therefore, Clients generally do not pay commissions in connection with executing transactions but will typically be subject to spreads and other trading costs. In the secondary markets there is typically a limited universe of counterparties offering or making a market in these instruments. Often, there is only one counterparty offering an investment and the Advisor frequently does not have multiple counterparties to select from when making an investment decision. On those occasions when the Advisor can select from more than one counterparty, the Advisor does not expect to solicit competitive bids or seek the lowest trading costs. The Advisor seeks to negotiate and execute Client transactions in a reasonably efficient manner to seek the best overall qualitative execution. Generally, in secondary market transactions for senior loans, the Advisor believes that the original arranger for the loan will provide the best overall qualitative execution for the transaction. For secondary market transactions in senior loans, only where another counterparty provides a materially better price quotation will the Advisor consider a counterparty other than the original loan arranger.

The Advisor gives consideration to placing transactions with counterparties that provide research and other services to the Client or the Advisor, although the Advisor does not anticipate that its activity will generate soft dollars.

In addition, the Advisor uses a variety of counterparties to execute trades, some of which refer Clients or investors to the Advisor. Transacting with a counterparty that makes such referrals can create a conflict because Client or investor referrals benefit the Advisor and not the Clients participating in the trade.

Due to the nature of the senior loan market, trade aggregation is normally not available as each Client is required to be a direct counterparty to the loan documentation. However, when possible the Advisor may choose to, but is not obligated to, aggregate Client trades when such aggregation is expected to be in the best interests of participating Clients. Clients may benefit from aggregated trades through favorable execution quality or lower execution costs. Aggregation opportunities for the Advisor generally arise when more than one Client is capable of purchasing or selling a particular asset based on investment objectives, available cash and other factors. There is no assurance that the aggregation of orders will always decrease execution costs or result in more favorable execution relative to nonaggregated trades. Orders which are not aggregated are generally executed at prices prevailing at the time of the transaction and will not be average priced. The Advisor does not aggregate transactions or seek best execution for Clients who direct the use of a particular counterparty.

On occasion, errors can be expected to occur with respect to trades executed on behalf of Clients. The Advisor endeavors to detect and correct errors promptly and in accordance with its trade error policy. The breach of any prohibitions, limits or other guidelines (numerical, percentage, ratings based or otherwise) does not constitute a trade error if the remedy for such breach is addressed in the relevant Client Documentation. The Advisor may undertake to purchase or sell any asset or instrument (whether or not such asset or instrument caused the breach), in the event of, or to cure, any breach. Gains resulting from trade errors may offset any losses from trade errors with a Client account when such gains and losses result from the same transaction or series of transactions (i.e., “netting” of gains and losses with respect to an error is permitted).

Unless otherwise provided for in the Client Documentation, the Advisor determines whether such error resulted from its negligence, bad faith or willful misconduct and losses from such trade errors will generally be borne by the Advisor.

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

The Advisor periodically reviews Client portfolios to monitor performance and compliance with investment guidelines and discusses prospective investments and credit, industry and economic news and trends at a frequency that is in accordance with its internal policies and procedures. The Advisor delivers periodic reports and other information to Clients as negotiated and set forth in Client Documentation or as otherwise required by law.

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

Although the Advisor has no current solicitation arrangements in place, it may in the future decide to pay fees to persons for client referrals, as permitted by Rule 206(4)-3 under the Advisers Act. Such fees would be paid by the Advisor and not by the client. The Advisor will not charge the referred client a higher fee to compensate for the fee it pays to the solicitor.

#### *ITEM 15: CUSTODY*

With respect to SMA Clients, the Client’s assets will be held at a custodian and the Advisor will not have any ability to hold client funds or have the authority to obtain possession of them, including the inability to deduct



fees or expenses directly from the account. As a result, the Advisor will not have custody of the any SMA account.

For CLOs the Advisor is not deemed, under federal securities laws, to have custody of the assets of its CLOs by virtue of its status as investment collateral manager. The Advisor does not have actual physical custody of any CLO assets; the CLOs' assets are held in the custody of their respective unaffiliated trustees; and the Advisor has no ability to deduct fees or expenses from the CLO.

#### *ITEM 16: INVESTMENT DISCRETION*

In general, the Advisor has full discretion to buy and sell investments on behalf of Clients, including authority to make decisions with respect to amount, price and counterparties (pursuant to, and subject to the terms and conditions set forth in, the Client Documentation). The Advisor provides investment advice to each Client and not individually to Note Holders.

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

Due to the nature of the Advisor's business, it will be rare that the Advisor will be asked to vote a proxy for a publicly traded equity security held on behalf of a Client. Nevertheless, the Advisor has written proxy voting policies and procedures consistent with Rule 206(4)-6 under the Advisers Act. Pursuant to these policies, the Advisor votes proxies in the best economic interest of its Clients over the long term as determined by the Advisor in its reasonable discretion based on the facts and circumstances of each case.

It is more likely that the Advisor is asked to consent to waivers or amendments to credit agreements or make elections with respect to corporate reorganizations. When evaluating such requests, the Advisor generally acts in a manner designed to serve the best economic interests of its Clients or avoid a negative impact on such Clients, as determined by the Advisor in its reasonable discretion, taking into account, as relevant, the impact on the value of the Client's investments, anticipated costs and benefits, amendment fees, standard industry and business practices, and potential conflicts of interest. The Advisor does not consider the Clients' receipt of amendment fees from portfolio companies as a material conflict of interest when making decisions to consent or agree to amendments with respect to such investments. If the Advisor believes the exercise of a consent will not have a material impact on the Client(s) or the underlying credit or that the cost and time commitment required to process the amendments outweighs the benefits of consenting to or withholding consent to a loan amendment, the Advisor, in its discretion, may abstain or not respond. In the event the Advisor uses the services of a third-party service provider to process its actions on loan amendments and other corporate actions, including proxies, such service provider's fees and expenses, if any, are expected to be borne by Clients subject to Client Documentation.

A copy of the Advisor's proxy voting policy and procedures and or information regarding proxy votes is available to Clients and investors in CLOs at no cost upon request made to the Advisor.

Given its primary focus on credit instruments, it is rare that the Advisor will be eligible to participate in class action litigation; accordingly the Advisor does not expect to participate in class actions on behalf of Clients.

*ITEM 18: FINANCIAL INFORMATION*

We are not required to include a balance sheet in this Brochure. We do not have any financial conditions that are reasonably likely to impair our ability to meet our contractual commitments to Clients. As a newly registered investment adviser, the Advisor has not been the subject of a bankruptcy petition during the past 10 years.