



# NASSAU PRIVATE CREDIT

## **NASSAU PRIVATE CREDIT LLC**

17 Old Kings Highway South  
Darien, CT 06820

(203) 902-5522

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

**February 20, 2019**

**This brochure provides information about the qualifications and business practices of Nassau Private Credit LLC. If you have any questions about the contents of this brochure, please contact us by phone at (203) 902-5522. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Nassau Private Credit LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Nassau Private Credit LLC’s registration with the SEC does not imply a certain level of skill or training.**

**Item 2. Material Changes**

This is the initial filing of Form ADV for Nassau Private Credit LLC.

**Item 3. Table of Contents**

	<u>Page</u>
Item 2. Material Changes.....	i
Item 3. Table of Contents .....	1
Item 4. Advisory Business.....	2
Item 5. Fees and Compensation.....	3
Item 6. Performance-Based Compensation and Side-by-Side Management .....	5
Item 7. Types of Clients.....	5
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Item 9. Disciplinary Information .....	34
Item 10. Other Financial Industry Activities and Affiliations .....	34
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	35
Item 12. Brokerage Practices .....	37
Item 13. Review of Accounts .....	38
Item 14. Client Referrals and Other Compensation.....	39
Item 15. Custody.....	39
Item 16. Investment Discretion.....	39
Item 17. Voting Client Securities .....	39
Item 18. Financial Information .....	41

## **Item 4. Advisory Business**

### **A. Firm Description**

Each of Nassau Private Credit LLC, a Delaware limited liability company ("**NPC**"), and Nassau Private Credit GP LLC, a Delaware limited liability company ("**NCPGP**" and, together with NPC, the "**Firm**"), was founded in December 2018, and expects to commence operations in February 2019. The Firm has a principal place of business in Darien, Connecticut, and each of Bruce C. Brittain and Russell C. Pemberton serves as a Managing Director and Portfolio Manager.

Each of NPC and NCPGP is a wholly-owned subsidiary of Nassau Corporate Credit LLC, a Delaware limited liability company ("**NCC**"). NCC is a subsidiary of Nassau Asset Management LLC, a Delaware limited liability company ("**NAM**"), which is itself a wholly-owned subsidiary of Nassau Financial Group, L.P., a Cayman Islands exempted limited partnership ("**Nassau Group**"). Nassau Group is a subsidiary of Nassau NAMCO Splitter, L.P., a Cayman Islands exempted limited partnership ("**NAM Splitter**"), and NAM Splitter is owned and controlled by certain private investment funds sponsored and managed by Golden Gate Private Equity, Inc.

NAM was founded by Phillip J. Gass and Kostas Cheliotis in 2015.

### **B. Types of Advisory Services**

The Firm was formed for the purpose of providing discretionary investment advisory services to privately offered investment funds (each a "**Fund**") and separately managed accounts (together with the Funds and the Firm's other investment advisory clients, the Firm's "**clients**"). The Firm's investment advisory services are expected to primarily focus on investments in debt and equity tranches of collateralized loan obligation issuers ("**CLOs**"), as well as investments in loan accumulation facilities which serve as a precursor to a CLO transaction. The Firm may also, in the future, provide additional types of investment advisory services or may provide services to additional types of clients.

### **C. Availability of Customized Services**

The Firm will tailor its advisory services to each client's needs and investment mandates, which will be specified in the relevant offering materials, investment advisory agreements, organizational agreements and/or other governing documents. The offering documents for each Fund will describe the terms and conditions of the Fund, including fees and risk factors, and should be read carefully prior to investment. No offer to sell interests in the Funds is or will be made by the descriptions in this brochure, and Funds will be available only to investors that are properly qualified.

While much of this brochure applies to all of the Firm's clients, certain information included herein applies to specific clients only. Thus, it is crucial for any client, prospective client, Fund investor or prospective Fund investor to closely review the applicable investment advisory agreement, offering document, organizational agreement or other governing documents with respect to, among other things, the terms, conditions and risks of investing.

### **D. Wrap Fee Programs**

The Firm will not participate in wrap fee programs.

## **E. Assets Under Management**

As of February 20, 2019, the Firm has not yet commenced providing advisory services and does not yet have any assets under management.

### **Item 5. Fees and Compensation**

#### **A. Compensation**

Compensation to the Firm for investment advisory services is expected to be based on the percentage of assets managed by the Firm on behalf of a client and by receiving performance-based compensation. Compensation to the Firm for services provided to Funds may take the form of management or performance fees, carried interest or other incentive compensation related to the performance of such Funds. Such compensation may be paid to the Firm or an affiliate of the Firm. The Firm may waive, reduce or otherwise modify the management fee and/or incentive compensation for any investor in a Fund, including affiliates of the Firm. In addition, the Firm may occasionally enter into a side letter arrangement with certain Fund investors, in which the Firm may grant such investors with preferential terms.

#### **B. Payment of Fees**

Management fees paid by the Funds are expected to be based on the net capital invested in the Funds and paid quarterly in advance. Incentive fees paid by the Funds are expected to be payable later in the Funds' lives after investors have received a specified preferred return.

Management fees and incentive fees paid by other Firm clients will be tailored for each such other client.

Although the foregoing is a brief summary of the management fee and incentive compensation arrangements expected to be applicable to the Firm's clients, please note that this brief summary is not a substitute for the detailed terms provided in the advisory agreement, offering document, organizational agreement or other governing documents of the Firm's clients.

#### **C. Additional Expenses**

The expenses paid by the Firm's clients are expected to be set forth in detail in the advisory agreement, offering document, organizational agreement or other governing documents of the relevant client. Such expenses may differ among and within clients. Thus, although the following is a summary of expenses the Firm's clients may generally bear, it is not an exhaustive or complete list with respect to all clients. Clients, prospective clients, Fund investors and prospective Fund investors should therefore review the applicable advisory agreement, offering document, organizational agreement or other governing documents carefully because such documents, and not the summary in this brochure, describe more specifically the expenses such client will bear.

Generally, it is expected that each of the Funds and other Firm clients will bear its own organizational, operating and other expenses, which may include, but not be limited to:

- Organizational and start-up expenses, including legal, accounting, travel, filing and other organizational expenses, associated with the formation of the Fund, any parallel fund or vehicle and the Fund's general partner;
- Management fees and performance-based compensation paid to the Firm;

- Expenses and fees related to the evaluation and development of investments (*e.g.*, investment-related travel and lodging expenses, quotation service expenses, appraisal fees, consulting fees, rating agency expenses, and pricing and valuation fees, and other due diligence expenses), regardless of whether a transaction for such investment is consummated;
- Expenses and fees related to the acquisition, hedging and disposition of investments (*e.g.*, private placement fees, arranger fees, syndication fees, private placement fees, investment banking fees, commitment fees, servicing fees, brokerage fees, commissions, mark-ups or mark-downs, settlement fees, breakup fees, and other transaction fees);
- Expenses and fees related to the monitoring and holding of investments (*e.g.*, interest expense, recordkeeping expenses, custody fees, bank charges, and risk management expenses);
- Interest and expenses related to client borrowings and indebtedness;
- Legal expenses;
- Costs associated with regulatory compliance (*e.g.*, expenses related to anti-money laundering monitoring, expenses related to investor-related compliance obligations (such as AIFMD and FATCA), expenses related to investment-specific regulatory filings (such as Hart-Scott-Rodino notifications), and expenses related to non-position-specific regulatory filings (such as Forms PF and Forms D));
- Expenses of forming, maintaining and winding up private investment fund vehicles and transaction vehicles or subsidiaries (*e.g.*, formation and organizational expenses, expenses related to the maintenance of offering documents and disclosure, trustee expenses and administrator expenses);
- Government fees, taxes and levies;
- Costs and expenses related to indemnification obligations;
- Insurance premiums and other insurance-related expenses;
- Expenses related to services provided by affiliates of the Firm (*e.g.*, shared service expenses); and
- Other costs, expenses and fees to be described in the offering documents, investment advisory agreement or applicable organizational or governing document of the Fund.

Expenses to be borne by more than one client will be allocated across the applicable clients in a manner determined by the Firm to be fair and equitable and consistent with its policies and procedures, generally *pro rata* based on the size of the applicable investment, client or account (as applicable).

#### **D. Advance Payment of Fees**

Certain of the Firm's clients are expected to pay management fees in advance. Management fees for partial periods will be pro-rated. Generally, investors in the Funds will not be permitted to withdraw capital or require that a Fund redeem its investment in such Fund, with the result that no advisory contract is expected to be terminated before the end of the billing period and, therefore, management fees paid in advance in respect of Funds are not expected to be refunded. Management fees that are paid in advance in respect of separately managed accounts may be refunded if the related advisory contract is terminated before the end of a billing period and the terms of such advisory contract so provide.

## **E. Compensation for Sale of Securities or Other Investment Products**

Neither the Firm nor any of its supervised persons is expected to receive any transaction-based compensation for the sale of investment instruments.

A description of the brokerage and other transaction costs that are expected to be borne by Firm clients is in Item 12 of this brochure.

### **Item 6. Performance-Based Compensation and Side-by-Side Management**

As described in Item 5 above, the Firm and/or its affiliates may receive compensation from clients in the form of performance-based compensation. However, such performance-based compensation may not be charged in the same amount or manner for all clients. The variation of performance-based compensation structures among clients may give rise to conflicts of interest. For example, variations create an incentive for the Firm to (i) disproportionately allocate time, services or functions to, (ii) direct the best investment ideas to, or (iii) allocate the sequence of trades in favor of, clients that have a performance-based compensation arrangement more favorable to the Firm. The Firm is committed to allocating investment opportunities on a fair and equitable basis and has established policies and procedures to address such conflicts of interest. These policies and procedures are described in more detail in Item 11 of this brochure.

### **Item 7. Types of Clients**

It is expected that the Firm's primary activity will be to provide investment advisory services to Funds, which are pooled investment vehicles generally offered to investors that are, in the case of U.S. investors, "accredited investors" as defined in Regulation D under the Securities Act of 1933, as amended (the "*Securities Act*") and "qualified purchasers" as defined in the Investment Company Act of 1940, as amended (the "*Investment Company Act*"). It is expected that the Firm will generally provide investment advice to the Funds and not individually to the investors in the Funds. The Firm may also advise separately managed accounts for institutional or other investors.

With respect to any client that is a Fund or other pooled investment vehicle, minimum subscription or investment amounts will be disclosed in the relevant offering memorandum or other documentation.

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

The descriptions set forth in this brochure of specific advisory services that the Firm will offer to its clients, and investment strategies pursued and investments made on behalf of its clients, should not be understood to limit in any way the Firm's investment activities. The Firm may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this brochure, that it considers appropriate, subject in each case to the relevant client's investment objectives and guidelines.

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

Generally, the Firm will seek to generate absolute returns by strategically acquiring, holding and disposing of investments ("*Portfolio Investments*") representing control positions in the most subordinated tranches of CLOs, typically "equity" issued by CLOs ("*CLO Equity*") as well as lower rated CLO debt instruments. The Firm anticipates that CLOs will be managed by third parties affiliated and unaffiliated with the Manager ("*CLO Managers*"). The Firm may also invest in (i) debt and equity tranches of CLOs via primary and/or secondary market transactions, (ii) interests issued by CLO Managers or their related entities, and/or (iii)

warehouse facilities via the provision of first loss capital (“*Warehouse Equity*”) used by CLO Managers to aggregate assets prior to the issuance of a CLO (a “*Warehouse Arrangement*” and, together with CLO Equity and other debt and equity tranches of CLOs, “*CLO Interests*”). Upon the issuance of a CLO and the unwinding of the corresponding Warehouse Arrangement, the Firm may convert some or all of the clients’ Warehouse Equity into a portion of the CLO Equity and/or debt of such CLO issuance.

Control investments in CLO Equity are expected to typically be completed in the primary market, generally as the culmination of a structuring process initiated prior to any investment by the Fund in the CLO. During the structuring phase, the Firm will identify what it believes to be skilled CLO Managers and seek to work with them, alongside arranging banks and other market participants, to facilitate deal flow and execution and to structure the CLO issuance.

As an investor in CLO Equity with a controlling stake, the Firm will be able to exercise certain rights with respect to the equity tranches that clients hold. The Firm expects that opportunities to refinance will be influenced over time by the widening or tightening of bank loan credit spreads and CLO liability spreads. The Firm also believes that opportunities to call transactions will typically occur as CLO issuances extend beyond their reinvestment periods and roll down the credit yield curve. The Firm believes that acquiring a control stake in CLO Equity will enable the Firm to monitor for these opportunities and to exercise rights to protect the interests of its clients.

Despite the Firm’s methods, clients and investors in Funds should be aware that investing in securities and other investment instruments involves risk of loss that clients and such investors should be prepared to bear.

## **B. Material Risks of Investment Strategies**

The investment strategies the Firm is expected to use entail substantial risks, including, but not limited to, those identified below. Further details regarding these risks and other applicable risk factors are included in the offering and/or other documents of the Funds for which the Firm will perform investment advisory services, or in the advisory agreement or other documentation furnished to other clients. Clients, prospective clients, Fund investors and prospective Fund investors are advised to carefully review all risk factors described in such documents. The following is not intended to supersede the material contained in such documents.

***Dependence on Key Individual and Other Personnel.*** The success of the Firm’s clients will depend upon the ability of the Firm, particularly those of Mr. Brittain and Mr. Pemberton, to develop and implement investment strategies that achieve the Firm’s clients’ investment objectives. If the Firm was to lose the services of Mr. Brittain or Mr. Pemberton, the consequences to its clients could be material and adverse. Furthermore, the employees of the Firm are shared employees made available to it under a Shared Services Agreement with affiliates (the “*Shared Services Providers*”). The Firm is relying extensively on the experience, relationships and expertise of these persons over which it does not have direct control. There can be no assurances that these people will remain with the Shared Services Providers or will otherwise continue to be able to carry on their current duties to the Firm under the Shared Services Agreement or that the Shared Service Providers will be able to attract and retain replacements or additional persons when needed. The loss of the services of one or more of these professionals could have an adverse impact on the ability of the Firm to perform its duties.

***Business and Regulatory Risks.*** Legal, tax and regulatory changes could adversely affect the Firm’s clients and/or Fund investors. The regulatory environment for private funds and similarly situated investment vehicles and accounts is evolving, and changes in such regulation may adversely affect the value of investments held by the Firm’s clients. In addition, securities markets are subject to comprehensive statutes



and regulations. The U.S. Securities and Exchange Commission, other regulators, and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The effect of any future regulatory change on the Firm's clients could be substantial and adverse.

***Conflicts of Interest.*** Various potential and actual conflicts of interest may arise between and among the Firm, its clients (including the Funds) and each of their affiliates. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts.

#### Receipt and Permissible Use of Certain Market Information

The Firm and/or its affiliates will likely, from time to time, cause certain of their respective clients to invest in securities or other investment instruments that would be appropriate as investments to be acquired by one or more of the Firm's clients. The Firm and/or its affiliates may also have ongoing relationships with, render services to or engage in transactions, either directly and/or through one or more clients, that invest: (i) in assets of a similar nature to those of one or more of the Firm's clients; and (ii) with companies whose securities are acquired by one or more of the Firm's clients and may own equity or debt securities of such companies. As a result, certain principals, members, directors, officers, employees or affiliates of the Firm and its affiliates may possess information relating to issuers of investment instruments held in certain client accounts that is not known to the individuals at the Firm responsible for monitoring investments held in such accounts. Accordingly, there may be circumstances in which the Firm will be restricted from effecting purchases and/or sales of assets on behalf of one or more of its clients. At times, the Firm, in an effort to avoid such restrictions, may elect not to receive certain information that other market participants are eligible to receive or have received.

#### Differing Valuation Methodologies

Various of the Firm's clients may require the Firm and/or its affiliates to apply different valuation methodologies in valuing specific investments. As a result of such different methodologies, the assigned values of certain investments held in certain client accounts may differ from the value assigned to the same investments held by certain other client accounts which, in turn, could result in different calculations of management fees for different clients holding the same investments.

#### Conflicting Investments or Roles Among Clients

The Firm and its affiliates and their respective clients and personnel may invest, or have already invested, in securities or other financial instruments that are senior or junior to securities or financial instruments of the same issuer that are held or may be acquired by one or more Firm's clients. In addition, the Firm and/or its affiliates and their respective personnel may serve as a general partner, adviser, officer, director, sponsor or manager of funds and/or entities organized to pursue strategies similar to those of the Firm's clients or those pursued on behalf of other clients. In addition, certain of the Firm's affiliates' clients may, but are not required to, invest in investment vehicles managed by one or more of the Firm or its affiliates. The Firm recognizes that conflicts may arise under such circumstances and will endeavor to treat each of the Firm's clients fairly and equitably.

#### Conflicts Regarding Investment Allocations

It is the policy of the Firm to allocate investment opportunities among the Firm's clients so as to not favor one client account over another. However, the Firm may be unaware of, and will not generally take into account, investments made by or opportunities presented to other affiliates of the Firm. The Firm will have no obligation to purchase, sell or exchange any security or financial instrument for one Firm client that the

Firm may purchase, sell or exchange for another client if the Firm believes in good faith at the time the investment decision is made that such transaction or investment would be unsuitable, impractical or undesirable for such other client. There is no assurance that the Firm's clients with strategies or investment objectives that are similar will hold the same assets or perform in a similar manner.

The Firm has adopted a set of standard allocation procedures that will be applied with respect to purchases of prospective investment opportunities that are appropriate for more than one client and sales of current investments that are held by more than one client account. These standard allocations are subject to adjustment to take into account investment restrictions and guidelines that may apply to one or more clients and may be deviated from for a variety of reasons, discussed below. Investments that represent an opportunity to purchase a controlling interest in an entity should be allocated among clients on a rotating basis as fairly, reasonably and equitably as possible, as determined by the Firm; *provided, however*, that such an investment should be allocated *pro rata* based on available cash (including aggregate undrawn capital commitments) of the clients participating in the investment if the voting rights that are associated with the investment are irrevocably assigned or otherwise allocated to a Fund such that, following such assignment or allocation of voting rights and *pro rata* allocation of the investment, the Firm, acting through a Fund, will have the ability to exercise control rights associated with the investment. If an investment does not represent an opportunity to purchase a controlling interest in an entity, it should be allocated *pro rata* among the clients participating in the investment based on available cash (including aggregate undrawn capital commitments). The sale of an investment that is held by more than one client should be allocated *pro rata* among the clients holding such investment based upon the notional or market value of the investment that is held by each such client at the time of the sale.

Standard allocations may be deviated from for one or more reasons, including (i) variations in investment objectives; (ii) variations in investment parameters and/or restrictions; (iii) other investment opportunities that may be available to one client but not the others; (iv) portfolio limitations due to margin or credit facility requirements; (v) legal, regulatory or contractual limitations or requirements; (vi) tax considerations; (vii) liquidity needs; (viii) necessity of rebalancing investments; (ix) leverage constraints; (x) concentration limitations relative to a particular issuer, security, industry, sector or geographic region; (xi) timing considerations; (xii) *de minimis* order fill; (xiii) odd lots or excessive transactions costs relative to the size of a client's potential participation in an investment; (xiv) purchase or sale of an "information piece;" and/or (xv) any reason specifically pre-approved by the Firm's Chief Compliance Officer (after consultation with the Firm's Portfolio Managers, as necessary).

In certain circumstances, the Firm may give special consideration to certain of its clients, such as new clients (including those in which the Firm and/or its affiliates or their personnel may have an interest) with a substantial amount of available cash. The investment decisions of the Firm and its affiliates may result in different investment decisions and allocations even with respect to the Firm's clients with similar investment objectives.

#### Conflicts Regarding Trade Execution

The Firm will seek to obtain the best execution for all orders placed with respect to any trade in a manner it believes to be in the best interests of the participating clients. In allocating brokerage business, the Firm may take into account a number of considerations, including but not limited to, (i) quality of execution, (ii) reputation, financial strength and stability, (iii) willingness to execute difficult transactions, (iv) access to underwritten offerings and secondary markets, (v) ongoing reliability, (vi) overall costs of a trade, (vii) desired timing of the transaction and size of trade, and (viii) market intelligence regarding trading activity. Although the Firm will seek competitive prices, it may not necessarily obtain the lowest price for a particular transaction.

The Firm may, in the allocation of business, take into consideration research and other brokerage services furnished to the Firm and/or its affiliates. Such services may be used by the Firm in connection with its other advisory activities or investment operations.

#### Conflicts Regarding Aggregate Investment Transactions

Orders for investments placed at the same time for two or more of the Firm's clients may, but are not required to, be "batched" or placed as an aggregated order for execution. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client will generally receive the average price with transaction costs allocated *pro rata* based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by the Firm. In the event of a partial fill, allocations may be modified on a basis that the Firm deems to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations. The Firm may elect not to aggregate trades. In such cases where no orders are aggregated, trades are processed in the order they are placed with the broker or counterparty selected by the Firm. As a result, certain trades in the same security or investment instrument for one client (including a client in which an affiliate of the Firm or its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another client and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved. The Firm generally will not aggregate orders with, or otherwise coordinate the purchase or sale of, investments with affiliates of the Firm.

#### Conflicts Regarding Investment Decisions Among the Firm and its Affiliates

The Firm and its affiliates may have or establish relationships with companies, including acting as sponsor, equity investor, adviser, lender or agent bank, whose equity securities or debt obligations are assets held in one or more of the Firm's client accounts, or may be considered for purchase by one or more of the Firm's clients, and may now or in the future own or seek to acquire equity securities or debt obligations issued by issuers of assets held in one or more of the Firm's client accounts, and such securities or obligations may have characteristics or interests different from or adverse to assets held in such client accounts. The Firm and its affiliates may buy, sell, or hold securities or other instruments for themselves and/or on behalf of one or more clients (including a client in which an affiliate of the Firm or its personnel may have a direct or indirect interest) while the Firm is making different investment decisions with respect to one or more other clients and *vice versa*.

In addition, the Firm and its affiliates may engage in any other business and furnish investment management and advisory services to certain of the Firm's clients, including persons that may have investment policies similar to those followed by the Firm with respect to other clients and which may own securities of the same class, or of the same type, as those owned by other clients. The Firm will be free, in its sole discretion, to make recommendations to clients, or effect transactions on behalf of itself or for others, which may be the same as or different from those it effects or directs others to effect for other clients. Neither the Firm nor any of its affiliates will be under any obligation to offer investment opportunities of which it or they become aware to any Firm client or to account to any client or Fund investor (or share with any client or Fund investor, or inform any of them of) any such transaction or any benefit received by them from any such transaction or to inform any Firm client or Fund investor of any investments before offering such investments to any other Firm client(s). The Firm and its affiliates may make an investment on behalf of any client that they manage or advise without offering the investment opportunity to, or making any investment on behalf of, any other Firm client. Furthermore, the Firm and its affiliates may make an investment on their own behalf without offering the investment opportunity to any Firm client or the Firm on behalf of any Firm client. Affirmative obligations may exist or may arise in the future whereby the Firm

and/or its affiliates are obligated to offer certain investments to certain Firm clients and/or Fund investors before or without the Firm offering those investments to other clients or Fund investors. The Firm may make investments on behalf of certain of its clients in securities or other assets that it has declined to invest in for its own account, the account of any Firm affiliates or the account of any other Firm client. The Firm will endeavor to resolve conflicts arising therefrom in a manner that it deems equitable to the extent possible under the prevailing facts and circumstances and applicable law.

#### Conflicts Regarding Time Commitments

Although the Firm and the personnel available to it will devote as much time to each of the Firm's clients as the Firm deems appropriate to perform its duties in accordance with the applicable investment management agreement and in accordance with reasonable commercial standards, such personnel may have conflicts in allocating time and services among the Firm's clients.

#### Conflicts Regarding Other Activities of the Firm and its Affiliates

There will be no limitation or restriction on the Firm or its affiliates with regard to acting as investment manager to multiple client accounts. This and other future activities of the Firm and its affiliates may give rise to additional conflicts of interest and/or intensify the conflicts of interest already described in this brochure.

#### Limited Ethical Screens or Information Barriers

The Firm and certain of its affiliates share a principal place of business, and certain of the same principals, members, directors, officers and employees. The Firm and such affiliates have endeavored to put into place ethical and information barriers among the Firm and such affiliates of the type that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. Nevertheless, if the Firm, its affiliates or any of their personnel were to receive material non-public information about an issuer of a security, the Firm might be prevented from causing the purchase or sale of such security or another investment instrument due to internal restrictions imposed on the Firm. Notwithstanding the maintenance of certain internal controls relating to the management of material non-public information, it is possible that such controls could fail and result in the Firm, or one of its investment professionals, buying or selling a security or other investment instrument while, at least constructively, in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on the Firm's reputation and/or result in the imposition of regulatory or financial sanctions on the Firm, its affiliates, its personnel and/or one or more of the Firm's clients and, as a consequence, negatively impact the Firm's ability to perform its investment management services for the Firm's clients.

#### Other Potential Conflicts of Interest

Affiliates of the Firm may, in the future, provide other services to the Firm's clients and/or may receive fees from them in other capacities. Other present and future activities of the Firm and its affiliates may give rise to additional conflicts of interest.

***Lack of Diversification.*** The Firm's client accounts are expected to be limited in the types of investments the Firm acquires on their behalf. Such lack of diversification could increase volatility.

***Concentrated Portfolio.*** The Firm will only make a limited number of investments on behalf of its clients, and because investments strategies expected to be pursued by the Firm involve a high degree of risk, poor

performance by a few of the investments in a client account could severely affect the total returns to such clients or to Fund investors.

***Long Term Commitment.*** Capital and profits, if any, from a client's investment may not be realized until the redemption, repayment or other disposition of such investment. The Firm's clients and the Fund investors should generally expect to hold or remain committed with respect to investments for a number of years.

***Execution Risks and Investment Manager Error.*** The execution of the investment strategies employed by the Firm will often require the use of negotiated terms with counterparties. In each case, the Firm will seek to negotiate and execute such investments without miscommunication or other error. However, in light of the complexity involved, some miscommunications and other errors are likely and could result in losses to the Firm's clients.

***No Assurance of Investment Return.*** There is no assurance that the Firm will be able to generate returns for its clients or that the returns will be commensurate with the risks of investing in the type of investments expected to be pursued by the Firm's clients. An investment in a Fund should only be considered by persons who can afford a loss of their entire investment.

***Cybersecurity.*** The Firm, as well as service providers to the Firm and/or its clients, store and transmit large amounts of electronic information, including information relating to the Firm's clients' transactions and Fund investors. The computer systems, networks and devices used by the Firm and service providers to the Firm and/or its clients to carry out routine business operations employ a variety of protections that the Firm believes are reasonably designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems, networks or devices potentially can be breached. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. The Firm's clients and/or investors in the Funds could be negatively impacted as a result of a cybersecurity breach, including but not limited to, (a) disruptions to business operations, (b) interference with the ability to calculate the value of assets in client portfolios, (c) impediments to trading, and (d) the inability to transact business. Similarly, adverse consequences could result from cybersecurity breaches affecting (w) issuers of securities or other investment instruments in which the Firm's clients invest, (x) counterparties with which our clients engage in transactions, (y) governmental and other regulatory authorities, and (z) exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions.

***Clients May be Subject to Third Party Litigation; the Funds Have Limited Funds Available to Pay Expenses.*** The investment activities by the Firm on behalf of its clients may subject such clients to the risks of becoming involved in litigation by third parties. This risk may be greater where the Firm, on behalf of one or more clients, exercises control or significant influence over a company's direction. The expense of defending claims against a client by third parties, including involuntary bankruptcy petitions, and paying any amounts pursuant to settlements or judgments would, except in the unlikely event that a client is indemnified for such amounts, be borne by such client and, in the case of a Fund, would reduce the funds available for distribution.

The funds available to the Funds to pay certain fees and expenses will be limited. In the event that such funds are not sufficient to pay the expenses incurred by the Funds, the ability of the Funds to operate effectively may be impaired, and the Funds may not be able to defend or prosecute legal proceedings that may be brought against them or that they might otherwise bring to protect the interests of the Funds. In

addition, service providers who are not paid in full may have the right to resign. This could lead to Funds that are organized in the Cayman Islands being struck from the register of companies and dissolved.

***Financial Markets and Regulatory Change.*** The laws and regulations affecting businesses in general continue to evolve in an unpredictable manner. Laws and regulations, particularly those involving taxation, investment and trade, applicable to the Firm's clients' activities can change quickly and unpredictably, and may at any time be amended, modified, repealed, or replaced in a manner adverse to the interests of the Firm's clients. The Firm, its affiliates and/or the Firm's clients may be, or may become, subject to unduly burdensome and restrictive regulation. In particular, in response to significant recent events in international financial markets, governmental intervention and certain regulatory measures have been or may be adopted in certain jurisdictions. The extent to which the underlying causes of these recent events are pervasive throughout global financial markets and have the potential to cause further instability is not yet clear. These recent events, and their underlying causes, are likely to continue to be the catalyst for changes in global financial regulation for some time, and may result in major and unavoidable losses to the Firm's clients.

***Political, Economic and Other Conditions.*** The Firm's clients' investments may be adversely affected by changes in economic conditions or political events that are beyond the Firm's control. For example, a stock market break, continued threats of terrorism, the outbreak of hostilities involving the United States or any other jurisdiction in which the Firm's clients invest, the death of a major political figure, or the overthrow or replacement of a current ruling body may have significant adverse effects on the Firm's clients' investment results. Additionally, a serious pandemic, such as avian influenza, or a natural disaster, such as a hurricane, could severely disrupt the global, national, and/or regional economies and/or markets. Other factors, such as changes in U.S. or non-U.S. tax laws, U.S. or non-U.S. securities laws, bank regulatory policies or accounting standards, may make corporate financings less desirable. Similarly, legislative acts, rulemaking, adjudicatory or other activities of the United States Congress, the SEC, the Federal Reserve Board, the New York Stock Exchange, the Financial Industry Regulatory Authority or other U.S. or non-U.S. governmental or quasi-governmental bodies, agencies and regulatory organizations may make the Firm's investment strategy less attractive. A negative impact on economic fundamentals and consumer confidence may negatively impact market value, increase market volatility, and cause credit spreads to widen, each of which could have an adverse effect on investment performance.

***Competition; Availability of Investments.*** The Firm may be unable to find a sufficient number of attractive opportunities to meet the Firm's clients' investment objectives or fully invest their assets and/or committed capital. Among other factors, competition for suitable investments from investment funds and other investors may reduce the availability of investment opportunities. There has been growth in the number of private funds and managed accounts organized to make investments similar or identical to the Firm's clients' investments, which may result in increased competition to the Firm's clients in obtaining suitable investments. There can be no assurance that the Firm will be able to identify or successfully pursue attractive investment opportunities in such an environment.

#### ***Risk Relating to an Investment in a Fund.***

##### **Absence of Regulatory Oversight**

While the Funds for which the Firm will perform investment advisory and/or management services may be considered similar to investment companies, no Fund will be required to, nor will it, register as an investment company under the Investment Company Act or the laws of any jurisdiction and, accordingly, the provisions of such statutes (which may provide certain regulatory safeguards to investors) will not be applicable.

### “Master-Feeder” Structure

Certain Funds are expected invest through a “master-feeder” structure, which presents certain unique risks to investors in such Funds. For example, a smaller feeder fund investing in the master fund may be materially affected by the actions of a larger feeder fund investing in the master fund.

### Liquidity, Restrictions on Transfers and Distributions

The interests in the Funds will be illiquid and have significant limitations on transferability. Voluntary withdrawals from the Funds are not expected to be permitted. Other than during a harvest period, the Firm will generally determine the amount and timing of distributions to Fund investors and there can be no guarantee of the amount or timing of any returns to such investors.

### Failure to Make Capital Contributions

If one or more investors in a Fund fails to pay when due installments of its capital commitment, such Fund could be rendered unable to acquire investments or otherwise pay its obligations when due. As a result, such Fund would be subjected to significant penalties that would materially adversely affect the returns of the investors. If an investor defaults, such investor would be subject to various remedies, including, without limitation, forfeiture of its capital account balance and a forced sale of its interests at a reduced value.

### No Ability to Make Decisions

Investors in Funds will have no authority to make investment decisions on behalf of the Fund.

### Lack of Operating History

Each Fund will be a newly formed entity that does not have any prior operating history of its own for prospective investors to evaluate prior to making an investment in the Fund. Although the principals of the Firm have extensive prior investment management experience, the Firm (together with its affiliates) is a newly formed enterprise without a prior history in managing or administering private investment funds. The Funds’ investment programs should be evaluated on the basis that there can be no assurance that the Firm’s assessment of the short-term or long-term prospects of investments will prove accurate or that such Fund will achieve its investment objective.

### Leverage and Borrowing Risks

It is anticipated that the Funds will have the power to borrow funds and the Firm intends to employ limited leverage in connection with its investment programs, to fund expenses or as otherwise deemed necessary, desirable or appropriate, including for the purpose of enhancing the Funds’ returns. The Funds may also leverage their investment returns with options, short sales, swaps, forwards and other derivative instruments. The exact amount of leverage employed by a Fund may vary from time to time and will be dependent upon the terms and restrictions imposed by the leverage lenders. The Funds may borrow funds from brokers, banks and other lenders to finance its investments, which borrowings may be secured by assets of the Fund, capital contributions and available capital commitments. The use of such leverage can, in certain circumstances, maximize the losses to which the Funds’ investments may be subject, and the amount of leverage that the Funds may have outstanding at any time may be significant in relation to its assets. Any event that adversely affects the value of an investment would be magnified to the extent that a Fund is leveraged. The cumulative effect of the use of leverage by a Fund in a market that moves adversely to the Fund’s investments could result in a substantial loss to the Fund, which would be greater than if the Fund

was not leveraged. The access to capital could be impaired by many factors, including market forces or regulatory changes.

In general, the anticipated use of short-term margin borrowings would result in certain additional risks to the Funds. For example, should the assets pledged to brokers to secure a Fund's margin accounts decline in value, the Fund could be subject to a "margin call," pursuant to which the Fund would be required to either deposit additional funds or assets with the broker, or suffer mandatory liquidation of the pledged assets to compensate for the decline in value. In the event of a sudden drop in the value of a Fund's assets, the Fund might not be able to liquidate assets quickly enough to satisfy its margin requirements.

The Funds may enter into repurchase and reverse repurchase agreements. When a Fund enters into a repurchase agreement, it "sells" securities to a broker-dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Fund "buys" securities subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by a Fund involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such case, may involve costs to the Fund.

#### Risk of Borrowing and Use of Subscription Line Facilities by the Fund

The Funds may, and the Firm intends to, fund the making of investments and other capital needs with the proceeds from one or more subscription facilities and may incur further borrowings in accordance with the investment restrictions applicable to the Funds. While the Firm will seek to incur and manage any such facilities and borrowings prudently, such debt would expose the Funds to refinancing, recourse and other risks. The security for a subscription facility is expected to comprise primarily a security interest in the applicable Fund's rights and remedies to capital commitments including in relation to rights relating to defaulting limited partners and a charge over the Fund's bank accounts but may differ for other borrowings and could be, for example, one or more assets of the Fund (*i.e.*, an asset-backed facility). There is likely to be no limitation on the amount of time any such borrowing may remain outstanding and the interest expense and other costs of any such borrowings would be operating expenses and, accordingly, may decrease net returns of the Funds. The Funds are expected to give certain covenants, representations, guarantees, provide preferential security interests in the Funds' assets (including as set out above the Funds' rights in relation to the capital commitments) to lenders, as well as indemnification agreements in connection with entering into such credit facilities, asset-backed facilities or other borrowing arrangements and the related agreements will include various events of default and mandatory prepayment events. Any breach or trigger of any such provisions or security arrangements or other agreements could cause adverse consequences to a Fund if it is unable to cure or otherwise mitigate such breach or trigger.

The Funds will have no obligation to enter into any borrowing facilities. To the extent that a Fund is unable to enter into a subscription facility or otherwise obtain a subscription line or an asset-backed facility, or the Firm determines that the terms of such facility would not be appropriate for the Fund or otherwise determines not to use such facility or access to such facility otherwise becomes unavailable, the Fund may determine to draw down capital commitments in advance and hold them in reserve in order to make investments, satisfy fees and expenses and other capital needs as such needs arise in the future.

#### Resignation or Removal of the Firm; Successor Manager and/General Partner

The Firm, in its capacity as the investment manager and/or the general partner of each Fund, may resign or be removed in certain circumstances. There can be no assurance that any successor to the Firm upon the



resignation or removal of the Firm will have the same level of skill in performing the obligations of the Firm, which could have a material adverse effect on a Fund.

#### Restrictions on Transfers and Withdrawals

Fund interests have not been and will not be registered under the Securities Act or applicable state securities laws and may not be resold unless an exemption from such registration is available. The Firm will be under no obligation to cause such an exemption (whether pursuant to Rule 144 under the Securities Act or otherwise) to be available. Accordingly, there will be no secondary market for Fund interests and such market is not expected to develop. Transfers of Fund interests will also be subject to numerous restrictions set forth in each Fund's organizational documents and subscription documents. Investors will not have any right to transfer their interests without consent except as set forth in a Fund's organizational documents and will not be permitted to withdraw from the Fund or require the Fund to redeem or repurchase their interests.

#### Illiquidity of Interests

No market will exist for the Fund interests and none is expected to develop. Investment in a Fund requires a long-term commitment, with no certainty of return. Investors may not be able to liquidate their investments prior to the end of a Fund's term. An investment in a Fund is suitable only for certain sophisticated investors who have no need for liquidity in their investment in the Fund.

#### Delays in Distributions

There may be little or no near-term cash flow available to Fund investors. Distributions to investors may be delayed as a result of payment of a Fund's obligations (including payment of management fees). A portion of a Fund's net income will be required to be paid to the Firm, and the Fund's income and gain, if any, will be further burdened by appropriate reserves and by administrative and other costs. As a result, investors may be credited with profits, and income tax liability may be incurred, even though they do not receive any distributions from the Fund.

#### Carried Interest

The existence of a carried interest creates an incentive for the Firm to make riskier or more speculative investments on behalf of a client than would be the case in the absence of this arrangement. If distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property as determined by the Firm. An independent appraisal generally will not be required and is not expected to be obtained.

#### Dilution from Subsequent Closings

Investors subscribing for Fund interests at subsequent closings will participate in existing investments of the Fund, diluting the interest of existing investors therein. Although later-admitted investors are expected to contribute their *pro rata* share of previously made capital contributions (plus an additional amount thereon), there can be no assurance that this payment will reflect the fair value of a Fund's existing investments at the time such additional investors subscribe for Fund interests.

### Diverse Investor Group

Fund investors may have conflicting investment, tax and other interests with respect to their investments in a Fund. As a consequence, conflicts of interest may arise in connection with decisions made by the Firm, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a Fund, the Firm will consider the investment and tax objectives of the Fund and its investors as a whole, not the investment, tax or other objectives of any investor individually.

### Co-Investment Opportunities to Certain Clients and/or Fund Investors; Co-Investment Risks

The Firm may make available to certain of its clients and/or Fund investors, including affiliates of the Firm, in each case whom the Firm may select in its sole and absolute discretion, the opportunity to co-invest in certain investments. Such co-investments may be made under such circumstances and in such amounts as the Firm in its sole and absolute discretion determines. The terms of such co-investments may be different from the terms of the investment by a Fund or other client. Fund investors will not have any right to determine or influence the terms of any co-investments. Depending on the structure of these co-investments, a Fund or other client may share major decision-making responsibility with its co-investment partners and therefore may not have the ultimate control over material decisions with respect to these investments. As a result of this lack of ultimate control, co-investments may have a negative impact on a client's or Fund's performance. A client or Fund may co-invest with third parties through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-investor may have financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of the client or Fund, or may be in a position to take (or block) action in a manner contrary to the client's or Fund's investment objectives. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements.

### Fewer than All Interests Offered May be Sold

If fewer than all interests offered are sold, a Fund's investments may be less diversified and the types of investments available to the Fund may be more limited than if a larger portion of the maximum offering proceeds is obtained. This may have an adverse impact on the ability of the Fund to achieve its investment objectives.

### Contingent Liabilities Upon Disposition of Investments

In connection with the disposition of a portfolio investment, a client may be required to make representations about such investment. The client also may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities for which the Firm may establish reserves or escrow accounts. In that regard, clients and Fund investors may be required to return amounts distributed to them to fund obligations of the client or Fund, respectively, including indemnity obligations.

### Fund Liabilities

Expenses relating to liabilities of a single investment of a Fund may affect the performance of the Fund generally. A liability relating to an investment may arise an indefinite period of time after the consummation

of the investment, and some or all of the investors in the Fund at the time that such liability arises may not have participated in the investment giving rise to the liability or may have participated in such investment in a smaller proportion relative to its interest in other investments. Accordingly, Fund investors may be required to bear expenses relating to liabilities of an investment in which they did not participate or in which their participation was limited.

#### Investors May be Required to Return Distributions

The Firm may require a Fund investor, including a former investor, to return any or all of the distributions made to such investor, subject to certain limitations, if the assets of a Fund are insufficient to satisfy its liabilities, including indemnification obligations.

#### Reserves

A Fund's general partner, if any, or the Firm may establish reserves for operating expenses (including management fees), Fund liabilities, and other matters. Estimating the appropriate amount of such reserves is difficult, especially for follow-on investment opportunities, which are directly tied to the success and capital needs of portfolio investments. Inadequate or excessive reserves could impair investment returns to Fund investors. If reserves are excessive, a Fund may decline attractive investment opportunities.

#### In Kind Distributions

A Fund's general partner, if any, or the Firm may distribute the proceeds of certain of a Fund's investments in kind. Any such distribution could put downward pressure on the price of the issuer's securities. An investor that receives assets other than cash from a Fund may incur costs and delays in converting those assets into cash.

***Combination or "Layering" of Multiple Risks May Significantly Increase Risk of Loss.*** Although the various risks discussed in this brochure are generally described separately, the potential effects of the interplay of multiple risk factors should be considered. Where more than one significant risk factor is present, the risk of loss to a Firm client or Fund investor may be significantly increased.

### **C. Material Risks of Securities Used in Investment Strategies**

The following summary identifies the material risks related to certain types of investments expected to be made for the Firm's clients, but does not intend to identify all possible investments that may be made or all possible risks related to such investments. Further details regarding these risks and other applicable other risk factors may be included in the offering documents of the Funds for which the Firm performs investment advisory and/or management services or in the advisory agreement or other documentation furnished to other clients. Clients, prospective clients, Fund investors and prospective Fund investors are advised to carefully review all risk factors described in such documents. The following is not intended to supersede the material contained in such documents.

#### ***Risk Relating to an Investment in CLOs.***

##### Investments in Structured Products

It is expected that the Firm will cause clients to invest in securities backed by, or representing interests in, certain underlying instruments or "structured products," including, but not limited to, CLOs, structured debt obligations or similarly structured investment vehicles. The cash flow on the instruments underlying such structured products may be apportioned among different tranches to create securities with different

investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to the structured products is dependent on the extent of the cash flow on the underlying instruments. The Firm may cause clients to invest in structured products which represent derived investment positions based on different markets or asset classes.

The performance of a particular structured product will be affected by a variety of factors, including its priority in the capital structure of the issuer, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, 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.

The risks associated with structured products involve the risks of loss of principal due to market movement. In addition, investments in structured products may be illiquid in nature, with no readily available secondary market. Because they are linked to their underlying markets or instruments, investments in structured products generally are subject to greater volatility than an investment directly in the underlying market or instrument. Total return on a structured product is derived by linking the return to one or more characteristics of the underlying instrument. Because certain structured products of the type in which clients may invest may involve no credit enhancement, the credit risk of those structured products generally would be equivalent to that of the underlying instruments. The Firm may cause clients to invest in a class or tranche of structured products that is either subordinated or unsubordinated to the right of payment of another class or tranche. Subordinated structured products typically have higher yields and present greater risks than unsubordinated structured products.

Certain issuers of structured products may be deemed to be “investment companies” as defined in the Investment Company Act. As a result, investments in these structured products may be limited by the restrictions contained in the Investment Company Act. Structured products are typically sold in private placement transactions, and there is no guarantee that there will be an active trading market for structured products. As a result, certain structured products invested in may be illiquid.

***Risk Relating to an Investment in CLOs and Warehouse Facilities Consisting of Broadly Syndicated Bank Loan Collateral.***

**Underlying Investments Primarily Comprised of Leveraged Loans**

The underlying investments made by CLO issuers and Warehouse Facility vehicles are comprised primarily of leveraged loans, which have significant liquidity, credit and market value risks because they are not generally traded on organized exchange markets, but rather, are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities.

Historically, the trading volume in loan markets has been small relative to high yield debt securities markets. In addition, the relatively high debt-to-equity ratios of leveraged loans create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. Thus, leveraged loans have historically experienced greater default rates than has been the case for investment grade securities. There can be no assurance as to the levels of defaults and/or recoveries that may be experienced on leveraged loans, and an increase in default levels could have a material adverse effect on a client or any CLO or Warehouse Equity in respect of which a client is invested. Other risks associated with a leveraged loan include the possible invalidation of the underlying loan as a fraudulent conveyance under relevant creditors’ rights laws and depreciation in the value of the collateral securing the obligations of such loan. Clients may suffer losses arising from these and other risks.

Further, there may be less readily available and reliable information about most leveraged loans than is the case for many other types of investment instruments, including securities issued in transactions registered under the Securities Act or registered under the Commodity Exchange Act, as amended. As a result, CLO Managers will rely primarily on their own evaluation of a borrower's credit quality rather than on any available independent sources. Therefore, clients will be particularly dependent on the analytical abilities of the CLO manager with respect to CLOs' and Warehouse Facility entities' investments in leveraged loans.

A non-investment grade loan or debt obligation (or an interest therein) is generally considered speculative in nature and may become a defaulted obligation for a variety of reasons. A defaulted obligation may become subject to either substantial workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such defaulted obligation. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such defaulted obligation. The liquidity for defaulted obligations may be limited, and to the extent that defaulted obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon. Furthermore, there can be no assurance that the ultimate recovery on any defaulted obligation will not be lower than the recovery rate assumed by the CLO Managers of the CLOs in which clients' assets are invested.

#### Investments in Bank Loans and Participations

A CLO or Warehouse Facility entity may hold bank loans, which will be acquired through assignments or participations. These obligations 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, (iv) declines in the value of collateral securing the obligations, if any; (v) declines in the enterprise value of the obligor; (vi) failure of restrictive covenants, if any, to adequately protect the interests of the creditor; (vii) the failure of the bankruptcy process (or other determination of creditors' rights) to produce the outcome anticipated by the investor; and (viii) limitations on the ability of a CLO Manager to directly enforce its rights with respect to participations. In analyzing each bank loan or participation, the CLO Managers will compare the relative significance of the risks against the expected benefits. Successful claims by third parties can adversely impact a client and its performance.

Interests in loans and other debt obligations may be acquired either directly (by way of novation or assignment from a lender under the related loan agreement) or indirectly (by purchasing a participation interest from a selling institution or through the acquisition of synthetic securities). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the loan or debt obligation and other operative agreements relating to the investment; however, its rights can be more restricted than those of the assigning institution. Holders of participation interests and synthetic securities are subject to additional risks not applicable to a holder of a direct interest in a loan.

In purchasing participations, the CLO Managers usually have a contractual relationship only with the selling institution, and not the borrower. The CLO Managers generally will have no right to cause the CLOs or Warehouse Facility entities to directly enforce compliance by the borrower with the terms of the loan agreement, nor any voting rights or rights of set-off against the borrower, nor will they have the right to object to certain changes to the loan agreement agreed to by the selling institution. The CLOs and Warehouse Facility entities may not directly benefit from the collateral supporting the related loan and may

not be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of certain jurisdictions the CLOs or Warehouse Facility entities may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, the CLOs and Warehouse Facility entities may be subject to the credit risk of the selling institution as well as of the borrower. In addition, the purchaser may purchase a participation interest from a selling institution that does not itself retain any beneficial interest in 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 purchaser 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 each selling institution will reserve the right to administer the loan sold by it as it sees fit and, subject to the terms of the participation agreement, to amend the documentation evidencing such loan in all respects. Selling institutions voting in connection with such matters may have interests different from those of the purchaser and may fail to consider the interests of the purchaser in connection with their votes.

Assignments 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. As a purchaser of an assignment, the purchaser 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 and participations are sold without recourse to the assignor or selling institution, as applicable, and the assignor or selling institution, as applicable, will generally make minimal or no representations or warranties about the underlying loan, the borrower, the documentation of the loans or any collateral securing the loans. In addition, the purchaser 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.

### Second Lien Loans

The investments underlying a CLO or Warehouse Facility directly or indirectly may be comprised of second lien loans. Second lien loans are subject to the same risks associated with leveraged loans in general described above. However, a second lien loan is subordinate in right of collateral and/or payment to one or more senior secured loans of the related borrower and therefore is subject to additional risk that the cash flow of the related borrower and the collateral securing the second lien loan may be insufficient to make the scheduled payments to the lender of record after giving effect to any senior secured loans of the related obligor. The subordination of second lien loans is also expected to cause second lien loans to be riskier and more illiquid investments than senior secured loans.

### Unfunded Loans

CLOs and Warehouse Facility entities may invest in loan commitments that are unfunded at the time of investment. A loan commitment is a written agreement in which the lender commits itself to make a loan or loans up to a specified amount within a specified time period. The loan commitment sets out the terms and conditions of the lender's obligation to make the loans. The portion of the amount committed by a lender under a loan commitment that the borrower has not drawn down is referred to as "unfunded." A lender typically is obligated to advance the unfunded amount of a loan commitment at the borrower's

request, subject to certain conditions regarding the creditworthiness of the borrower. Borrowers with deteriorating creditworthiness may continue to satisfy their contractual conditions and therefore be eligible to borrow at times when the lender might prefer not to lend. In addition, a lender may have assumptions as to when a company in which a CLO or Warehouse Facility entity invests may draw on an unfunded loan commitment when the lender enters into the commitment. If the borrower does not draw as expected, the commitment may not prove as attractive an investment as originally anticipated. Further, any failure to advance requested funds to a company in which the CLO or Warehouse Facility entity invests could result in possible assertions of offsets against amounts previously lent.

#### “Covenant-Lite” Loans

The investments in which a CLO or Warehouse Facility entity invests may be comprised of “covenant-lite” or “cov-lite” loans. “Cov-lite” loans typically do not oblige the obligor to comply with financial covenants that would be applicable during reporting periods, thereby offering more limited protection to lenders. Because the borrowers of “cov-lite” loans are subject to fewer covenants with respect to, among other things, other debt that such borrowers may incur. Investments comprised of such loans may expose the CLO or Warehouse Facility (and indirectly the Firm’s clients) to different risks, including with respect to liquidity, price volatility and ability to restructure loans, than is the case with other loans. In addition, the lack of such financial covenants may make it more difficult to trigger a default in respect of such loans.

#### Credit Ratings; Credit Quality

Although some investments held by CLOs or Warehouse Facilities in which the Firm causes clients to invest may have credit ratings assigned to them, credit ratings of debt obligations merely represent the applicable rating agency’s opinions regarding their credit quality and are not a guarantee of quality. Clients will have indirect exposure to such investments through their investments in CLOs and CLO Equity. There is no assurance that a rating accorded to such investments will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant (which may include a change in such rating agency’s rating methodology or criteria). In addition, a rating agency may fail to make timely changes in credit ratings in response to subsequent events, so that the relevant issuer’s current financial condition may be better or worse than a rating indicates. Consequently, credit ratings are only a preliminary indicator of investment quality. Investments in non-investment grade and comparable unrated obligations will be more dependent on the CLO Manager’s credit analysis than would be the case with investments in investment-grade debt obligations.

#### Distressed Securities

The Firm intends to cause clients to invest in CLOs and Warehouse Equity, which in turn may invest in securities and assets of companies that are experiencing significant financial or business difficulties, including companies involved in reorganization or restructuring. Although such investments may result in significant returns, they involve a substantial degree of risk. Any one or all of the issuers of the investment instruments in which a CLO or Warehouse Facility entity may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high.

#### Lender Liability and Equitable Subordination

A number of judicial decisions have upheld judgments of borrowers against lending institutions on the basis of various legal theories, collectively termed “lender liability.” Generally, lender liability is founded on the

premise that a lender has violated a duty (whether implied or contractual) of good faith, commercial reasonableness and fair dealing, or a similar duty owed to the borrower or has assumed an excessive degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. A CLO Manager, on behalf of a CLO or Warehouse Facility entity, may be required to defend allegations of lender liability from time to time.

Loans to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities which may exceed the amount of such loan purchased by the Firm on behalf of a client. Under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, 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.” Because of the nature of the loans, the loans may be subject to claims of subordination.

#### Interest Rate Fluctuations

The prices of the investments that may be held by CLO and Warehouse Facility entities tend to be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding prices of a position to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs of borrowed securities and leveraged investments. Further, the CLO Managers may invest in both floating and fixed rate securities and interest rate movements will affect those respective securities differently. In particular, when interest rates rise significantly, the value of fixed interest rate securities often fall. Neither the Firm nor any of the CLO Managers are expected to hedge any interest rate risk. Any of the above factors could materially and adversely affect the performance of the CLO Managers and, by extension, the Firm’s clients’ business, financial condition, results of operations and/or fair value and/or the return on investments.

In the event of the insolvency of an obligor or an underlying obligor in respect of an investment, the return on such investment to a CLO or Warehouse Facility entity may be adversely impacted by the insolvency regime or insolvency regimes which may apply to that issuer or underlying obligor and any of their respective assets.

In the event of the insolvency of an obligor in respect of an investment (and, in the case of a CLO Equity or Warehouse Equity position, the obligors of the assets within the relevant CLO’s or Warehouse Facility entity’s portfolio), the CLO’s and Warehouse Facility entity’s recovery of amounts outstanding in insolvency proceedings may be impacted by the insolvency regimes in force in the jurisdiction of incorporation of such obligor or in the jurisdiction in which such obligor mainly conducts its business (if different from the jurisdiction of incorporation), and/or in the jurisdiction in which the assets of such obligor are located. Such insolvency regimes impose rules for the protection of creditors and may adversely affect the ability to recover such amounts as are outstanding from the insolvent obligor under the investment, which may adversely affect the performance of the CLOs and Warehouse Facility entities, and, by extension, a client’s business, financial condition, results of operations and/or fair value and/or the return on investments.

Similarly, the ability of obligors to recover amounts owing to them from insolvent underlying obligors may be adversely impacted by any such insolvency regimes applicable to those underlying obligors, which in



turn may adversely affect the abilities of those obligors to make payments due under the investment to the CLOs and Warehouse Facilities on a full or timely basis.

In particular, it should be noted that a number of European jurisdictions operate unpredictable insolvency regimes which may cause delays to the recovery of amounts owed by insolvent obligors or underlying obligors subject to those regimes. The different insolvency regimes applicable in the different European jurisdictions result in a corresponding variability of recovery rates for leveraged loans, entered into or issued in such jurisdictions, any of which may have a material adverse effect on the performance of the CLOs and Warehouse Facilities and, by extension, a client's business, financial condition, results of operations and/or fair value and/or the return on investments.

#### Lack of Diversification of the Underlying Collateral Pool

CLO collateral pools typically comprise a large number of individual bank loans that provide risk diversification benefits. These diversified pools, however, may reflect "vintage" risk – due to limitations on the number of corporate borrowers seeking funds during the CLO's warehouse period.

#### ***Risk Relating to an Investment in CLO Equity.***

##### CLO Warehouses

The Firm may cause clients to contribute to and invest in Warehouse Equity. Such investments represent speculative leveraged investments in the collateral being warehoused and are subject to risks similar to the risks of CLO investing, although without certain of the related structural protections. In addition, such investments are subject to structural and event risks associated with, among other things, (i) the possibility that the related CLO does not close, resulting in the liquidation of the collateral on potentially unfavorable terms, and (ii) the ability of senior participants in the facility to require sales of collateral and to block purchases of collateral. If any of the foregoing events occur or other risks related to Warehouse Facilities materialize, clients may incur material losses and an investment in one or more of the Funds may be materially adversely affected.

#### ***Risk Relating to an Investment in CLO Equity.***

##### Nature and Risks of CLO Equity

CLO Equity represents the most junior interest in the capital structure of a CLO, is not expected to be rated by any rating agency and, unlike the classes of debt securities issued by the CLO in general, may not be secured by the underlying assets held by such CLO. As such, the holders of the CLO Equity will rank behind all of the creditors, whether secured or unsecured and known or unknown, of the CLO, including, without limitation, the holders of all the classes of debt securities issued by the CLO. Consequently, the CLO Equity of the CLOs will be subject to the greatest risk of loss, will be the first part of the CLO's capital structure to incur losses and will be directly affected by any losses or delays in payment on the related underlying loans. The performance of CLO Equity of any particular CLO will depend, among other things, on the level of defaults experienced on the related underlying loans, as well as the timing of such defaults and the timing and amount of any recoveries on such defaulted underlying loans and the impact of any trading of the related underlying loans. Furthermore, performance of CLO Equity will depend on the rates available on bank loans purchased by the CLO collateral manager during the CLO's reinvestment period. Returns to CLO Equity will be influenced by the choices of the "control equity" rights holder to exercise their options to, among other actions, refinance liabilities and to call CLO transactions before the final maturity of outstanding securities in the CLO portfolio.

### CLO Equity Positions: Volatility and Subordination

CLO Equity positions are the most subordinated tranche of a CLO and all payments of principal and interest on such CLO Equity positions are fully subordinated. Interest and principal payments are not fixed but are based on residual amounts available to make such payments. Thus, payments on such CLO Equity positions will be made by the CLO issuer only to the extent of available funds, and no payments thereon will be made until amongst other things (i) the payment of certain costs, fees and expenses have been made and (ii) interest and principal (respectively) has been paid on the more senior notes of the CLO. Non-payment of interest or principal on such CLO Equity positions will be unlikely to cause an event of default in relation to the CLO issuer.

CLO Equity positions represent a highly leveraged investment in the underlying assets of the CLO issuer. Accordingly, it is expected that changes in the market value of such CLO Equity positions will be greater than changes in the market value of the underlying assets of the relevant CLO issuer, which themselves are subject to credit, liquidity, interest rate and other risks. CLO Equity positions represent the most junior securities in a leveraged capital structure, thus in certain scenarios, the mark-to-market losses of CLO Equity positions held by a client or group of clients may equal 100% of invested capital. Any deterioration in performance of the asset portfolio of a CLO issuer, which may be reflected in increased default rates, reduced recoveries during defaults or a delay of payment of recoveries, will be borne first by holders of such CLO Equity positions prior to the rest of the capital structure.

Payments on CLO Equity positions prior to and following enforcement of the security over the collateral of a CLO issuer are subordinated to the prior payment of certain costs, fees and expenses of, or payable by, the CLO issuer and to payment of principal and interest on more senior notes of the CLO issuer. The holders of CLO Equity positions must rely solely on distributions on the collateral of the CLO for cash distributions, if any, on the CLO Equity positions. There can be no assurance that the distributions on the collateral of a CLO will be sufficient to make payments on the CLO Equity positions. If distributions are insufficient to make payments on the CLO Equity positions, no other assets of the CLO issuer will be available for payment of the deficiency and following realization of the collateral and the application of the proceeds thereof, the obligations of the CLO issuer to pay such deficiency shall be extinguished. Such shortfall will be borne in the first instance by the CLO Equity positions.

In addition, at any time while the CLO Equity positions are outstanding in a CLO, no CLO Equity holder shall be entitled at any time to institute against the related CLO issuer, or join in any institution against such CLO issuer of, any bankruptcy, reorganization, arrangement, insolvency, examinership, winding up or liquidation proceedings under any applicable bankruptcy or similar law in connection with any obligations of the CLO issuer relating to the CLO Equity positions or otherwise owed to the CLO Equity holder, save for lodging a claim in the liquidation of the CLO issuer which is initiated by another party or taking proceedings to obtain a declaration as to the obligations of the CLO issuer, nor shall it have a claim arising in respect of the share capital of the CLO issuer.

There will usually be a limited market for debt or equity representing a CLO (including the CLO Equity positions). There is no guarantee that any party to a CLO transaction will make a secondary market in relation to the CLO Equity positions. There can be no assurance that a secondary market for any CLO Equity positions will develop or, if a secondary market does develop, that it will provide a client or the CLO Managers, as holders of the CLO Equity positions with liquidity of investment or that it will continue for the life of such investment. Clients may have to hold CLO Equity positions for an indefinite period or until their early redemption date or maturity date. When a market does exist, to the extent that an investor wants to sell the CLO Equity positions, the price may, or may not, be at a discount from the outstanding

principal amount. There may be additional restrictions on divestment in the terms and conditions of CLO Equity positions.

Assets and liabilities for which no market prices are available will generally be carried on the books of a client or reflected in client statements at fair value (which may be cost) as reasonably determined by the Firm. There is no guarantee that fair value will represent the value that will be realized by a client on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment.

#### Significant Downturns in CLO Equity Market

The Firm, on behalf of its clients, will be an active participant in the CLO market which has experienced significant downturns including during, for example, the “dot com bubble” crisis of 2001-2, the Great Financial Crisis of 2008-9 and, to a lesser degree, the 2015-6 credit-spread widening. Were the market to experience similar downturns, financial performance, including the value of the client’s portfolio, may decline significantly. Under certain scenarios the Firm might fail to achieve expected investment results and/or maintain a certain level of cash distributions.

Future distributions are dependent upon the income received on clients’ portfolio investments including CLO Equity and potentially rated tranches. CLO Equity distributions and rated tranche interest payments and returns of principal will, in turn, depend on interest flows and principal payments from the CLO’s broadly syndicated bank loan collateral pool.

To the extent that underlying CLO investments undergo default, experience severe losses or fail to recover, the reinvestment of bank loan proceeds or recoveries may not provide sufficient cash flows to maintain a certain level of distributions. This may result in a meaningful reduction in, or complete cessation of, any distributions from the time of the termination or default.

#### CLO Equity Positions: Limited Recourse Obligations

CLO Equity and investments in Warehouse Equity are limited recourse obligations of the CLO issuer or Warehouse Facility vehicle (as applicable) and amounts payable on such CLO Equity or Warehouse Equity investments are payable solely from amounts received in respect of the collateral of the CLO issuer or Warehouse Facility vehicle (as applicable). Payments on CLO Equity and Warehouse Equity investments prior to and following enforcement of the security over the collateral of a CLO issuer are subordinated to the prior payment of certain costs, fees and expenses of, or payable by, the CLO issuer or Warehouse Facility vehicle and to payment of principal and interest on more senior notes of the CLO issuer or senior debt in the Warehouse Facility vehicle.

#### Non-Controlling Investments

Clients may hold a non-controlling interest in certain CLO investments and, therefore, may have a limited ability to protect their positions in such CLO investments, although as a condition of investment in a CLO, it is expected that appropriate shareholder rights generally will be sought to protect clients’ interests.

#### Liquidity Risks

To the extent, if any, that a secondary trading market for CLO investments does exist, it is generally not as liquid as the secondary market for many other investments such as publicly traded equities. While the Firm generally expects to acquire CLO Equity and other CLO investments in the primary market and to hold

such investments for the duration of their respective terms, the Firm may also acquire or dispose of such investments in the secondary market. Reduced secondary market liquidity may have an adverse impact on the Firm's ability to dispose of particular assets in response to a specific economic event such as a deterioration in the creditworthiness of the obligors representing a tranche of CLO investments.

Privately-issued investments (which will be the vast majority of the investments made on behalf of clients) may not be purchased or sold as easily as publicly traded securities, and, historically, the trading volume in the loan market has been small relative to other markets. Loans may encounter trading delays because of their customized nature, and transfers may require the consent of an agent bank and/or borrower.

### ***Risk Relating to Investments in CLO Debt***

#### **Collateralized Loan Obligations**

Due to the complex nature of a CLO, an investment in a CLO may not perform as expected. Normally, CLOs are privately offered and sold, and thus, are not registered under the U.S. securities laws. CLOs are generally floating rate instruments, and among other risks, CLOs may be subject to refinancing risk, prepayment risk, risks of default of the underlying credits, liquidity risk, market risk, structural risk, legal risk, risks associated with credit spreads and risks relating to general economic conditions. Additional risks include, without limitation, (i) the possibility that distributions from collateral securities will be insufficient to make interest or other payments, (ii) the possibility that the quality of the collateral may decline in value or default, (iii) the performance of a structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, 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, (iv) the price of a structured finance investment, if required to be sold, may also be subject to certain market and liquidity risks for securities of its type at the time of sale and (v) if the particular structured product is invested in a security in which a client is also invested, this would tend to increase the client's overall exposure to the credit of the issuer of such securities, at least on an absolute, if not on a relative basis. An investment in a CLO is subject to the risk that the issuer and the investors may interpret the terms of the instrument differently, giving rise to disputes.

CLOs are complex and operate on a highly-leveraged basis through collateralized financings, including potentially private offerings of debt, bank credit facilities, total return swaps and other forms of leveraged financings. Defaults and lower than expected recoveries as well as delays in recoveries on the underlying loans could rapidly erode the value of investments. Increased leverage increases the risk that the CLOs will not be able to meet their debt service obligations. CLOs will likely allow creditors to liquidate assets held by such CLOs upon the occurrence of certain defaults. Liquidation of a CLO may result in a complete loss with respect to that investment.

The cash flows from a CLO issuer are split into two or more portions, called tranches, varying in risk and yield. The junior tranches of a CLO trust, or "high-yield securities", face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic

downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities. The riskiest portion is the residual or “equity” tranche which bears the bulk of defaults from the bonds or loans in the trust and serves to protect the other, more senior tranches from default in all but the most severe circumstances. Because they may be partially protected from defaults, senior tranches of a CLO trust typically have lower yields and higher ratings intended to reflect (but not necessarily reflecting) relatively less credit and liquidity risk than their underlying securities, and can be rated investment grade. Despite the potential protection from the equity tranche, senior CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults, fraud by the trust and the illiquidity of CLO securities. Additional risks of investment grade debt securities may include (among others): (i) market place volatility resulting from changes in prevailing interest rates, (ii) the absence, in many instances, of collateral security, (iii) the operation of mandatory sinking fund or call/ withdrawal provisions during periods of declining interest rates that could cause the Firm to reinvest premature withdrawal proceeds in lower-yielding debt obligations and (iv) the declining creditworthiness and the greater potential for insolvency of the issuer of such investment debt securities during periods of rising credit spreads and/or interest rates and/or economic downturn. The Firm may cause clients to invest in any tranche of a CLO.

Loans have prepayment provisions that allow the issuer to repay principal early, so that the actual maturity of such investments is shorter than their stated final maturity calculated solely on the basis of the stated life and repayment schedule. Generally voluntary prepayments are permitted and the timing of such prepayments cannot be predicted with any accuracy. The degree to which borrowers prepay debt, whether as a contractual requirement or at their election, may be affected by general business conditions, market interest rates, the borrower’s financial condition and competitive conditions among lenders. Prepayments are likely to be made during any period of declining interest rates. Such prepayments may result in a client receiving a lower than anticipated yield on such investments. Further, if the Firm is unable to identify new accretive income producing assets that meet clients’ investment objectives and policies, or is unable to do so in a timely manner, this could adversely affect a client’s investment.

In many securitizations, such as CLO transactions, there are asset and counterparty performance requirements that must be met to ensure income is paid to all investors, rather than being retained in a lock-up or cash reserve as additional credit or liquidity support for senior investors. Income from investments made by clients in subordinated tranches will be subject to the performance of the underlying pool of loans. Underperformance may cause potential distributions to be reserved in the CLO as additional credit enhancement for senior tranches.

The underlying collateral in a loan portfolio or securitization is not necessarily individually assessed prior to purchase. The manager of the loan portfolio is responsible for managing the collateral, but may not be able to prevent losses. Losses may occur not only because of default, but an adverse change in interest rates, poor servicing by a portfolio manager, prepayment occurring outside historical averages, adverse credit spread moves, basis risk movements and lower than assumed collateral recovery rates, amongst others. Such losses within the collateral may adversely impact the loan portfolio or securitization assets in which a client may invest.

A client may hold a minority position in a CLO transaction and have little or no capacity to influence the transaction and this may result in the Firm being prevented from taking an action which it believes is in the best interest of the client. Each loan portfolio is administered by a servicer, whose role may include underwriting the loan portfolio, arranging its securitization, administering cash flows and arrears, overseeing the realization of security where a loan has gone into default. A client’s investment and the return to the client may be adversely impacted where, among other things, the servicer (i) fails to follow

best practices in realizing any security values, or (ii) fails to adequately administer the loans that fall into arrears or default. If the servicer is unable to meet its administrative obligations, a substitute servicer will need to be appointed. There is a risk that a substitute servicer will not be available when required, that the substitute servicers will not be able to perform its duties with the requisite level of skill and competence or that it will require extra time to assume responsibility for the portfolio.

#### Reinvestment by CLOs

The income that each CLO can earn and distribute to the Firm's clients will decrease to the extent that during its applicable reinvestment period it is unable to reinvest the proceeds it receives from matured, prepaid, sold or called underlying loans into similar or higher yielding instruments. The ability of a collateral manager to reinvest proceeds in similar or higher yielding instruments will depend on a variety of factors, including the general interest rate environment and the availability of investments satisfying the investment policies of the collateral manager or the requirements of the applicable indentures. A decline in net income earned by the CLOs resulting from a failure to reinvest proceeds at similar or higher yields will decrease the distributions clients receive from those CLOs.

Moreover, subject to certain limitations, a Fund may retain and use recyclable proceeds received from any portfolio investment during the applicable investment period to invest in short-term investments until it identifies a new investment which it deems suitable or (if it is unable to identify such an investment) until the end of such investment period and, thus, a Fund may have significant amounts of capital invested in short-term investments for extended periods. Disposing of portfolio investments and obtaining substitute investments will expose the Fund to the market conditions prevailing at the time of such sale and reinvestment and may result in changes in the characteristics and quality of the portfolio of investments. Such reinvestment (or lack thereof) may have an adverse effect on returns to investors.

#### Short-Term Funding; Warehousing

When forming a CLO, a CLO Manager may seek to attain credit facilities to finance the acquisition of assets by the CLO. While the CLO Manager will seek credit facilities with terms of greater than one year, it is possible that relatively short-term credit facilities (including total return swaps) may be used to finance the acquisition of assets by such CLO until a sufficient quantity of assets is accumulated (often referred to as "warehousing"), at which time the assets will be refinanced through the CLO's issuance of CLO Equity and debt securities, or other long-term financing. As a result, a client is subject to the risk that a newly formed CLO may not be able to acquire, during the period that the short-term facilities are available, a sufficient amount of underlying loans to allow such CLO to issue CLO Equity and debt securities, which could decrease the related investment's earnings potential. It is possible that it could be necessary to liquidate certain assets in order to comply with the criteria imposed by a rating agency in connection with its rating of the CLOs' debt securities, and such liquidations could result in losses.

These credit facilities may require a deposit for covering all or a portion of any losses or costs associated with the associated accumulation of assets. If the CLOs' issuance of CLO Equity and debt securities is not consummated, the accumulated assets could be liquidated and the CLOs and investing client(s) could bear leveraged losses to the extent the original purchase price of the assets exceeds their sale price. In addition, regardless of whether a CLO's issuance of CLO Equity and debt securities is consummated, any loss or gain with respect to the assets acquired during the warehousing period will typically be for the account of such CLO, and therefore if any of the accumulated assets are sold before the consummation, the investing client(s) could be required to bear all or a portion of any resulting loss on the sale to the extent of its investment.

### Over-Collateralization

The indentures governing CLOs are generally expected to provide that the principal amount of underlying loans must exceed the principal balance of the related debt securities by a certain amount, commonly referred to as “over-collateralization,” and may provide that, if certain delinquencies and/or losses exceed the levels specified in the relevant indenture, cash otherwise available to pay amounts to the CLO Equity may be reallocated to pay principal on the senior debt so that the level of over-collateralization may be increased or prevented from decreasing. If the underlying loans fail to perform as anticipated, the over-collateralization of the debt securities will need to be restored, resulting in a reduction in the Fund’s income and cash flow from these investments. In addition, while completing the long-term financing of such CLOs, the CLO Managers will be engaged in negotiations with the rating agencies and other key transaction parties regarding the CLO delinquency tests, over-collateralization terms, cash flow release mechanisms or other significant factors regarding the release of cash flow to the client by the CLOs. Failure to obtain favorable terms with regard to these matters may materially and adversely affect the value of the CLO Equity.

### Financial Covenants

The failure by a CLO vehicle in which a client is invested to satisfy certain financial covenants, specifically those with respect to adequate collateralization and/or interest coverage tests, could lead to a reduction in its payments to the client. If a CLO vehicle failed these tests, senior debt holders might be entitled to additional payments that would, in turn, reduce the payments the client would otherwise be entitled to receive. Separately, the Firm may cause a client to incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting CLO vehicle or any other investment the client may make. If any of these occur, it could materially and adversely affect a client’s operating results and cash flows and returns on its investments.

### Highly Leveraged Companies

Clients will have exposure to high yield companies through CLOs. Such obligors may be highly leveraged and may not have ready access to financing. Such investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. During an economic downturn or a sustained period of rising interest rates, these obligors may be more likely to experience financial stress, especially if they are highly leveraged and if they have floating rate debt in periods of rising rates. During such periods, timely service of debt obligations may also be adversely affected by specific obligor developments, the obligor’s inability to meet specific projected business forecasts or the unavailability of additional financing. Accordingly, any event that adversely affects the value of an investment by a client would be magnified to the extent leverage is used.

### Limited Amortization Requirements

The Firm may cause clients to invest indirectly through CLOs in loans that have limited mandatory amortization requirements. While these loans may obligate an issuer to repay the loan out of asset sale proceeds or with annual excess cash flow, repayment requirements may be subject to substantial limitations that would allow an issuer to retain such asset sale proceeds or cash flow, thereby extending the expected weighted average life of the investment. In addition, a low level of amortization of any debt over the life of the investment may increase the risk that the issuer will not be able to repay or refinance the loans held by such CLOs when it matures.

### Deferral

Interest payments on CLO products (other than the most senior tranche or tranches of a given issue) are generally subject to deferral. If distributions on the collateral underlying a CLO product are insufficient to make payments on the CLO securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligations of the CLO issuer to pay such deficiency will be extinguished. CLO securities (particularly subordinated securities) may provide that, to the extent funds are not available to pay interest, such interest will be deferred or paid “in kind” and added to the outstanding principal balance of the related security. Generally, the failure by the issuer of a CLO security to pay interest in cash does not constitute an event of default as long as a more senior class of securities of such issuer is outstanding and the holders of the securities that have failed to pay interest in cash will not have available to them any associated default remedies.

### CLO Fees

When a client invests in CLO securities a client, the client will effectively be paying, in addition to the compensation payable to the Firm (or an affiliate thereof), the client’s proportionate share of any management fees or other compensation charged by the collateral manager of such CLO security or other similar entity, as well as its *pro rata* portion of the expenses incurred by such CLO.

### Bankruptcy and Other Proceedings

Investments in companies or other entities involved in bankruptcy proceedings, including underlying borrowers of loans held by the CLOs in which a client invests, involve a number of significant risks. Many of the events within a bankruptcy litigation are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court will not approve actions that may be contrary to the interests of creditors, including the Firm’s clients. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and its lenders (*e.g.*, the CLOs in which a client invests); it is subject to unpredictable and lengthy delays; and, during the process, the company’s competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Although the CLOs in which the Firm’s clients will invest are expected to principally hold debt instruments, the debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization, and may be adversely affected by an erosion of the issuer’s fundamental value. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of “substantially similar” claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the influence of a CLO in which the Firm invests client assets with respect to a class of claims 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. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those



cases where a CLO in which the Firm invests client assets, by virtue of such action, is found to exercise “domination and control” of a debtor, such CLO may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by the CLO. In addition, it is possible a court may invalidate, in whole or in part, the indebtedness held by a CLO in which the Firm invests client assets as a fraudulent conveyance, subordinate such indebtedness to existing or future creditors of the obligor or recover amounts previously paid by the obligor in satisfaction of such indebtedness.

#### Illiquid and Long-Term Investments

Although investments made by the Firm on behalf of clients may occasionally generate some current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition of such investment. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the investment is made. It is unlikely that there will be a public market for the securities held by the Firm’s clients at the time of their acquisition. The Firm will generally not be able to cause clients to sell the CLO securities or publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In addition, in some cases sales of certain securities may be prohibited by contract or regulatory reasons for a period of time. In addition, certain sectors of the credit markets, at times, have experienced significant declines in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, the Firm, or a CLO in which a client invests, may not be able to sell assets in a client’s or such CLO’s portfolio or may only be able to do so at unfavorable prices. Such “liquidity risk” could adversely impact the value of clients’ investments and may be difficult or impossible to hedge against.

As part of its investment program, the Firm may cause a client to acquire or hold assets or investments that are illiquid. An investor’s interest in a Fund cannot be withdrawn. A Fund’s general partner may create a reserve account from an investor’s withdrawal proceeds if the general partner reasonably determines that, after a withdrawal, an investor’s capital account balance may not be sufficient to pay any fees due with respect to the illiquid investment.

Investing in illiquid and hard to value investments may result in uncertainties as to the valuation of such investments. Inaccurate valuations could have an adverse effect on a client if judgments of the Firm (or its delegates or other agents) regarding valuations should prove incorrect.

#### Transfer and Valuation of Investments

The investments that are expected to be made on behalf of the Firm’s clients will be subject to significant restrictions on transfer (which transfer, if permissible, may be subject to additional brokerage and other costs, as described in the following paragraph) and may be difficult to sell in a secondary market. In some cases, CLOs holding private debt that may be illiquid may be prohibited from selling such debt for a period of time or otherwise be restricted from disposing of such debt.

Investments in certain CLOs may require a substantial length of time to liquidate and may result in high brokerage charges or dealer discounts and other selling expenses due to the lack of an established market for such investments or other factors. The market prices, if any, for such investments tend to be volatile, and a client may not be able to sell such investments when it desires to do so or to realize what it perceives to be their fair value in the event of a sale.

There are likely to be investments as to which current or reliable market price information is unavailable, in which event it is expected that the Firm will have discretion in determining the appropriate means of

valuation. There can be no assurance that the value assigned to an investment at a certain time will equal the value that a client is ultimately able to realize. The Firm may use valuation methodologies for certain assets involving subjective determinations. Moreover, because the Firm will determine in its sole discretion the value of certain assets, the Firm will have a conflict of interest in making such determinations, given the potential impact of such valuations on the Firm's compensation and performance results.

#### Investments Longer than Term

Certain securities or obligations held by a Fund may have terms longer than the term of the Fund and certain loans may have grace periods of several years. Accordingly, it is unlikely that significant distributions to Fund investors will occur for a number of years from the date of the Fund investors' applicable capital contributions, and certain investments may not be advantageously disposed of prior to the date that the Fund will be dissolved, either by expiration of the Fund's term or otherwise. Although the Firm expects that investments will be disposed of prior to dissolution or be suitable for in kind distribution at dissolution, a Fund may have to sell, distribute, or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

#### Expedited Transactions

Investment analyses and decisions by the Firm may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to the Firm at the time of an investment decision is made may be limited, and the Firm may not have access to detailed information regarding the investment opportunity. Therefore, no assurance can be given that the Firm will have knowledge of all circumstances that may adversely affect an investment. In addition, the Firm may rely upon independent consultants in connection with its evaluation of proposed investments; however, no assurance can be given that these consultants will have sufficient time to perform such evaluations nor that they will accurately evaluate such investments.

#### Need for Follow-On Investments

A client may be called upon to provide follow-up funding for its investments, or may have the opportunity to increase certain of its investments. There can be no assurance that the Firm will think it advisable to cause the client to make these follow-on investments or that the client will have sufficient funds to do so. Any decision by the Firm not to make follow-on investments, or a client's inability to make them, may have a substantial negative impact on an investment in need of such an investment or may diminish the Firm's ability to influence such investment's future development.

#### Inability to Achieve Targeted Rate of Return

The Firm will cause clients to make investments based on the Firm's estimates or projections of internal rates of return and current returns, which in turn are based on, among other considerations, assumptions regarding the performance of investments, the amount and terms of available financing and the manner and timing of dispositions, including possible asset recovery and remediation strategies, all of which are subject to significant uncertainty. In addition, events or conditions that have not been anticipated may occur and may have a significant effect on the actual rate of return received on the investments. Moreover, the Firm's ability to achieve a client's targeted returns may be adversely impacted by increased competition from other investors, which may lead to more competitive pricing for certain types of investments.

### Non-U.S. Investments

The Firm may invest a portion of clients' capital outside the United States. These investments involve special risks not usually associated with investing in the United States. Because non-U.S. entities may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable with those applicable to U.S. entities, there may be different types of, and lower quality, information available about a non-U.S. investment than a U.S. investment. 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 clients' investments in those countries.

### Risk of Private Debt and Equity Investments

Private debt and equity investments involve a high degree of financial risk. There can be no assurance that investments will be profitable or that substantial losses will not occur. The borrowers whose loans are included within a CLO or Warehouse Facility (in which a client will invest) are often dependent on the skills of a small number of executives and are vulnerable to changes in technology, fluctuations in demand for their products, changing interest rates and other factors. There can also be no assurance that a client will be repaid, be able to sell or otherwise liquidate its investments at the optimal time or price. Therefore, there can be no assurance that the rate of return objectives of the Firm will be realized or that there will be any return of capital to clients or investors in Funds.

Debt instruments are subject to credit and interest rate risks. Credit risk refers to the likelihood that an obligor will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an obligor 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 securities and other debt instruments which are rated by rating agencies are often reviewed and may be subject to downgrade. 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 directly (especially in the case of fixed rate securities) or indirectly (especially in the case of 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. Factors that may affect market interest rates include, without limitation, inflation, slow or stagnant economic growth or recession, unemployment, money supply, governmental monetary policies, international disorder and instability in domestic and foreign financial markets. It is expected that clients' portfolios will periodically experience imbalances in the interest rate sensitivities of their assets and liabilities and the relationships of various interest rates to each other. In a changing interest rate environment, the Firm may not be able to manage this risk effectively. If the Firm is unable to manage interest rate risk effectively, investment performance could be adversely affected. While the Firm may seek to do so, it may not hedge interest rate risk for a particular client.

## **Item 9. Disciplinary Information**

Neither the Firm nor any of its managers, officers or principals has been involved in any criminal or civil action in a domestic, foreign or military court that is material to a client's or prospective client's evaluation of the Firm's advisory business or the integrity of the Firm's management.

Neither the Firm nor any of its managers, officers or principals has been involved in any administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither the Firm nor any of its managers, officers or principals has been involved in any self-regulatory organization proceedings.

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

### **A. Broker-Dealer Registrations**

Neither the Firm nor any of its managers, officers or principals is registered, or has an application pending to register, as a broker-dealer or registered representative of a broker-dealer.

### **B. CFTC Registrations**

Neither the Firm nor any of its managers, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator or commodity trading advisor, or is an associated person of any of the above.

### **C. Affiliates**

The Firm is affiliated with the following advisers, broker-dealers and insurance companies, although the Firm does not believe at this time that its affiliation with any of them creates a material conflict of interest with respect to the Firm's clients:

- 1851 Securities Inc.
- Constitution Life Insurance Company
- GGCOF Co-Invest Management, L.P.
- GGCOF Executive Co-Invest, L.P.
- GGC Opportunity Fund Management, L.P.
- Golden Gate Private Equity Inc.
- Magni Re Ltd.
- NCC CLO Manager LLC
- Nassau CorAmerica LLC
- Nassau Corporate Credit LLC
- Nassau Life and Annuity Company
- Nassau Life Insurance Company
- Nassau Re (Cayman) Ltd.
- Nassau Re (Cayman Brac) Ltd.
- PHL Variable Insurance Company
- Saybrus Equity Services, Inc.
- The Pyramid Life Insurance Company

The Firm will enter into a shared services agreement (the “*Shared Services Agreement*”) with certain of its affiliates (the “*Shared Services Providers*”) pursuant to which the Shared Service Providers and their agents will perform certain back-office, credit analysis and reporting functions among other functions that will be delegated to them by the Firm. In performing its services, the Firm will depend, in large part, upon the skill and expertise of certain personnel of the Shared Service Providers that are made available to the Firm pursuant to the Shared Services Agreement who will be responsible for the day-to-day operations and management of the Firm and who will be providing services to other affiliates of the Firm as well as to the Firm.

#### **D. Other Investment Advisers**

The Firm does not recommend or select other investment advisers for its clients, nor does the Firm have other business relationships with advisers that create material conflicts of interest.

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

#### **A. Code of Ethics**

The Firm has adopted a Code of Ethics, which is designed to comply with SEC requirements. The purpose of the Code of Ethics is to identify the ethical and legal framework in which the Firm and its personnel are required to operate and to highlight some of the guiding principles and mechanisms for upholding the Firm’s standard of business conduct. The Firm’s Code of Ethics is designed to ensure that all applicable personnel are aware of and adhere to the Firm’s policies and procedures. The description below is a summary only. The Firm will provide a complete copy of its Code of Ethics to clients and prospective clients.

***Standard of Business Conduct.*** The Firm and its personnel have a fiduciary duty to the Firm’s clients, and in this fiduciary capacity, the Firm must place the interests of its clients before the Firm’s own interests.

***Basic Principles.*** The Firm’s Code of Ethics is based on a few basic principles: (i) the Firm and its personnel must place the interests of the Firm’s clients above their own; (ii) the professional activities and personal investment activities of the Firm’s personnel must be consistent with the Code of Ethics and avoid any actual or potential conflict between the interests of clients and those of the Firm or its personnel; (iii) the activities of the Firm’s personnel must be conducted in a way that avoids any abuse of any such person’s position of trust with and responsibility to the Firm and its clients; (iv) the Firm’s personnel must not take any inappropriate advantage of their positions with the Firm; (v) the Firm must maintain independence in its investment decision-making process; and (vi) the Firm’s personnel may not engage in any act, practice or course of conduct that would violate the provisions of Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the “*Advisers Act*”), and other applicable securities laws.

***Conflicts of Interest.*** As a fiduciary, the Firm has an affirmative duty of care, loyalty, honesty and good faith to act in the best interests of its clients. The Firm makes every effort to avoid conflicts of interest and fully disclose all material facts concerning any conflict of interest that may arise with respect to any of its clients. The Firm stresses that individuals subject to its Code of Ethics must try to avoid situations that have even the appearance of conflict or impropriety.

***Insider Trading.*** The Firm’s personnel may not trade, either personally or on behalf of another, on material non-public information or communicate material non-public information to another person in violation of the law. This policy applies to all of the Firm’s personnel and extends to their activities both within and

outside their duties for the Firm. The Firm has also implemented policies and procedures designed to detect and prevent insider trading.

***Personal Securities Transactions.*** All personnel must comply with the Firm's policy on personal trading. Except with respect to certain excepted personnel, securities (including, indices, mutual funds, exchange-traded funds and certain government securities) and/or accounts for which a person does not exercise investment discretion, personal securities transactions by the Firm's personnel must be pre-approved by the Firm's Chief Compliance Officer (the "***Chief Compliance Officer***").

***Holdings and Transactions Reports.*** Every employee and access person must submit both initial and annual holdings reports to the Chief Compliance Officer that disclose all covered securities held in any personal account. Every employee and access person must also submit a quarterly transaction report to the Chief Compliance Officer for each covered securities transaction in any personal account.

***Service as a Director.*** The Firm's personnel are prohibited from serving on the boards of directors of any outside company, unless the service (i) would be in the best interests of the Firm or its clients and (ii) has been approved in writing by the Chief Compliance Officer; provided that the Firm's personnel will not be required to obtain prior written approval for service on the boards of directors of charitable or civic organizations. In addition, any Firm personnel serving on the board of a private company which is about to go public may be required to resign either immediately or at the end of the current term.

***Reporting of Violations.*** The Firm has implemented policies and procedures whereby its personnel are required to report any violation, apparent violation or potential violation of the Firm's Code of Ethics to the Chief Compliance Officer.

***Review and Enforcement.*** The Chief Compliance Officer is responsible for ensuring adequate supervision over the activities of all persons who act on the Firm's behalf in order to prevent and detect violations of the Firm's Code of Ethics by such persons.

## **B. Material Financial Interest in Client Transactions**

The Firm may cause clients to invest in obligations of CLOs in which the Firm and/or its affiliates have a debt, equity or participation interest or have otherwise participated in the origination, structuring, negotiation, syndication or offering of such investments. The purchase, holding and sale of such investments by a client may enhance or diminish the profitability of investments of the Firm and/or its affiliates and the interests of clients may conflict with those of the Firm and/or its affiliates. For example, in connection with such an equity investment, a client will, effectively, pay two layers of fees, one to the Firm and one to an affiliate of the Firm. The Firm will endeavor to treat each of the Firm's clients equitably and fairly. Prior to the Firm's causing a client to make such an investment, the Portfolio Managers will review the potential investment to determine if an actual conflict of interest exists or is reasonably likely to occur in the near term. To address potential conflicts that may arise or to ensure that potential conflicts are not likely to occur, the Portfolio Managers may take such actions as they deem appropriate under the circumstances. Among other things, the Portfolio Managers may recommend (solely by way of example and not of limitation) (i) that each affected client be informed of the potential conflict, and (ii) that each client be offered the opportunity to approve the investment.

## **C. Participation in Client Transactions**

The Firm and its affiliates and their respective clients and personnel may invest, or have already invested, in securities or other financial instruments that are senior or junior to securities or financial instruments of the same issuer that the Firm may cause a client to invest in. The Firm recognizes that conflicts may arise

under such circumstances and will endeavor to treat each of the Firm's clients fairly and equitably. Prior to the Firm's causing a client to make such an investment, the Portfolio Managers will review the potential investment to determine if an actual conflict of interest exists or is reasonably likely to occur in the near term. To address potential conflicts that may arise or to ensure that potential conflicts are not likely to occur, the Portfolio Managers may take such actions as they deem appropriate under the circumstances. Among other things, the Portfolio Managers may recommend (solely by way of example and not of limitation) (i) that each affected client be informed of the potential conflict, and (ii) that each client be offered the opportunity to approve the investment.

#### **D. Transactions Simultaneous with Client Transactions**

Generally, neither the Firm nor any related persons of the Firm will recommend securities to the Firm's clients, or buy or sell securities for the Firm's clients, at or about the same time that the Firm or a related person buys or sells the same securities for the Firm's own (or the related person's own) account, except securities issued by CLOs (including CLOs for which an affiliate of the Firm serves as the collateral manager), or when exceptions are made under limited circumstances.

From time to time, subject to client or investment guidelines and restrictions, the Firm is expected to be authorized to direct one of its clients to sell investments to another of the Firm's clients through an internal cross transaction in which the Firm will receive no compensation. In most cases, an independent pricing mechanism will be used to ensure objectivity. However, there could be times in which that pricing mechanism is not feasible or fair to the Firm's clients, in which case the Firm will seek some pricing mechanism that is fair to both such clients.

To the extent that any such transaction may be viewed as a principal transaction due to the ownership interest in the client by the Firm and its personnel, the Firm will comply with the requirements of Section 206(3) of the Advisers Act, and provide written notification to such client and obtain client consent either prior to the principal transaction or prior to its settlement.

In addition, the Firm may give advice or take action with respect to investments of one or more of its clients that may not be given or taken with respect to other clients with similar investment programs, objectives and strategies. Accordingly, the Firm's clients with similar investment strategies may not hold the same investments or achieve the same performance. The Firm may also advise clients with conflicting programs, objectives or strategies. These activities may adversely affect the prices and availability of other investments held or potentially considered for one or more clients.

From time to time, the Firm may acquire securities or other financial instruments of an issuer for one of its clients which are senior or junior to securities or financial instruments of the same issuer that are held by, or acquired by, another of the Firm's clients. The Firm recognizes that conflicts may arise under such circumstances and will endeavor to treat all of its clients fairly and equitably.

### **Item 12. Brokerage Practices**

#### **A. Selection of Broker-Dealers**

The Firm has full authority to select broker-dealers to execute its clients' investment transactions. If applicable, the Firm may allocate a portion of each client's brokerage business to such brokers on the basis of certain considerations, which may include:

- The amount of commission;

- The quality of execution;
- Reputation, financial strength and stability;
- Block trading and block positioning capabilities;
- Willingness to execute difficult transactions;
- Willingness and ability to commit capital;
- Access to underwritten offerings and secondary markets;
- Ongoing reliability;
- Overall costs of a trade;
- Nature of the security and the available market makers;
- Desired timing of the transaction and size of trade;
- Confidentiality of trading activity; and/or
- Market intelligence regarding trading activity.

Although the Firm will seek competitive rates, it may not necessarily obtain the lowest possible commission for client account transactions. The commissions and/or transaction fees charged by a broker-dealer may be higher or lower than those charged by other broker-dealers.

Neither the Firm nor any related person is expected to receive client referrals from any broker-dealer or third party that provides brokerage services to the Firm's clients.

At this time the Firm is not a party to, and does not anticipate entering into, any formal "soft dollar" arrangements. However, one or more of the Firm's clients may permit the Firm to use "soft dollars" generated by such clients to pay for the research related services. In the event that the Firm utilizes allocations of commission dollars, it would do so solely to pay for products or services that qualify as "research and brokerage services" within the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934, as amended.

## **B. Aggregation of Orders**

The Firm may place, as an aggregated order for execution, orders for publicly traded securities at the same time for the accounts of two or more of its clients. This practice will enable the Firm's clients to seek more favorable executions and net prices for the combined order. If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day are generally allocated *pro rata* among the participating clients in accordance with the initial amounts ordered by each client. However, the *pro rata* allocation may be adjusted, such as to avoid having odd amounts of shares held in any client's account, to avoid deviations from any pre-determined minimum/maximum holdings limits established for any client, or to facilitate the ramping of a newly issued Fund. Each client that participated in the order would do so at the average price for all the transactions and share in commissions or other transaction costs on a *pro rata* basis.

## **Item 13. Review of Accounts**

Mr. Brittain and Mr. Pemberton, in their capacity as the Firm's Managing Directors and Portfolio Managers, will review client portfolios on a continuous basis.



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

### **A. Non-Client Economic Benefits**

The Firm does not, nor do any of its principals or employees, receive any economic benefit from non-clients for providing advisory services to the Firm's clients.

### **B. Compensation for Client Referrals**

At this time the Firm is not a party to an arrangement to pay a third party for the referral or solicitation of clients or investors in the Funds to which the Firm will provide investment advisory services.

## **Item 15. Custody**

Although the Firm does not expect to have custody of certificated securities (which are typically custodied by the Firm's clients' third-party custodian), the Firm may be deemed to have custody over the assets of certain of its clients according to the custody rule set forth in Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended. The Firm intends to comply with the custody rule by providing audited financial statements of each Fund to investors in such Fund client within 120 days of the end of the fiscal year to satisfy the reporting requirement.

## **Item 16. Investment Discretion**

It is anticipated that the Firm will be provided with discretionary authority to manage the investment accounts to which the Firm provides investment advisory services as set forth in, and limited by, the terms and conditions of the relevant advisory agreement, offering document, organizational agreement or other governing documents of such clients.

## **Item 17. Voting Client Securities**

The Firm has authority to vote proxies relating to securities in certain client accounts. Accordingly, the Firm has adopted policies and procedures governing the voting of proxies that include the elements set forth below.

**General Policy.** The general policy is to vote proxies, which includes proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any, in a manner that serves the best interests of the investing client(s), as determined by the Firm in its discretion, and taking into account relevant factors, including, but not limited to:

- The impact on the value of the securities;
- The anticipated costs and benefits associated with the proposal;
- The effect on liquidity; and
- Customary industry and business practices.

**Specific Policies.** Specific policies set forth in the Firm's policies and procedures include:

- Routine matters are typically proposed by company's management, directors, general partners, managing members or trustees and (i) do not measurably change the structure, management, control or operation of the company; (ii) do not measurably change the terms of, or fees or expenses associated with, an investment in the company; and (iii) are consistent with customary

industry standards and practices, as well as the laws of the state of incorporation applicable to the company. For routine matters, the Firm will vote in accordance with the recommendation of the company's management, directors, general partners, managing members or trustees, as applicable, unless, in our opinion, such recommendation is not in the best interests of the investing client(s).

- Non-routine matters involve a variety of issues and may be proposed by a company's management or beneficial owners, and may involve (i) a measurable change in the structure, management, control or operation of the company; (ii) a measurable change in the terms of, or fees or expenses associated with, an investment in the company; or (iii) a change that is inconsistent with industry standards and/or the laws of the state of incorporation applicable to the company. The Firm has specific proxy voting policies for non-routine matters, and in some cases, the Firm votes on a case-by-case basis.

***Abstaining from Voting or Affirmatively Not Voting.*** The Firm will abstain from voting (which generally requires submission of a proxy voting card) or affirmatively decide not to vote if the Firm determines that abstaining or not voting is in the best interests of the investing client(s). In making such a determination, we will consider various factors including, but not limited to, (i) the costs associated with exercising the proxy (e.g., translation or travel costs); and (ii) any legal restrictions on trading resulting from the exercise of a proxy. Furthermore, the Firm will not abstain from voting or affirmatively decide not to vote merely to avoid a conflict of interest.

***Conflicts of Interest.*** At times, conflicts may arise between the interests of the investing client(s), on the one hand, and the interests of the Firm or its affiliates, on the other hand. If the Firm determines that it has, or may be perceived to have, a conflict of interest when voting a proxy, we will address matters involving such conflicts of interest as follows:

- If a conflict arises because two or more investing clients have invested in different portions of an issuer's capital structure, or because one client holds a control position while another client holds a minority position, the Firm will delegate the voting decision to an independent committee of partners, members, directors and/or other representatives of the investing clients, as applicable.
- If a proposal is addressed by the specific policies in these procedures, the Firm will vote in accordance with such policies.
- If we believe it is in the best interest of the investing client(s) to depart from the specific policies provided for in these procedures, the Firm will be subject to the requirements of the third and fourth bullet points below, as applicable.
- If the proxy proposal is (i) not addressed by the specific policies or (ii) requires a case-by-case determination by the Firm, we may vote such proxy as we determine to be in the best interest of the investing client(s), without taking any action described in the fourth bullet point below, provided that such vote would be against the Firm's own interest in the matter (i.e., against the perceived or actual conflict).
- If the proxy proposal is (i) not addressed by the specific policies or (ii) requires a case-by-case determination by the Firm, and (iii) we believe we should vote in a way that may also benefit, or be perceived to benefit, the Firm's own interest, then the Firm must take one of the following actions in voting such proxy:
  - Delegate the voting decision for such proxy proposal to an independent third party;

- Delegate the voting decision to an independent committee of partners, members, directors or other representatives of the investing client, as applicable;
- Inform the investing client of the conflict of interest and obtain consent to vote the proxy as recommended by the Firm; or
- Obtain approval of the decision from the Chief Compliance Officer and third-party legal advisors.

A complete copy of the Firm's policies and procedures governing the voting of proxies, together with information regarding how we voted particular proxies, will be provided to clients and prospective clients upon request.

#### **Item 18. Financial Information**

The Firm does not require, nor does it solicit, prepayment of more than \$1,200 in fees per client, six months or more in advance.

The Firm has never been the subject of a bankruptcy petition.