

Investment Adviser Brochure  
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This Brochure provides information about the qualifications and business practices of MidOcean Credit Fund Management, LP. If you have any questions about the contents of this Brochure, please contact us at 212-497-1400 or [dhodges@midoceanpartners.com](mailto:dhodges@midoceanpartners.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

MidOcean is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about MidOcean also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 2 – Material Changes**

This Brochure contains changes to the previous Form ADV Part 2A filed by MidOcean Credit Fund Management, LP (the “Adviser”) on March 30, 2018 (the “Previous Brochure”). The changes to this Brochure are not material and are solely clarifying or updating changes.

## **Item 4 – Advisory Business**

MidOcean Credit Fund Management, LP (the “Adviser”) and its affiliates (collectively, “MidOcean”) was formed in January 2009 to manage and provide investment advice with respect to MidOcean Credit Opportunity Fund, LP, MidOcean Credit Opportunity Offshore Intermediate Fund, LP and MidOcean Credit Opportunity Offshore Fund, LP, (together, the “COF Fund”). Since 2009, the Adviser has formed several other entities including MidOcean Credit Focus Fund I, LP (the “Focus Fund”), MidOcean Tactical Credit Fund LP (the “Tactical Fund”), MidOcean Tactical Credit Fund II LP (the “Tactical II Fund”), MidOcean Credit IDF I, LP (the “IDF Fund”), MidOcean Select Floating Rate Fund, LP and MidOcean Select Floating Rate Fund Offshore, Ltd. (together, the “Floating Rate Fund”), MidOcean Absolute Return Credit Fund, LP, MidOcean Absolute Return Credit Intermediate Fund, LP and MidOcean Absolute Return Credit Offshore Fund, LP, (together, the “MARC Fund”), MidOcean Absolute Return Target Fund, I LP (the “Target Fund”), together with the COF Fund, the Focus Fund, the Tactical Fund, the IDF Fund, the Floating Rate Fund and the MARC Fund, the “Funds”. In addition, MidOcean provides advisory services to MidOcean Credit CLO I, LP, MidOcean Credit CLO II, LP, MidOcean CLO III, LP, MidOcean CLO IV, LP, MidOcean Credit CLO V, LP, MidOcean Credit CLO VI, LP, MidOcean Credit CLO VII, MidOcean Credit CLO VIII, LP and MidOcean Credit CLO IX, LP (together, the “CLOs”), to seven (7) separately managed accounts (the “Accounts”), and sub-advisory services to an open-end management investment company registered under the Investment Company Act of 1940, as amended (the “Sub-Advised Account”). The Adviser also provides sub-advisory services to two undertakings for collective investment in transferrable securities (“UCITS”) funds. As of December 31, 2018, the Adviser had discretionary assets under management of \$ 9.14 billion<sup>1</sup>.

The Adviser provides services to the Funds, CLOs, Accounts pursuant to the terms of an advisory agreement (the “Advisory Agreement”). The Funds, CLOs, Accounts and the Sub-Advised Account are discretionary and the Adviser provides investment recommendations. Additionally, the Adviser has entered into Investment Sub-Advisory Agreement for the Sub-Advised Account and into an Investment Management Agreement for each of the UCITS funds. In its role as an advisor or sub-advisor, the Adviser is responsible for researching investment opportunities, trading in these investment opportunities and arranging for the disposition of each investment in accordance with the investment guidelines set forth in the Fund’s limited partnership agreement (each, a “Partnership Agreement”) or the respective Account’s Investment Management Agreement or Investment Sub-Advisory Agreement. The authority to provide the investment supervisory services is delegated to the Adviser by the General Partner of each Fund and given to the Adviser for any Account or Sub-Advised Account through a separately negotiated managed account agreement (the “Investment Management Agreement” or “Investment Sub-Advisory Agreement”). The Adviser may engage sub-advisors and may, in its discretion, retain other professionals, including but not limited to accountants, lawyers and consultants, to assist in rendering any services.

It is anticipated that the Adviser will open up other separately managed accounts where it will have discretion over the makeup of the portfolio and may act as a sub-advisor to other funds.

The majority of the funds that MidOcean is an Adviser to are open-ended hedge funds that primarily invest in securities within the credit spectrum. The investment strategy for each Fund is described in the Fund’s private placement memorandum and is subject to any limitations set forth in the Fund’s Partnership Agreement. The CLOs, however, are closed-end funds.

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<sup>1</sup> This includes gross assets of the Floating Rate Fund as of 2/28 as they had not launched at 12/31/18.

The COF Fund, the Focus Fund, the IDF Fund, the CLOs, one separately managed account, and the sleeve of one separately managed account (together, the “COF Accounts”) target investments in bank loans, debt and debt-related securities and other evidences of indebtedness of every kind, whether publicly traded or privately placed. With the exception of the IDF Fund, the COF Accounts may also acquire equity interests, including preferred and common and/or may also seek exposure to such investments synthetically through derivatives, such as swaps, options and other instruments.

Tactical I and Tactical II and two separately managed accounts (together, the “Tactical Accounts”) seek to invest in less liquid corporate credit. The Tactical Accounts will primarily target high yield bonds and syndicated senior loans trading at discounts to face value in the secondary markets where the underlying liquidity in the credit tranches is limited. While not a primary focus, the Tactical Accounts may also invest in structured credit and in equities.

The Floating Rate Fund seeks to generate attractive risk-adjusted returns within the floating rate asset class. The Floating Rate Fund will invest primarily in syndicated non-investment grade floating rate loans, notes or bonds primarily in North America. In addition, the Fund may invest up to 20% in other fixed income instruments including but not limited to high yield bonds, rated debt tranches of collateralized loan obligations (“CLOs”), derivatives, including credit derivatives, (iii) warrants and equity securities.

The MARC Fund, the Target Fund, one separately managed account and the sleeve of one separately managed account (together, the “MARC Accounts”) seek to generate stable, absolute returns from a well-diversified portfolio of long and short corporate credit investments. The MARC Accounts will seek to achieve this objective primarily through investing in corporate bonds, loans, debt-related securities and other evidences of indebtedness of any kind, whether publicly traded or privately placed. However, these accounts and funds may execute on this strategy differently due to different limits, liquidity, leverage and regulatory restrictions. The MARC Accounts may also acquire preferred equity interests, and may also seek exposure to such instruments synthetically through derivatives, such as swaps, options and other instruments.

One separately managed account invests in distressed companies.

The Adviser also provides sub-advisory services to certain European collective investment schemes pursuant to the undertakings for collective investment in transferable securities – commonly known as UCITS funds, as well as to an open-end management investment company registered under the Investment Company Act of 1940, as amended.

Except for any investment restrictions contained in the Partnership Agreements, limited partners generally do not have the ability to limit the Adviser’s investment authority and generally participate in a Fund’s overall investment program, although certain limited partners may be excused from participating in certain investments due to regulatory restrictions. Pursuant to the Advisory Agreements, the Adviser is responsible for identifying investment opportunities, acquiring each investment and, after consummation, monitoring the progress of, and arranging for the disposition of, each investment in accordance with the investment guidelines set forth in Partnership Agreements. The Funds or the General Partners have entered into side letters or other similar agreements (“Side Letters”) with certain investors that have the effect of establishing rights (including economic or other terms) under, or altering or supplementing the terms of, the relevant Partnership Agreement with respect to such investors.

Steve Shenfeld controls 75.1% of the voting rights of the Adviser, while J. Edward Virtue (“Ted Virtue”) controls 24.9% of the voting rights of the Adviser. Economic interest is split 50.1% to Steve Shenfeld with and 49.9% to Ted Virtue.

Steve Shenfeld also owns the majority vote in Ultramar Credit Holdings, Ltd (“Holdings”), a Cayman Islands exempted company, that is the General Partner of the Adviser. However, Holdings is ultimately owned by Ultramar Capital, Ltd a Cayman Islands limited corporation which owns Holdings. Mr. Virtue owns a 100% interest in Ultramar Capital Ltd.

## Item 5 – Fees and Compensation

In general, the Adviser receives a management fee in connection with the advisory services provided to each Fund, each Account and Sub-Advised Account, and for each CLO. Investors in the Funds, CLOs, the Accounts, and the Sub-Advised Account also bear certain expenses. The information below summarizes the compensation that the Adviser receives, but investors should also review the specific terms of the vehicles agreement.

### *Management Fees*

The Adviser is generally paid an annual advisory fee (the “Advisory Fee”) based upon a percentage of Net Asset Value.

The COF Fund has both Class A and Class B Limited Partners that have different lock ups and different fee characteristics. In addition, the Class C Limited Partners or shareholders have a different investment minimum and a higher fee structure than the Class B interests. The existing fee schedule for new investors for the COF Fund is as follows: (i) each Class A Limited Partner will pay a Management Fee quarterly in advance of up and shall be equal to 0.25% (*i.e.*, 1.0% on an annualized basis) of the beginning balance of each Class A Limited Partner’s Capital Account Balance, including subscriptions made by such Limited Partner on the first day of such calendar quarter; (ii) each Class B Limited Partner will pay a Management Fee quarterly in advance and shall be equal to 0.375% (*i.e.*, 1.5% on an annualized basis) of the beginning balance of each Class B Limited Partner’s Capital Account Balance, including subscriptions made by such Limited Partner on the first day of such calendar quarter. Management Fees determined with respect to any additional Capital Contribution by any Class A or Class B Limited Partner made other than on the first day of a calendar quarter shall be pro-rated based on the number of days remaining in the calendar quarter; and (iii) each Class C investor will pay a Management Fee quarterly in advance and shall be equal of up to 0.50% (*i.e.*, 2.0% on an annualized basis) of the beginning balance of each Class C Limited Partner’s Capital Account Balance, including subscriptions made by such Limited Partner on the first day of such calendar quarter. The General Partner may charge certain investors different Management Fees related to size of the investment, duration of investment/lockup or timing of the investment in the specific fund’s life cycle.

The General Partner may, in its sole discretion, waive, reduce or calculate differently, from time to time, all or part of the Management Fee with respect to the Capital Accounts of one or more Limited Partners, including, in the case of the COF, MARC, and IDF funds, Capital Accounts established with respect to Capital Contributions made by certain other trading vehicles managed by MidOcean, without waiving, reducing or calculating differently the Management Fee with respect to the Capital Accounts of other Limited Partners.

The Focus Fund Limited Partners pay an annual management fee quarterly in advance of a percentage of the beginning balance of each Limited Partner’s Capital Account Balance, including subscriptions made by such Limited Partner on the first day of such calendar quarter.

Limited Partners of Tactical I and Tactical II pay an annual management fee quarterly in advance, equal to a percentage of the lesser of (i) the sum of the cost of each investment (measured as of the date each investment is made) held by the Tactical Fund as of the end of the previous quarter and (ii) the aggregate commitments in the fund.

The IDF Fund Limited Partners generally pay an annual management fee paid quarterly in advance of 0.375% (*i.e.*, 1.5% on an annualized basis) of the beginning balance of each Limited Partner’s Capital Account balance, including subscriptions made by such Limited Partner on the first day of such calendar quarter.

Floating Rate Fund Limited Partners generally pay an annual management fee quarterly in advance ranging between 0.375% on an annualized basis and 1% on an annualized basis of the beginning balance of each Limited Partner’s Capital Account balance, including subscriptions made by such Limited Partner on the first day of such

calendar quarter.

The MARC Fund Limited Partners generally pay a management fee quarterly in advance of 0.375% (*i.e.*, 1.5% on an annualized basis) of the beginning balance of each Limited Partner's Capital Account Balance, including subscriptions made by such Limited Partner on the first day of such calendar quarter. The General Partner may charge certain investors different management fees related to the size of their investment, duration of investment/lockup or timing of the investment in the specific fund's life cycle.

The Limited Partners of the Target Fund generally pay an annual management fee quarterly in advance of 0.375% (1.5% on an annualized basis), of the beginning balance of each Limited Partner's Capital Account Balance, including subscriptions made by such Limited Partner on the first day of such calendar quarter.

In all of the above Funds, if a Limited Partner makes a withdrawal from its Capital Account prior to the end of a calendar quarter, such Limited Partner will not be entitled to reimbursement for a *pro rata* portion of the Management Fee for the period remaining in such quarter subsequent to the Withdrawal Date. The Advisor may delegate some or all of its duties pursuant to the Management Agreement to an affiliate and pay or assign some or all of the Management Fee to such affiliate for its services to the Partnership.

In addition, the Adviser receives a tiered fixed management fee on the different classes of securities in each of the CLOs as governed by the respective Indenture.

The Adviser also receives management fees from most of the Accounts. The management fee is computed at an annual rate of a percentage of the net assets of the Account. The management fee is calculated and accrued on a monthly basis as of the close of the end of each valuation day and is payable as of the end of each calendar quarter. The Adviser will negotiate other fees similar to those described above for any other separately managed accounts or funds launched. Each managed account will separately negotiate its fee and liquidity.

Advisory fees for the UCITS and the 1940 Act Fund range from 0% of assets under management to 1% of assets under management.

#### *Incentive Fee*

The Adviser also receives incentive fees for most of its Funds and Accounts and for the Sub-Advised Account based upon calculated Net Profits as defined in each Limited Partnership Agreement, Investment Management Agreement or Investment Sub-Advisory Agreement for each investor in a specific year but only to the extent that there is no unrecovered balance remaining in a Capital Account's Loss Recovery Account. These incentive fees are typically paid to the General Partner. A reduction in the incentive fee may be given for larger size investments.

The Incentive Fee for the COF Fund is generally 15% of Net Profits for Class A Interests, 20% of Net Profits for Class B Interests, and 20% of Net Profits for Class C Interests. Certain founding investors will not pay the Incentive Fee for the COF Fund or will pay reduced incentive fees.

The Incentive Fee for the MARC Fund is generally 20% of Net Profits. Certain founding investors will not pay the Incentive Fee for the MARC Fund or will pay reduced incentive fees.

Each of the Focus Fund and the Target Fund pays an Incentive Fee which is equal to a percentage of the net profits of the Fund.

The Adviser receives carried interest with respect to Tactical I and Tactical II from all Limited Partners (with the exception of the General Partners and its Affiliates) equal to 20% of all realized profits in excess of a preferred return, as more fully described in the Partnership Agreement.

The Incentive Fee for the IDF Fund is generally 20% of Net Profits. Certain founding investors will not pay an

Incentive Fee for the IDF Fund or will pay reduced Incentive Fees.

In all cases, the General Partner reserves the right to charge certain investors lower incentive fees or calculate such incentive fee differently due to the size of the investor. In addition, certain Limited Partners may pay a different incentive fee than the general fees discussed above for each Fund based upon the size of their investment or the liquidity rights of their investment.

The Adviser also receives Incentive Fees for most of the Accounts, which is equal to a percentage of the net profits of the respective Account. These fees are payable after the end of the Investment Year and are negotiated in the Investment Management Agreement.

The Adviser anticipates that any new vehicles or separately managed accounts would have structures similar to those described in the funds above.

Incentive fees for the UCITS and the Sub-Advised Account range from 0 to 20% of assets under management.

#### *Other Fee Information and Expenses*

The Adviser may exempt certain investors in the Funds from payment of all or a portion of advisory fees and/or incentive fees, including any affiliate of the Adviser and any other person designated by MidOcean. Any such exemption from advisory fees and/or incentive fees interest may be made by a direct exemption, a rebate by MidOcean and/or its affiliates, or through other Funds which co-invest with the Adviser. For example, in instances where a MidOcean professional or its affiliate invests in a Fund, such professional or its affiliate generally will be exempt from payment of the Management Fee and incentive fee with respect to such Fund. Additionally, to the extent permitted by the relevant Partnership Agreement, the Adviser may have the right to permit investors affiliated with an Adviser to invest through the relevant General Partner or other vehicles that do not bear Management Fees or incentive allocations.

It is expected that future credit hedge funds with similar strategies will have a similar fee structure; provided that the Adviser may negotiate a lower fee structure for investors that agree to make an early investment to help launch a new strategy or make significant capital commitments to other hedge funds or separately managed accounts of the Adviser. The Adviser may negotiate to allow a shorter lock up period in exchange for a higher fee. One or more affiliates of the Adviser will also receive a performance fee from the Limited Partners (other than from certain founder investors).

Fund investors are subject to a lock up and are generally not permitted to withdraw during the period of the lock up. Separate account agreements are terminable by the client as specified in the agreement and may have different redemption characteristics than the funds.

The Management Fee and Incentive Fee for the Accounts and for the Sub-Advised Account is described in each Account's Investment Management Agreement or Investment Sub-Advisory Agreement and the rate of will be negotiated based upon strategy and size of the Account or Sub-Advised Account.

In addition to the Advisory Fee and incentive fee payable to the Adviser, the Funds and the CLOs bear certain expenses. As set forth in the applicable Partnership Agreement or Portfolio Management Agreement, the Funds and the CLOs generally bear all expenses associated with managing the Funds and CLOs including legal, accounting, research, brokerage, finder's fees, custody, consulting, transfer, registration, insurance, advisory board, interest, taxes, extraordinary expense and other similar fees and expenses, but not MidOcean expenses in connection with maintaining and operating its offices (such as compensation of its employees, rent, utilities and general office expenses). Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices." The Accounts will also bear certain expenses as described in each Account's Investment Management Agreement. The expenses borne by the Funds, CLOs, Accounts and the Sub-Advised Account may differ from each other. Expenses will be applied consistent with the relevant vehicle's agreement.

As a general matter, expenses typically will be allocated among all relevant Funds, CLOs, and Accounts eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by MidOcean or its affiliates using their best judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, e.g., in determining whether to allocate pro rata based on number of Funds, CLOs, Accounts receiving related benefits or proportionately in accordance with asset size. The Funds, CLOs, Accounts have different expense reimbursement terms, including with respect to Management Fee offsets, which may result in the Funds bearing different levels of expenses with respect to the same investment.

In certain circumstances, one Fund, CLO, or Account may pay an expense common to multiple Funds, CLOs, or Accounts (including without limitation legal expenses for a transaction in which all such Funds, CLOs, or Accounts participate, or other fees or expenses in connection with services the benefit of which are received by other Funds, CLOs, or Accounts over time), and be reimbursed by the other Funds, CLOs, or Accounts by their share of such expense, without interest. Certain expenses might be borne by the management company on behalf of the Accounts.

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

As disclosed above, the Adviser may receive performance fees from the Funds, Accounts and the Sub-Advised Account. Such fees are subject to the terms established in the relevant Partnership Agreement, Investment Management Agreement or Investment Sub-Advisory Agreement. The Adviser structures any performance or incentive fee arrangement to comply with Section 205(a)(1) of the Investment Advisers Act of 1940 (the “Advisers Act”) and exemptions available thereunder, including the exemption set forth in Rule 205-3. Incentive Fees are determined based upon net profits which include mark to markets on certain securities that may not be widely traded or have observable transactions. Performance-based fee arrangements may create an incentive for MidOcean to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

As the Adviser manages multiple funds and accounts with similar investment strategies, the Funds, CLOs, Accounts and the Sub-Advised Account may hold securities that are similar or in the same company which may create certain conflicts of interest given the vehicles may have different performance and different economic relationships with the Adviser.

#### **Item 7 – Types of Clients**

Only “qualified purchasers” (as such term is defined in the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder) may invest in the Funds, CLOs, the Accounts and the Sub-Advised Account managed by the Adviser. Fund investors may include high net worth individuals, corporate pension plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, private investment funds, trust programs, sovereign funds, and other U.S. and international institutions. The Adviser generally requires a minimum investment of \$1,000,000 for its Funds. The minimum investment amount may be waived in the future and has been waived in the past at the Adviser’s discretion.

There are different investor criteria for the UCITS Fund.

The Adviser generally requires an initial investment of, or ability to grow to, \$50 million to open a separately managed account or to manage a sub-advised account, although the Adviser reserves the right to accept accounts of smaller sizes in its sole discretion.



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

The Investment strategy of the COF Accounts is to invest in bank loans, debt and debt-related securities and other evidences of indebtedness of every kind, whether publicly traded or privately placed. The Funds may also acquire equity interests, including preferred and common. The Funds may also seek exposure to such investments synthetically through derivatives, such as swaps, options and other instruments. The Funds may acquire some of the foregoing instruments directly, or indirectly through investments in special purpose vehicles, partnerships, securitizations, structured financings or other collective investment vehicles managed by third parties or by the Adviser.

The investment strategy of the Tactical Funds is to pursue a fundamental, research driven approach to investing in less-liquid corporate credit which the General Partner believes has the potential for outperformance. The Tactical Funds will primarily target high yield bonds and syndicated senior loans that are trading at discounts to face value in the secondary markets, where the underlying liquidity in the credit tranches is limited. While not a primary focus, the Tactical Funds may also invest in structured credit instruments and equities.

The investment strategy of the Floating Rate Fund is to seek to generate attractive risk-adjusted returns within the floating rate asset class. The Floating Rate Fund will invest primarily in syndicated non-investment grade floating rate loans, notes or bonds primarily in North America. In addition, the Floating Rate Fund may invest up to 20% in other fixed income instruments including but not limited to high yield bonds, rated debt tranches of collateralized loan obligations, derivatives, including credit derivatives, warrants and equity securities.

The investment objective of the MARC Accounts is to generate stable, absolute returns from a well- diversified portfolio of long and short corporate credit investments. The MARC Accounts will seek to achieve this objective primarily through investing in corporate bonds, loans, debt-related securities and other evidences of indebtedness of any kind, whether publicly traded or privately placed. However, the Adviser has broad and flexible investment authority and may seek to achieve its objective through investing in other debt-related obligations of any kind, whether publicly traded or privately placed. The MARC Accounts may acquire equity interests, including preferred and common, and may seek exposure to such investments synthetically through derivatives, such as swaps, options and other instruments.

The Target Fund and one separately managed account will invest in substantially the same strategy as MARC. Each Fund will use leverage and selective hedging as the Adviser believes is appropriate.

One separately managed account will invest in distressed and troubled companies.

The Adviser will manage the Accounts in a manner consistent with the strategies and limits laid out in the related Investment Management Agreement, and will manage the CLOs consistent with the requirements in the respective Indenture.

The Adviser will apply fundamental and technical analysis and relative value principles when evaluating investments for all of the vehicles it advises.

Specific limitations on investments are set forth in the Partnership Agreements, Investment Management Agreements or Investment Sub-Advisory Agreement or in the Indenture for each of the CLOs. In general, the Adviser invests in securities issued by privately held companies, although the Adviser can invest Fund or Account or Sub-Advised Account in assets in exchange listed stocks, securities traded over-the-counter and securities of foreign issuers as long subject to any limitations in the Partnership Agreement or Investment Management Agreement or Sub-Advisory Agreement. The Adviser may also invest on behalf of the Fund or Accounts or the Sub-Advised Account in securities that include warrants or the right to warrants at a later date due to the Manager's involvement with the portfolio company.

Although credit investments offer both the opportunity for current income and price appreciation, an investment

in any of the, Funds, Accounts or CLOs involves a high degree of business and financial risk that can result in substantial losses. Investing in securities involves risk of loss that clients should be prepared to bear.

The different Funds, CLOs, Accounts and the Sub-Advised Account may hold the same securities or securities in different tranches of the same companies. As a result, certain Funds, CLOs, Accounts and the Sub-Advised Account may have similar investments but different liquidity provisions.

Investors should carefully consider the following risks prior to investing in any credit fund offered by the Adviser.

### **Risks of Investing in a Partnership Structure, CLO, or Separately Managed Account**

Certain risks are inherent in the structure of the Partnership itself:

Potential Loss of Investment. An investment in the Funds, CLOs, Accounts and in the Sub-Advised Account is speculative and involves substantial risks, including the risk that the entire investment will be lost.

Nature of Investments. The Adviser has broad discretion in making investments for the Funds, CLOs, Accounts and the Sub-Advised Account. There can be no assurance that the Adviser will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Funds, CLOs, Accounts and the Sub-Advised Account's activities and the value of its investments. In addition, the value of the Funds, CLOs, Accounts and the Sub-Advised Account's portfolio may fluctuate as the general level of interest rates fluctuates. Finally, certain of the portfolio strategies employed by the Adviser may be based on historical trends in, and relationships between, asset prices, which trends and relationships may not continue. No guarantee or representation is made that the Funds, CLOs, Accounts and the Sub-Advised Account's investment objective will be achieved.

Competition; Inadequate Return. The Funds, CLOs, Accounts and the Sub-Advised Account compete with numerous other private investment funds as well as other investors, many of which may have resources substantially greater than the Adviser. No assurance can be given that the returns on the Funds, CLOs, Accounts and the Sub-Advised Account's investments will be commensurate with the risk of investment in the Funds, CLOs, Accounts and the Sub-Advised Account. There can be no assurance that returns of hedge funds in future periods will reflect previous historical levels. This may be due in part to changes in market conditions affecting such funds' or account's investments and strategies, as well as the proliferation of investment funds pursuing similar strategies (thereby making it difficult for one fund to outperform others).

Concentration in Management Strategies and Certain Investment Categories. Although the Adviser seeks to create a diversified portfolio for each of its Funds, CLOs, Accounts and in the Sub-Advised Account, other than the limitations set forth in the respective Partnership Agreements, Indenture, Investment Management Agreement, or Sub-Advisory Agreement, the Adviser is not required to take a diversified investment approach with the vehicles, and accordingly significant portions of the Funds, CLOs, Accounts and the Sub-Advised Account's assets may be concentrated in a small number of strategies, issuers or industries.

Lack of Transferability of Interests. The interests in the Funds have not been registered under U.S. federal or state securities laws and are subject to restrictions on transfer and are not transferable except with the consent of the General Partner. There is no and will not be any secondary market for the Interests.

Limited Right of Withdrawal; Liquidity and Information Rights. An investment in the Funds is suitable only for Investors who have no need for current liquidity. An investment in the Partnership provides limited liquidity since Interests are not freely transferable and Limited Partners may also only withdraw capital in a manner consistent with the lockups and redemption periods disclosed in each Partnership Agreement.

Withdrawals by Limited Partners within the COF Fund are also subject to a fund-level Gate, which impose limits on the amounts that may be withdrawn in certain circumstances. Withdrawal proceeds may be paid in cash, in kind or partially in cash and partially in kind. There is no Gate in the Focus Fund which invests using a similar strategy.

Possible Effect of Withdrawals. Limited Partners may withdraw capital from their respective Capital Accounts in accordance with the terms of each governing Partnership Agreement and Investors may withdraw capital or close an Account in accordance with any agreement associated with the separately managed account. A significant withdrawal of capital from any Fund or Account could require the Fund or Account to liquidate investments more rapidly than otherwise desirable to raise the necessary cash to fund the withdrawals which could impact the value of the holdings for other investors.

Credit Facilities. In the discretion of the General Partner or the Investment Manager, and pursuant to the Investment Management Agreements, any withdrawal or subscription receivable may be funded through credit facilities provided to the Partnership at prevailing market rates by a prime broker or from unaffiliated third parties. The Funds may also utilize credit facilities to fund any withdrawals or subscription receivable. In addition, credit facilities may be used for portfolio management purposes or for the implementation of certain investments. This leverage would be subject to Funds greater risk than if they did not utilize such credit facilities.

Agreements with Certain Investors; Enhanced Liquidity. The Adviser will provide investors with monthly unaudited information regarding the performance of the Funds, Accounts and of the Sub-Advised Account. In addition, investors may receive monthly position level information by executing an NDA with the Adviser. However, not all investors have elected to execute this NDA and receive this information. As a result, certain other investors in separately managed accounts may have access to position reports more frequently. Due to differing lockups and liquidity rights, subject to applicable law, the Funds do not intend to disclose the terms of such side letter agreements or the terms of such Investment Management Agreements and do not intend to disclose the identities of the investors that have entered into such agreements with the Fund, the Accounts, the Sub-Advised Account or the General Partners.

Incentive Allocation. The allocation of the Incentive Allocation to the General Partners or affiliates may create an incentive for the General Partners to cause the Funds, Accounts, or the Sub-Advised Account to engage in transactions that are riskier or more speculative than would be the case if this special allocation were not made.

Substantial Charges to the Partnership or the Account. The Funds, Accounts and the Sub-Advised Account will be subject to substantial charges, including the Management Fee, Incentive Allocation and the fees and expenses of the respective Fund, Account or the Sub-Advised Account. The trading performance of the Funds, Accounts and the Sub-Advised must exceed the amount of these charges in order to avoid losses.

Turnover. The Funds, Accounts and the Sub-Advised Account may invest on the basis of certain short-term market considerations. The turnover rate within the Funds, Accounts or the Sub-Advised Account may be significant, potentially involving substantial brokerage commissions, fees and other transaction costs.

Reliability of Valuations. To the extent that the Funds, Accounts, or Sub-Advised Account invest in instruments that are illiquid, not traded on an exchange or in an established market or for which no value can be readily determined, such instruments generally will be assigned value based on dealer quotes or independent appraisals, or such other factors as the General Partner may reasonably determine, and are subject to the valuation discretion of such dealers, appraisers and/or the General Partner. Such valuations may not be indicative of what actual fair market value would be in an active, liquid or established market.

Litigation and Enforcement Risk. The Funds, CLOs, Accounts and the Sub-Advised Account may accumulate substantial positions in the securities of a specific company and engage in a proxy fight, become involved in litigation, or attempt to gain control of a company. Under such circumstances, the Funds, CLOs, Accounts and

the Sub-Advised Account conceivably could be named as a defendant in a lawsuit or regulatory action, which may result in substantial liabilities for damages caused to others, for the disgorgement of profits realized, and for penalties.

**Institutional Risk.** Institutions, such as brokerage firms, banks or limited partnerships, will have custody of certain assets of the Fund. Often these assets will not be registered in the name of the Fund. Bankruptcy, fraud or poor capitalization at one of these institutions could impair the operational capabilities or the capital position of the Partnership.

## **Investment Risks**

Certain risks arise in connection with the Funds' investments or in connection with investing in a CLO or a separately managed account:

**General Investment Risks.** All investments risk the loss of capital. The Adviser believes that the Adviser's investment programs and research techniques moderate this risk through a careful selection of securities and other financial instruments. No guarantee or representation is made that the investment program of each of the Funds, CLOs, Accounts or the Sub-Advised Account will be successful. The Funds, CLOs, Accounts and the Sub-Advised Account investment programs may use such investment techniques as margin transactions, short sales, leverage and the use of synthetic instruments, such as swaps, options on securities, forward contracts and other derivative instruments, which practices can, in certain circumstances, magnify the adverse impact that any losses may have on the Funds, CLOs, Accounts or on the Sub-Advised Account.

**Fixed Income Securities and Loans.** The Funds, CLOs, Accounts and the Sub-Advised Account will invest in bonds or other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, bank debt, bonds, notes, debentures and commercial paper, as well as derivatives thereon. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Funds, CLOs, Accounts and the Sub-Advised Account invest will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities and bank loans can fluctuate in response to perceptions of creditworthiness, foreign exchange rates, political stability or soundness of economic policies. Fixed income securities and bank loans are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

**Interest Rate Risk.** The Funds, CLOs, Accounts and the Sub-Advised Account are subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The Funds, CLOs, Accounts and the Sub-Advised Account may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that such hedges will be implemented and, if implemented, will be successful in mitigating the impact of interest rate changes on the portfolios.

**Bank Loans.** The COF Fund's, the Focus Fund's, the IDF's the CLOs' and the investment program of two of the managed accounts may include investments in significant amounts of bank loans and 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; and (iv) limitations on the ability of the Fund, Account or CLO to directly enforce its rights with respect to participations. In analyzing each bank loan, the Adviser compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Funds, the CLOs and the Accounts.

Certain newer loans use standardized documentation in an attempt to facilitate loan trading. Although this may improve market liquidity, there can be no assurance that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that any level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high yield debt market.

Zero-Coupon and Deferred Interest Rate Bonds. The Funds, Account or the Sub-Advised Account may invest in zero coupon bonds and deferred interest bonds which are debt obligations issued at a significant discount from face value. The original issue discount or initial discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

Future Funding Obligations. The Funds may from time to time incur funding obligations that may arise in the future in connection with an investment. For example, a Fund may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Fund would be obligated to fund the amounts due.

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). Due to the nature of the debt obligations, the Funds, Accounts and the Sub-Advised Account may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Non-Performing Nature of Debt. It is anticipated that certain debt instruments purchased by the Adviser for the Funds and one managed account will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Low Credit Quality Securities. The Funds, CLOs, Accounts and the Sub-Advised Account are permitted to invest in securities that may make particularly risky investments that also may offer the potential for correspondingly high returns. As a result, a Fund, CLO, Account or the Sub-Advised Account may lose all or substantially all of its investment in any particular instance. In addition, there is no minimum credit standard that is a prerequisite to the managed account investment in any security. The debt securities in which the managed account is permitted to invest may be rated lower than investment grade and hence may be considered to be "junk bonds" or distressed securities.

Distressed Credit. The Funds, the CLOs, the Accounts and the Sub-Advised Account may invest in securities of U.S. and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems or that are involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial or at times even total losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such

issuers. Such investments also may be adversely affected by US state and federal laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the US Bankruptcy Court's power to disallow, reduce, subordinate or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value. In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful, will be delayed, or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Funds, the Accounts, or the CLOs of the security in respect to which such distribution was made.

Structured Investments. The Funds, certain Accounts and the Sub-Advised Account may invest in entities organized and operated for the purpose of restructuring the investment characteristics of other debt securities. These investments will typically consist of equity or subordinated debt securities issued by a private investment fund that invests, on a leveraged basis, in debt instruments, including primarily senior loans and high-yield bonds and mortgage-backed securities and asset-backed securities, directly or through total rate of return swaps or other credit derivatives. The cash flow on the underlying instruments may be apportioned among the newly issued security 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 such securities is dependent on the extent of the cash flow on the underlying instruments. Because the Funds, certain Accounts and Sub-Advised Account will not own these assets directly, they will not benefit from rights that holders of the assets have, including indemnification and voting rights.

Exposure to structured finance securities entails various risks: credit risks, liquidity risks, prepayment risks, interest rate risks, market risks, operations risks, structural risks, geographical concentration risks, basis risks and legal risks. Structured finance securities are also subject to the risk that the servicer fails to perform. Structured finance securities are subject to risks associated with their structure and execution, including the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such structured finance securities, whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the structured finance instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such structured finance securities.

Commercial Mortgage-Backed Securities. The Funds, certain Accounts and the Sub-Advised Account may invest in tranches of commercial mortgage-backed securities ("CMBS") transactions, ranging from the most senior tranches to the most subordinated tranches, any of which may be unrated. The collateral underlying CMBS generally consists of mortgage loans secured by income-producing property. Performance of a commercial mortgage loan and the market value of a commercial property both depend primarily on the net income generated by the underlying mortgaged property. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan. Successful management and operation of the related business (including property management decisions, such as pricing, maintenance, and capital improvements) will have a significant impact on the performance of commercial mortgage loans. Issues such as tenant mix, success of tenant business, property location and condition, competition, increases in interest rates, real estate taxes and other operational expenses, general or local economic conditions and/or specific industry segments, declines in real estate values, declines in rental or occupancy rates and civil disturbances, changes in governmental rules, regulations and fiscal policies, acts of God, social unrest, and insurance coverage are among the factors that may impact both performance and market value. The value of commercial real estate is also subject to limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity, and repayment of the loan principal thus often

depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral except in the case of borrowers acting fraudulently or otherwise illegally. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the CMBS are likely to be adversely affected to some degree depending upon the seniority of the notes within a securitization's capital structure.

The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring, or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third-party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes, or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

Residential Mortgage-Backed Securities. Investing in residential mortgage-backed securities involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of investing in real estate). Mortgage-backed securities generally provide for the payment of interest and principal on the mortgage-backed securities on a frequent basis and there also exists the possibility, particularly with respect to residential mortgage-backed securities, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. As a result of prepayments, the Funds, the Sub-Advised Account and/or certain Accounts may be required to reinvest assets at an inopportune time, which may expose the Funds, the Sub-Advised Account and/or certain Accounts to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security, and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants.

Collateralized Loan Obligations. Collateralized loan obligations ("CLOs") involve, among other things, the securitization of leveraged loans and are subject to credit, liquidity and interest rate risks, as described below. CLOs generally are limited recourse obligations of the issuer payable solely from the cashflow obligations of the corporate issuer that represent the underlying assets. Consequently, holders of the notes must rely solely on distributions of cashflows for the payment of principal and interest on their particular notes. If distributions of cashflows are insufficient to make full payment on a particular note, no other assets are available from which to pay any deficiencies. If economic conditions are unfavorable, or there is not a sufficient volume of new CLO transactions or other sources of funding, the underlying loans may either be extended or the borrowers may default. This may negatively impact the value of existing CLOs, particularly lower-rated mezzanine tranches and subordinated tranches. In addition, the performance of a CLO will be affected by a variety of factors, including its priority in the capital 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 loans, 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 loans. Moreover, a rapid change in the rate of defaults may have a material adverse effect on the yield to maturity. It is therefore possible that the Funds, Sub-Advised Account or certain

Accounts may incur losses on its investments in CLOs regardless of their ratings by S&P, Moody's or any other ratings agency.

Securities issued by CLOs may not be readily marketable. To the extent that any secondary market does exist for the securities, the price at which they may be sold could be at a discount (which may be substantial) from the fair value of the investment and significant delays could occur in the actual sale of those securities. In addition, securities issued by CLOs are usually subject to certain transfer restrictions that may further limit their liquidity, and various regulatory requirements may restrict a potential investor's ability to purchase those securities or make such an investment unattractive to them.

Subordinated Securities. The Funds, certain Accounts and the Sub-Advised Account may invest in subordinated or residual ("first loss securities" or "equity tranches") securities of certain commercial mortgage-backed securities, collateralized debt obligations, and collateralized loan obligations. These instruments, while offering significant return potential, involve greater credit risk of default than the senior classes of the issue or series. Certain subordinated securities ("first loss securities") absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities therefore possess some of the attributes typically associated with equity investments and can add greater volatility to the Funds and certain Account's returns than if the Funds, Accounts or Sub-Advised Account did not invest in such instruments.

Equity-Related Instruments in General. The Funds, CLOs, Accounts and the Sub-Advised Account may invest in equity securities and equity-related instruments, including when incidental to the Partnership's purchase of a floating rate instrument and when in connection with the reorganization of a borrower or issuer. Equity securities represent ownership interests in their respective issuers and are generally carry the most risk associated with a specific issuer's capital structure.

The price of equity securities and their related financial instruments vary for a variety of reasons, including but not limited to supply and demand of the equity securities, the actual or perceived business opportunities associated with the issuer, the current and potential future cash flow of the issuer, the issuer's management, their ability to execute on a specific business plan, the general economic environment, and the outlook for the overall economy. To the extent the Funds, CLOs, Accounts and the Sub-Advised Account owns an equity security or otherwise has exposure to an equity security or an equity-related financial instrument, this investment carries the risks associated with owning equities and may also carry risks associated with the form of financial instrument (e.g., options, derivative or securities-based futures contract). Any investment in equities or equity-related instruments entails a significant risk of loss.

Exchange-Traded Funds. The Funds, CLOs, certain Accounts and the Sub-Advised Account may invest in shares of exchange-traded funds ("ETFs"), including for hedging purposes. As an investor in ETFs, the Partnership will bear its ratable share of various fees, allocations, and expenses of the ETF, all of which are embedded in the net asset value of the ETF. ETFs represent shares of ownership in either funds or unit investment trusts that hold portfolios of common stocks, bonds or other instruments, which are designed to generally correspond to the price and yield performance of an underlying index. A primary risk factor relating to ETFs is that the general level of stock or bond prices may decline, thus affecting the value of an equity or fixed income ETF, respectively. An ETF may also be adversely affected by the performance of the specific sector or group of industries on which it is based. Moreover, although ETFs are designed to provide investment results that generally correspond to the price and yield performance of their underlying indices, ETFs may not be able to exactly replicate the performance of the indices because of their expenses and other factors.

Risks Associated with Bankruptcy Cases. The Funds, CLOs the Accounts and the Sub-Advised Account may invest in financially troubled companies and companies either currently in, or that may enter into, Chapter 11 bankruptcy or insolvency proceedings. Many of the events within bankruptcy or insolvency proceedings are adversarial and are often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that bankruptcy courts would decide



favorably toward, or consistent with the interests of, the Funds, CLOs the Accounts and the Sub-Advised Account. 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/or functional operating control of a debtor.

As the duration of bankruptcy cases can be only roughly estimated, the reorganization process can involve substantial legal, professional, and administrative costs to a company and/or the Funds, CLOs the Accounts and the Sub-Advised Account, and is subject to unpredictable and lengthy delays. In addition, during the process a company's competitive position may erode, key management may depart, and the company may not be able to invest adequately. In some cases, a company may not be able to reorganize and may be required to liquidate assets. Such investments can result in a total loss of principal.

There exists a significant risk that the Funds, CLOs the Accounts and the Sub-Advised Account's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, a class. In addition, certain administrative costs and claims that have priority by law over these claims of certain creditors may be quite high.

The Funds, Accounts, or CLOs may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction or forfeiture by the Funds, Accounts or CLOs.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Default Rates of Loans and High-Yield Securities. The Funds, Accounts and the Sub-Advised Account may invest in high-yield loans and other securities. The historical performance of the high-yield market or the leveraged loan market is not necessarily indicative of its future performance, and the numerous methods for calculating default rates leave a significant amount of uncertainty in the potential profitability of investments in such instruments. Should increases in default rates occur with respect to the securities in which the Funds, Accounts the Sub-Advised Account invests, the actual default rates of the securities held by the Funds, the Accounts and the Sub-Advised Account may exceed those of the calculation methodology used by the Adviser in determining to purchase such securities, resulting in substantial losses to the Funds, the Accounts, or the Sub-Advised Account.

Participation on Creditors' Committees. The Adviser may serve on committees formed by creditors ("**Creditors' Committees**") to negotiate with the management of financially troubled companies that may or may not be in bankruptcy. The Adviser may also seek to negotiate directly with debtors with respect to restructuring issues. As a result of the Adviser's service on such Creditors' Committees, a Fund and Account may be deemed to have duties to other creditors represented by the Creditors' Committees, which might thereby expose the Funds, CLOs, the Account or the Sub-Advised Account to liability to such other creditors who disagree with the Adviser's actions.

Reliance on Corporate Management and Financial Reporting. In many cases, the Investment Manager will rely on the financial information made available by the borrowers or issuers in which the Funds, CLOs, the Account or the Sub-Advised Account invest. The Adviser generally will not have the ability to independently verify such financial information, and generally will be dependent upon the integrity of both the management of these borrowers and issuers and the financial reporting process in general. Material losses can occur as a result of corporate mismanagement, fraud and accounting irregularities.

"Market" Risk. For reasons not necessarily attributable to any of the risks set forth herein, the prices of the securities in which the Funds, CLOs, the Account or the Sub-Advised Account invest may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these

assets will not be trading at even lower levels at the time of valuation or at the time of sale. It may not be possible to predict or to hedge against such market risk.

“Widening” Risk. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Funds, CLOs, the Account or the Sub-Advised Account invest may decline substantially. In particular, purchasing assets at what may appear to be “undervalued” levels is no guarantee that these assets will not be trading at even lower levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such “spread widening” risk.

Uncertain Exit Strategies. Due to the illiquid nature of some of the positions which the Funds, CLOs, the Account or the Sub-Advised Account are expected to acquire, the Adviser is unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will definitely be available at an attractive price, or at all. Exit strategies which appear to be viable or profitable when an investment is initiated may be precluded or unprofitable by the time the investment is ready to be realized due to market, economic, legal, political or other factors.

Competition; Availability of Investments. Certain markets in which the Funds, CLOs, the Account or the Sub-Advised Account may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Adviser will be able to identify or successfully pursue attractive investment opportunities in such environments.

Leverage. The Funds, CLOs, the Account or the Sub-Advised Account will use leverage at certain points in their investment programs. Limits on leverage, if any, are dictated within each Partnership Agreement, Investment Management Agreement or Investment Sub-Advisory Agreement.

The use of leverage will, in many instances, enable the Adviser to achieve a higher rate of return than would be otherwise possible. An inability of the Funds, CLOs, the Account or the Sub-Advised Account to obtain a desired amount of leverage, may limit the Funds, CLOs, the Account or the Sub-Advised Account's overall investment exposure and/or inhibit inverse correlation, thereby reducing the performance.

Derivatives. The Funds, Accounts the Sub-Advised Account may invest in complex derivative instruments that seek to modify or replace the investment performance of particular securities, commodities, currencies, interest rates, indices or markets on a leveraged or unleveraged basis. These instruments generally have counterparty risk and may not perform in the manner expected by the counterparties, thereby resulting in greater loss or gain to the investor. These investments are all subject to additional risks that can result in a loss of all or part of an investment, in particular, interest rate and credit risk volatility, world and local market price and demand and general economic factors and activity.

Options. The Funds, Accounts or the Sub-Advised Account may buy or sell (write) both call options and put options (exchange-traded, over-the-counter or issued in private transactions), and when it writes options it may do so on a “covered” or an “uncovered” basis. Any option transactions may be part of a hedging tactic (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Funds, Account or Sub-Advised Account have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances.

Credit Default Swaps. The Funds, Accounts or the Sub-Advised Account may invest in credit default swaps (“CDS”). Generally, CDSs are contracts where termination may occur prior to the contract's scheduled maturity date if a credit event occurs. Credit events may include a ratings downgrade of the reference obligation below certain specified ratings levels, a write down (including an implied write down) of the reference obligation, a failure by the reference company to pay principal or interest with respect to the reference obligation, a restructuring of the final maturity date of the reference obligation, or an acceleration of the reference obligation so that it is due prior to its stated maturity date, among others.

Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock and debt of the company, and potential loss realized on the debt upon default, among other factors.

Counterparty Risk. Some of the markets in which the Funds, Accounts and the Sub-Advised Account may effect transactions are OTC or “interdealer” markets. The participants in such markets typically are not subject to the same credit evaluation and regulatory oversight as are members of “exchange-based” markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such “over-the-counter” transactions. This exposes the Funds, Accounts and Sub-Advised Account to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Funds, Accounts or the Sub-Advised Account to suffer a loss.

In addition, the counterparties with which the Funds, Accounts and the Sub-Advised Account effect transactions may, from time to time, cease making markets or quoting prices in certain of the instruments. In such instances, the Funds, Accounts or Sub-Advised Account may be unable to enter into a desired transaction in currencies, or to enter into an offsetting transaction with respect to an open position, which might adversely affect performance.

Derivative Clearinghouses and Exchanges; Required Central Clearing for Derivatives. Currently, OTC derivatives (including, without limitation, CDSs and other swaps, forward contracts, certain options and other instruments) are typically settled on an individual basis by the counterparties to the derivative instrument. As a result, each party to an OTC derivative is subject to the risk that the other party will default on its obligations under the terms of the derivative instrument.

Futures. Investments in commodities, futures and options contracts involve risks including, without limitation, leverage (e.g., margin is usually only 5% to 15% of the face value of the contract and exposure can be nearly unlimited) and credit risk vis-à-vis the contract counterparty. The Funds’ and Accounts’ and the Sub-Advised Account’s futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Funds, Accounts or the Sub-Advised Account from promptly liquidating unfavorable positions and subject them to substantial losses.

Illiquid Investments. The Funds, CLOs, Accounts and the Sub-Advised Account may make investments that are subject to legal or other restrictions on transfer or for which no liquid market exists, such as private placements. Illiquidity increases risk and volatility and may make it impossible to close out positions against which the market is moving or to realize their such positions’ value at the time of sale, and may cause substantial delays in the payment of withdrawal proceeds.

Short Selling. The Funds, CLOs, Accounts and the Sub-Advised Account may engage in short selling as part of its investment strategies. A short sale involves the theoretically unlimited risk of an increase in the market price of the security that would result in a theoretically unlimited loss.

Highly Volatile Markets. The prices of securities and derivative instruments, including futures and options prices, may be highly volatile. Price movements of securities, forward contracts, futures contracts and other derivative contracts in which the Funds, CLOs, Accounts and the Sub-Advised Account may invest are influenced by, among other things: interest rates; changing supply and demand relationships; trade, fiscal, monetary and exchange control programs and policies of governments; and U.S. and international political and economic events

and policies. In addition, governments from time to time intervene, directly and/or by regulation, in certain markets, particularly those in currencies and interest rate related futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Funds, CLOs, Accounts and the Sub- Advised Account also are subject to the risk of the failure of any of the exchanges on which its positions trade or of its clearinghouses.

Inside Information; Inability to Vote Certain Positions. From time to time Adviser or its affiliates may be in possession of material, non-public information concerning the issuer of securities or other instruments in which the Funds, CLOs, Accounts and the Sub-Advised Account has invested, or in which it intends to invest. The possession of such information may limit the ability of the Funds, CLOs, Accounts and the Sub-Advised Account to buy or sell such securities or other instruments. Accordingly, the Funds, CLOs, Accounts and the Sub-Advised Account may be required to refrain from buying or selling such securities or other instruments at times when the Investment Manager might otherwise wish the Funds, CLOs, Accounts and the Sub-Advised Account to buy or sell such securities or other instruments. In addition, as a result of voting agreements or other arrangements relating to certain issuers, securities or instruments in which the Funds, CLOs, Accounts and the Sub-Advised Account is invested, the Investment Manager or its affiliates may also be subject to restrictions on their ability to vote or take other actions with respect to such issuers, securities or instruments. In such situations, the Investment Manager may not be able to vote or take other actions with respect to such issuers, securities or instruments in the manner that it otherwise would believe to be in the best interests of Funds, CLOs, Accounts and the Sub-Advised Account.

Non-U.S. Investments. The Funds, Accounts and the Sub-Advised Account may invest in securities of non-U.S. companies, in countries other than the United States and in securities of non-U.S. government entities. Investments outside the United States or denominated in non-U.S. currencies pose currency exchange risks as well as a range of other potential risks that could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. Transaction costs of investing outside the United States are generally higher than in the United States. There is generally less government supervision and regulation of exchanges, brokers and issuers outside the United States than there is in the United States, and there is greater difficulty in taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Funds', Accounts' or the Sub-Advised Account's performance.

U.S. Government Obligations. The Funds and certain Accounts may invest in U.S. government obligations. Neither the U.S. government nor its agencies guarantee the market value of their securities, and interest rate changes, prepayments and other factors may affect the value of government securities. Some of the securities purchased by the Partnership are issued by the U.S. government, such as Treasury notes, bills and bonds, and Government National Mortgage Association pass-through certificates, and are backed by the "full faith and credit" of the U.S. government (the U.S. government has the power to tax its citizens to pay these debts) and may be subject to less credit risk. Securities issued by U.S. government agencies, authorities or instrumentalities, such as the Federal Home Loan Banks, Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC"), are neither issued nor guaranteed by the U.S. government. Although FNMA, FHLMC and the Federal Home Loan Banks are chartered by Acts of Congress, their securities are backed only by the credit of the respective instrumentality.

Bridge Loans. Certain Funds and Accounts may invest in bridge loans. Bridge loans are short-term loan arrangements usually made by a borrower in anticipation of receipt of an intermediate-term or long-term permanent financing. Most bridge loans are structured as floating-rate debt with "step up" provisions under which the interest rate on the bridge loan rises (or "steps up") the longer the loan remains outstanding. In addition, bridge loans commonly contain a conversion feature that allows the bridge loan investor to convert its interest to senior exchange notes if the bridge loan has not been prepaid in full on or before its maturity date.

Bridge loans may be subordinate to other debt and may be secured or unsecured. Funds or Accounts for which loans or bonds are not suitable will not be allocated bridge loan opportunities due to the conversion risk of the bridge loan which could result in a Fund or Account owning a security that is not permitted by its investment guidelines. Moreover, as the Adviser believes that, while not contractual, banks and other lenders grant favorable allocations of new issue bonds to orders from investors who participate in the banks' and other lenders' bridge loans, Funds or Accounts that participate in bridge loan opportunities and assume the bridge loan conversion risk generally will receive a favorable primary allocation in the loans or bonds issued to retire the bridge loan commitment in situations in which available quantities are limited, including an allocation up to their full order amount before Funds and Accounts that do not participate in a specific bridge loan receive any primary allocation. Further, Funds and Accounts that do not participate in a specific bridge loan may purchase the loans or bonds issued to retire the bridge loan commitment in secondary transactions on the same day or subsequently at prices which may be higher than the price paid by the Funds and Accounts that purchased the loans or bonds issued to retire the bridge loan commitment in the primary allocation.

### **Cyber Security Breaches and Identity Theft Risks**

The Funds, CLOs, Accounts and the Sub-Advised Account will be reliant upon their respective financial, accounting and technology systems and networks to process, transmit and store information, including sensitive client and proprietary information, and to conduct many business activities and transactions with clients, advisors, vendors and other third parties. The Adviser will rely on third parties for certain aspects of the Adviser's business, including financial intermediaries and technology infrastructure and service providers, and these parties are also susceptible to cyber security risks.

Although the Adviser will take protective measures and endeavor to modify them as circumstances warrant, the Funds, CLOs, Accounts and the Sub-Advised Account's information and computer systems, software, networks and mobile devices, and those of third parties on whom the foregoing entities will rely, may be vulnerable to cyber-attacks, breaches, unauthorized access, theft, misuse, computer viruses or other malicious code, network failures, computer and telecommunication failures, usage errors by their respective professionals, power outages, fires, tornadoes, floods, hurricanes, earthquakes and other events that could have a security impact. If any such events occur, it could jeopardize each affected entity's, as well as their clients', employees' or counterparties' confidential, proprietary and other sensitive information processed and stored in, and transmitted through, the Adviser's or third-party computer systems, networks and mobile devices, or otherwise cause interruptions or malfunctions in operations of the affected entities. Despite the Adviser's efforts to ensure the integrity of its systems and networks, it is possible that the Adviser may not be able to anticipate or to implement effective preventive measures against all threats, especially because the techniques used change frequently and can originate from a wide variety of sources. As a result, affected entities could experience disruption of their business, significant losses, increased costs, reputational harm, regulatory actions or legal liability, any of which could have a material adverse effect on the Funds, CLOs, Accounts and the Sub-Advised Account's financial performance. Affected entities may be required to spend significant additional resources to modify their protective measures or to investigate and remediate vulnerabilities or other exposures, and they may be subject to litigation and financial losses that are either not insured against fully or not fully covered through any insurance that such entities maintain.

### **Conflicts of Interest**

As a result of the different business initiatives at the Adviser and at MidOcean US Advisor, LP, Funds, CLOs, Accounts and the Sub-Advised Account may be subject to certain potential or actual conflicts of interest in connection with the activities of, and investments by, the Funds, CLOs, Accounts and the Sub-Advised Account:

Impact of the Account on Liquidity. The Adviser currently manages certain accounts with similar strategies that may have different liquidity terms than investors in the Funds. This may result in certain investors being able to exit prior to other investors or the limited partners of the Funds. In addition, investors in separately managed accounts may have access more regularly to information related to holdings and leverage in their account than investors in the Funds.

Differing Locations in the Capital Structure. The Adviser may cause its clients, including the Funds, CLOs, Accounts and the Sub-Advised Account, to purchase different classes of debt and/or equity of the same borrower or issuer, including one or more MidOcean US Advisor Portfolio Companies. These and other investments may be deemed to create conflicts of interest, particularly because the Adviser may take certain actions for some clients with respect to one class of debt or equity that may be adverse to other clients who hold other classes of debt or equity of the same borrower or issuer.

Valuation. The Funds, CLOs, Accounts and the Sub-Advised Account may hold securities and financial instruments that may not have readily available market quotes. In such instances the Adviser generally will value such securities and financial instruments in good faith at fair value based on various factors, including, without limitation, external pricing sources (if any), recent trading activity (if any) or other information aimed at a relative value assessment process that incorporates, among other factors in the General Partners' discretion, current market conditions, position size, trends and prices. Such valuations may vary from similar valuations performed by independent third parties for similar types of securities and financial instruments. Additionally, such valuations will directly correlate to the compensation paid or allocated by the Funds, CLOs, Accounts and the Sub-Advised Account to the Adviser and the General Partners and may, therefore, create conflicts of interest.

Other Activities. The Adviser may provide advice to other investment funds, partnerships or accounts, including vehicles that may follow investment programs substantially similar to that of the Funds. The Adviser and its principals and employees may also carry on investment activities for their own accounts and for family members and friends who do not invest in the Funds, and may give advice and recommend securities to other accounts or investment funds which may differ from advice given to, or securities recommended or bought for, the Funds even though their investment objectives may be the same or similar.

The Adviser and their members, officers and employees will devote so much of their time to the activities of the Funds, CLOs, Accounts and the Sub-Advised Account as they deem necessary and appropriate. The Adviser and their respective affiliates are not restricted from forming additional investment funds, accounts, or CLOs or from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with the Funds, CLOs, Accounts and the Sub-Advised Account and/or may involve substantial time and resources of the Adviser.

"Soft Dollar" Payments. The brokers, dealers and other counterparties utilized by the Funds, CLOs, Accounts and the Sub-Advised Account will be selected by the Adviser. In selecting brokers, dealers and counterparties that operate outside of the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), the Adviser may, subject to its overall duty to obtain "best execution" for Funds, CLOs, Accounts and the Sub-Advised Account transactions, pay higher commissions than those charged by brokers that do not provide such services or benefits. However, the Adviser has no soft dollar agreements in place at this time.

Cross Trades with other Investment Manager Clients or Affiliates. In certain circumstances, the Adviser may cause a Funds, CLOs, Accounts and the Sub-Advised Account to purchase securities from or sell securities and investments to other clients or vehicles managed by the Adviser when the Adviser believes such transactions are appropriate and in the best interests of the Funds, CLOs, Accounts and the Sub-Advised Account. In addition, the Investment Manager may recommend that a Funds, CLOs, Accounts and the Sub-Advised Account purchase or sell an investment that is being sold or purchased, respectively, at the same time by MidOcean or another

investment management client.

Incentive Allocation. The Incentive Allocation may create an incentive for the Adviser to invest assets in investments that are riskier or more speculative than would be the case if the Adviser was compensated based on a flat percentage of capital. In addition, the Incentive Allocation is determined on the basis of the value of the Capital Accounts (excluding any value attributable to Special Investment Accounts), including value attributable to unrealized appreciation. Any securities traded directly by the Funds, Accounts or the Sub-Advised Account for which market quotations are not available may be valued by or at the direction of the General Partners at such value as they may reasonably determine and may not be independently valued or verified by a third party. This may create an incentive to place the highest reasonable value on the Fund's, Accounts or Sub-Advised Account's respective investments.

From time to time, the Adviser will be presented with investment opportunities that would be suitable not only for a Fund, Account, or Sub-Advised Account, but also for other funds and accounts and other investment vehicles operated by advisory affiliates of the Adviser. In determining which investment vehicles should participate in such investment opportunities, the Adviser and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. Investment by more than one client of the Adviser in a portfolio company may also raise the risk of using assets of a client of the Adviser to support positions taken by other clients of the Adviser. When and to the extent that employees and related persons of the Adviser and its affiliates make capital investments in or alongside certain funds or accounts, the Adviser and its affiliates are subject to conflicting interests in connection with these investments. There can be no assurance that any Fund's or Account's return from a transaction would be equal to and not less than another Fund or Account participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

Investment opportunities may be appropriate for multiple funds or accounts at the same, different or overlapping levels of a company's capital structure. Conflicts may arise in determining the terms of each such investment, particularly where certain funds or accounts are intended to invest in different types of securities in a single company. Questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce such claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any workout or restructuring may raise conflicts of interest, particularly with respect to funds or accounts that have invested in different securities within the same company.

Officers, principals and employees of the Adviser may trade in the securities and derivative markets in transactions offered to but rejected by a Fund, Account or the Sub-Advised Account. Such transactions are subject to the policies and procedures set forth in the Adviser's Code of Ethics.

Side Letters. The Adviser may enter into side letter arrangements with certain investors in a Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and transfer rights. Any of these situations subjects MidOcean and/or its affiliates to potential conflicts of interest. The Adviser attempts to resolve such conflicts of interest in light of its obligation to investors in its Funds or Accounts and the obligations owed by the Adviser's advisory affiliated to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund or Account, other Funds or Accounts and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, the Adviser will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, the Adviser consults and receives consent to conflicts from, in the case of an Account, the relevant client, or in the case of a Fund or other investment vehicle, an advisory committee consisting of limited partners or shareholders of the relevant Fund and such other investment vehicles.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Adviser or the integrity of the Adviser's management. The Adviser has no information to disclose that is applicable to this Item.

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

The Adviser is an affiliate of MidOcean US Advisor, LP a registered investment adviser controlled by J. Edward Virtue. MidOcean US Advisor, LP provides advisory services to MidOcean Partners III, LP, MidOcean Partners III-A, LP, MidOcean Partners III- D, LP, MidOcean Partners III-E, MidOcean Partners III-P, LP, MidOcean Partners IV, LP, MidOcean Partners V, LP, and MidOcean Prepaid Holdings, LP and affiliates or parallel SPVs (together, the "Private Equity Funds") which focus on private equity investments.

Certain conflicts of interest may arise as a result of such private equity investments. For example, the Adviser and its affiliates may cause its clients to purchase different classes of debt and/or equity of the same borrower or issuer. These and other investments may be deemed to create conflicts of interest, particularly because the Adviser and its affiliates may take certain actions for some clients with respect to one class of debt or equity that may be adverse to other clients who hold other classes of debt or equity of the same borrower or issuer. Such investments may also be deemed to create conflicts of interest with respect to one client's need for attractive investment opportunities, on the one hand, and the issuer's need for attractive debt and equity financing terms, on the other hand. The Adviser may not invest in the securities issued by any private equity portfolio company advised by MidOcean US Advisor, LP. In all such cases, the Adviser will seek to act in a manner it believes in good faith to be equitable to all clients under the circumstances, subject to the requirements described above.

MidOcean Credit Fund Management, LP is owned by Steven Shenfeld and Ted Virtue.

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

The Adviser has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at the Adviser must acknowledge the terms of the Code of Ethics annually, or as amended.

The Adviser is built upon the principles of fair dealing and ethical conduct of its employees. Its reputation for integrity and excellence requires careful observance of the spirit and letter of all applicable laws and regulations, as well as a scrupulous regard for the highest standards of conduct and personal integrity. The continued success of the Adviser is dependent upon its clients' trust and the Adviser is dedicated to preserving that trust. Employees owe a duty to the Adviser, its clients and investors to act in a way that will merit the continued confidence of the public.

The Adviser will comply with all applicable laws and regulations and expects its employees and partners to conduct business in accordance with the letter, spirit and intent of all relevant laws and to refrain from any illegal, dishonest or unethical conduct. If a situation arises where it is difficult to determine the proper course of action, the matter should be discussed openly with an immediate supervisor or the Chief Compliance Officer for advice and consultation.

The Adviser will provide its Code of Ethics to any client or prospective client who requests it. Requests should be sent to Candice Richards at [crichards@midoceanpartners.com](mailto:crichards@midoceanpartners.com).

Through the Code of Ethics, the Adviser seeks to ensure that the personal securities transactions, activities and



interests of its employees will not interfere with (i) making decisions in the interest of advisory clients or (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. In addition, the Code requires pre-clearance of all transactions including any limited offerings or IPOs. Employee trading is monitored in order to reasonably detect and prevent violations.

Principals and employees of the Adviser and its affiliates may directly or indirectly own an interest in the Funds or CLOs advised by the Adviser. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same companies as such funds.

The Funds, CLOs, the Accounts and the Sub-Advised Account may invest in similar securities or in securities of the same issuer. Allocations to specific vehicles are determined by the Adviser and the General Partner based upon the size of the Fund, CLO, Account and the Sub-Advised Account, its liquidity needs, the size of the investment opportunities and minimum investment size. Odd lot implications will also be considered. One Fund, CLO, Account or Sub-Advised Account may be selling a security while another Fund, CLO, Account or Sub-Advised Account continues to hold a security. When it is determined that it would be appropriate for a Fund, CLO, Account or Sub-Advised Account to participate in an investment, MidOcean will generally allocate such investment among all of the participating investment accounts on a fair and equitable basis, taking into account such factors as MidOcean deems appropriate, including, without limitation: (i) the overall liquidity profile and risk profile of the Fund's, CLO's, Account's or the Sub-Advised Account's respective investment portfolio; (ii) such Funds, CLOs, Account's or Sub-Advised Account's objective, time horizon, tax sensitivity, tolerance for turnover, asset composition and cash level; (iii) the Funds', CLO's, Accounts' or Sub-Advised Account's size (including as set forth in the relevant client's governing documents, where applicable), (iv) the potential for withdrawals from the Funds; (v) the transferability of such investments; (vi) the minimum denominations of such investments; (vii) the availability of price quotes with respect to such investments; (viii) the structural and operational differences between (and any applicable investment limitations, including, without limitation, exposure limits, hedging limits, and diversification considerations, of the Fund, CLO, Account or Sub-Advised Account; (ix) the eligibility of the Fund, CLO, Account or Sub-Advised Account to make such investment under applicable laws and regulations; and (x) in the case of a new issue bond being allocated by a bank or other lender, the Fund's or Account's previous commitment to fund a bridge loan by such bank or other lender; (xi) any other applicable tax, legal, regulatory, compliance, operational or administrative issues. Orders may be combined for all such accounts, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, securities may be allocated among the different accounts on a basis that MidOcean considers equitable.

Even where one or more of the Funds, CLOs, Accounts or Sub-Advised Account have overlapping investment objectives and invest in the same securities, purchase and sales of such securities may not be combined but, rather, may occur at different times and/or in different proportions or amounts, for different reasons (e.g., differences in availability of investible capital, differences in applicable investment guidelines or restrictions, differences in sensitivity to applicable tax or regulatory issues and other considerations). Such differences could lead to purchases and/or sales that are effected at less favorable prices for some Funds, CLOs, Accounts or Sub-Advised Account than those obtained for other Funds, CLOs, Accounts or Sub-Advised Account.

## **Item 12 – Brokerage Practices**

Investors in the Funds authorize the General Partner to act on behalf of the Funds and the Adviser on behalf of the Accounts, the Sub-Advised Account and the CLOs. The Adviser as the Manager, and its affiliate as the General Partner of the Funds will make all decisions related to the investment and divestment of the Funds' and Accounts' and the Sub-Advised Account's assets including the selection of the investments, the size of the investments, the banker or other advisor in such transactions or, in the case of securities that are traded, the broker or dealer to be used and the commissions to be paid, if any. The Funds, CLOs, Accounts and Sub-Advised Account may hold public and private debt, public stocks that are unrestricted, invest in a manner to further its hedging strategy or may trade on foreign exchanges or in foreign currency as necessary. On all of its

trades, the Adviser will seek to get best execution for its Funds, CLOs, Accounts and Sub-Advised Account and will seek to pay market commissions where appropriate. The Adviser does not receive research or other services associated with the execution of its trades, and does not use any form of soft dollars.

Orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Funds, CLOs, Accounts and Sub-Advised Accounts are completed independently, MidOcean may also purchase or sell the same securities or instruments for several Funds, CLOs, Accounts and Sub-Advised Account simultaneously. From time to time, MidOcean may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Funds, CLOs, Accounts and Sub-Advised Account of MidOcean is favored over any other Fund, Account or CLO. When an aggregated order is filled in its entirety, each of the participating Funds, CLOs, Accounts and Sub-Advised Account generally will receive the average price obtained on all such purchases or sales made during such trading day. To the extent such orders are not batched, they may have the effect of increasing brokerage commissions or other costs. When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Fund, CLO, Account or Sub-Advised Account participating in such buy or sell order in accordance with the amount of securities originally requested for such Fund, CLO, Account and Sub-Advised Account. Each Fund, CLO, Account or the Sub-Advised Account generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to pro rata allocations are permissible provided they are fair and equitable to the Funds, CLOs, Accounts and to the Sub-Advised Account over time. In the Adviser’s securities transactions on behalf of the Funds, CLOs, Accounts and the Sub-Advised Account, it may retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Fund, CLO, Account. In determining to retain such parties, the Adviser may consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although the Adviser generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Funds and Accounts may not pay the lowest commission fee for such services.

### **Item 13 – Review of Accounts**

The Adviser provides its Funds with monthly capital account statements and annual audited financial statements. The capital accounts provide information about the value of each investor’s investment in the Fund and holdings of the Funds above a certain threshold as determined by generally accepted accounting principles in the United States. The Accounts have their own administrator which will provide information to the relevant investor in the Account as per the agreement between the investor and the administrator. It provides the Funds, Accounts and CLOs with statements as required by those agreements governing those relationships.

As part of its ongoing management oversight, the Adviser oversees the performance of the Funds’, the CLOs’, the Accounts’ and the Sub-Advised Account’s investments and makes buy and sell decisions based upon the Adviser’s macro and micro views. The Adviser will review the filings of its investments and confirm that the company’s performance is in line with projections and budgets.

In addition, the Adviser also confirms that any investment would be in compliance with the investment limitations set forth in the appropriate Limited Partnership Agreement or Investment Management Agreement, Investment Sub-Advisory Agreement, or Indenture.

In addition to reviewing the performance of the underlying investments, the Adviser will also reconcile the Funds’, CLOs, the Accounts’ and the Sub-Advised Account’s cash, positions and trade breaks on a regular basis and maintains and aged trade break report.

Investors in UCITS receive regular reports from the Adviser in accordance with the principles established in the UCITS directives. Investors in the 1940 Act fund receive regular reports from the Adviser in accordance with the principles established in the Investment Company Act of 1940, as amended.

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

The Adviser has three (3) employees who are responsible for marketing and investor relations and client service. As such, the Adviser will determine overall compensation for these professionals based upon success in identifying potential investors, helping to prepare marketing materials, or responding to client requests.

Stifel Nicolaus & Company, Incorporated (“Stifel”), a registered broker dealer, places interests in the COF fund with its investors. Additionally, Summit Trail Advisors (“Summit”), a registered investment adviser, places interests in the COF Fund with its investors.

The placement agents were vetted and the arrangements require full disclosure to any potential limited partners in the US that the individual or firm approached.

#### **Item 15 – Custody**

The Adviser provides limited partners in its Funds with audited financial statements prepared in accordance with generally accepted accounting principles within 120 days of the relevant Fund’s fiscal year end. As such, the Adviser is deemed to comply with rule 206(4)-2.

In certain situations, the Adviser may elect to create a Fund for a single investor or investor family similar to the Focus Fund or the Target Fund or based upon the expectations of that investor, may elect to have the custodian provide that investor with copies of the brokerage statements and to have a surprise audit performed on the Fund.

The Adviser utilizes Deutsche Bank, Barclays, Goldman Sachs (through BTIG), Scotia Bank and Wells Fargo as its prime brokers, and Northern Trust as its custodian.

#### **Item 16 – Investment Discretion**

As discussed, the Adviser has discretionary authority to manage investments on behalf of the Funds, the CLOs, the Accounts and the Sub-Advised Account. In general, Limited Partners cannot place limits on the Adviser’s authority, although the Adviser is subject to any limitations on investments set forth in the applicable Partnership Agreement, Portfolio Management Agreement, Investment Management Agreement or Investment Sub-Advisory Agreement. The Adviser assumes this discretionary authority pursuant to the Advisory Agreements.

#### **Item 17 – Voting Client Securities**

As required by Rule 206(4)-6 under the Advisers Act, the Adviser has adopted Proxy Voting Policies and Procedures (the “Proxy Policy”) that are reasonably designed to ensure that the Adviser votes proxies in the best interests of clients and that address how the Adviser resolves material conflicts of interest that may arise between the Adviser’s interests and the interests of the Funds. Compliance is responsible for overseeing the Adviser’s compliance with the Proxy Policy.

In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Adviser may address the conflict using several alternatives, including by seeking the approval or concurrence of the relevant fund’s advisory board or investor base on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. The Adviser does not consider service on portfolio company boards by Adviser personnel or the Adviser’s receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific

proxy voting guidelines followed by the Adviser when voting proxies on behalf of a client.

If you would like a copy of the Adviser's Proxy Policy or information regarding how the Adviser voted proxies for particular portfolio companies, please contact MidOcean Partners at 212-497-1400, and the Proxy Policy and/or information will be provided to you free of charge.

**Item 18 – Financial Information**

The Adviser does not require the prepayment of fees more than six months in advance. In addition, the Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.