

Octagon Credit Investors, LLC

Form ADV, Part 2A  
(the “Brochure”)

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This Brochure provides information about the qualifications and business practices of Octagon Credit Investors, LLC (“Octagon”). If you have any questions about the contents of this Brochure, please contact us at (212) 400-8400 or mjulian@octagoncredit.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Octagon also is available on the SEC’s Investment Adviser Public Disclosure (IAPD) website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Octagon may refer to itself as a “registered investment adviser.” You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.

## **Item 2: Summary of Material Changes**

This Item 2 discusses only material changes made to this Form ADV Part 2A (“Brochure”) since the annual updating amendment to this Brochure filed March 29, 2018.

In March 2019, Octagon updated disclosures in Item 4 to indicate that it has sold all risk retention interests previously required to be held under the U.S. Risk Retention Rules. Octagon updated disclosures in Item 5 to indicate that it may advise Private Funds or Accounts that will invest in warehouse assets and control equity of other CLOs managed by Octagon. Octagon has updated disclosures in Item 8 regarding CLO warehouse risk, and potential discontinued use of LIBOR as an interest reference rate in CLO and loan markets.

## **Important Note about this Brochure**

***This Brochure is not:***

- ***an offer or agreement to provide advisory services to any person***
- ***an offer to sell interests (or a solicitation of an offer to purchase interests) in any Fund (as defined below)***
- ***a complete discussion of the features, risks or conflicts associated with any Fund or advisory service***

*As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), Octagon provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a Fund, together with other relevant governing documents, such as the Fund’s offering or private placement memorandum, or, with respect to Registered Funds (under the Investment Company Act of 1940, as amended, or “1940 Act”), its prospectus or registration statement, prior to, or in connection with, such persons’ investment in the Fund. Additionally, this Brochure is available through the SEC’s Investment Adviser Public Disclosure website.*

*Although this publicly available Brochure describes investment advisory services and products of Octagon, persons who receive this Brochure (whether or not from Octagon) should be aware that it is designed solely to provide information about Octagon as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant governing documents. More complete information about each Fund is included in relevant governing documents, certain of which may be provided to current and eligible prospective investors only by Octagon or its broker-dealer affiliate. To the extent that there is any conflict between discussions herein and similar or related discussions in any governing documents, the relevant governing documents shall govern and control.*

### Item 3: Table of Contents

	<u>Page</u>
ITEM 1: COVER PAGE.....	1
ITEM 2: SUMMARY OF MATERIAL CHANGES .....	2
IMPORTANT NOTE ABOUT THIS BROCHURE .....	3
ITEM 3: TABLE OF CONTENTS.....	4
ITEM 4: ADVISORY BUSINESS .....	6
The Firm .....	6
Firm Overview .....	6
Risk Retention Compliance .....	7
ITEM 5: FEES AND COMPENSATION .....	8
Compensation and Billing .....	8
Other Fees and Expenses .....	9
ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT..	10
Conflicts of Interest Associated with Performance Fees and Side-by-Side Management of Accounts .....	11
ITEM 7: TYPES OF CLIENTS .....	13
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	13
Methods of Analysis and Investment Strategies .....	13
Investment Risks .....	15
ITEM 9: DISCIPLINARY INFORMATION .....	35
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS...	35
ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	42
Code of Ethics.....	42

Participation or Interest in Client Transactions .....	42
Inconsistent Investment Positions, Timing of Competing Transactions and Transactions with Other Clients .....	44
ITEM 12: BROKERAGE PRACTICES.....	45
Selection of Broker-Dealers.....	45
Aggregation and Allocation.....	46
ITEM 13: REVIEW OF ACCOUNTS .....	48
Nature and Frequency of Client Account Reviews .....	48
Frequency and Content of Client Account Reports .....	49
ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION .....	49
ITEM 15: CUSTODY .....	50
ITEM 16: INVESTMENT DISCRETION .....	50
ITEM 17: VOTING CLIENT SECURITIES .....	50
ITEM 18: FINANCIAL INFORMATION .....	51

## ITEM 4: Advisory Business

### *The Firm*

Octagon is an investment adviser that focuses primarily on the management of performing, below investment grade corporate debt, including leveraged loans and high-yield bonds, and collateralized loan obligation (“CLO”) debt and CLO equity securities. Octagon also invests in stressed and distressed corporate debt on behalf of certain clients, consistent with clients’ investment objectives and restrictions. Octagon was founded in 1994 as a business unit of Chemical Bank a (predecessor of JPMorgan Chase & Co.) to create an asset management capability for below investment grade debt investments. Octagon was incorporated in December 1998, and separated from The Chase Manhattan Corporation in 1999. On February 1, 2016, Octagon was acquired by Conning & Company, a Hartford, CT based investment management firm (together with its affiliates as identified in Item 10, “Conning”). Octagon employees continue to own approximately 18% of Octagon.

### *Firm Overview*

Octagon generally manages: (1) CLOs; (2) other pooled investment vehicles, including those sponsored by Octagon and by non-affiliated third parties, and which are exempt from registration under the 1940 Act (the “Private Funds”); (3) one or more pooled investment vehicles registered under the Investment Company Act of 1940, as amended (each a “Registered Fund” and, collectively with the CLOs and Private Funds, the “Funds”); and (4) separately managed accounts, structured in various entity types and forms, including but not limited to trusts, partnerships, or limited liability companies (the “Accounts” and, together with the Funds, “Clients”). Subject to its investment guidelines and applicable laws, rules or regulations, a Fund or Account may invest in another Fund, including interests issued by a CLO that is managed by Octagon. In certain instances, Octagon sub-advises Funds or Accounts pursuant to an agreement with another adviser.

As of December 31, 2018, Octagon managed client assets of approximately \$22,221,894,000 of which \$22,181,594,000 is discretionary and \$40,300,000 is non-discretionary.

Octagon’s investment advisory services focus on corporate debt investments, including, but not limited to, senior secured or unsecured term loans, letters of credit, corporate debt securities (including investment and non-investment grade/high-yield debt securities, and mezzanine debt securities), structured finance securities, including the equity and debt securities of CLOs that are managed by Octagon and other non-affiliated advisers and CLO warehouse vehicles of CLOs managed by Octagon. Octagon invests in both performing credits and distressed debt. Octagon may also utilize total return swaps, credit default swaps, interest rate swaps, foreign currency swaps, options, exchange-traded funds, short credit, and long and short equity investments, money market funds and cash equivalents such as U.S. government securities and commercial paper, and other instruments as determined by Octagon from time to time and permitted by each Client.

Private Funds may, but will not necessarily, employ a “master-feeder” structure for regulatory, tax or investment purposes. Generally, a master-feeder structure vests trading operations in one or more “master” funds while investors typically access the master fund(s) only through one or more “feeder” funds. These feeder funds, in turn, invest (directly or indirectly) in the master fund(s).

Except as otherwise described herein, investments for each Account are managed in accordance with the investment objectives, strategies, restrictions and guidelines communicated to Octagon by the Client or its representatives and as memorialized in an investment advisory contract or other materials relevant to that Account (“Account Documents”). Investments for each Fund are managed in accordance with the Fund’s particular investment objectives, strategies, restrictions and guidelines, as well as any other applicable legal restrictions, and are generally not tailored to the individualized needs of any particular investor in a Fund. At inception, however, specific asset criteria (*e.g.*, credit quality, diversification) may be established for certain CLOs, sometimes in consultation with prospective CLO investors. Information about each Fund and the particular investment objectives, strategies, restrictions, guidelines and risks associated with an investment, is described in the governing documents (*e.g.*, offering or private placement memorandum, prospectus, limited liability company agreement, indenture, investment advisory contract) of the Fund (“Governing Documents”), which (except with respect to Registered Funds whose prospectuses are publicly available through the SEC’s EDGAR system) are made available to investors only through Octagon, another authorized party or representative of an Account or third-party sponsored Private Fund. Since Octagon does not provide individualized advice to Fund investors (and an investment in a Fund does not, in and of itself, create an advisory relationship between the investor and Octagon), investors must consider whether a particular Fund meets their investment objectives and risk tolerance prior to investing.

### ***Risk Retention Compliance***

Although not currently applicable to Octagon, certain jurisdictions have imposed requirements on sponsors of a securitization transaction, such as a CLO, to retain a specified economic interest in the credit risk of the securitized assets (“Risk Retention Rules” and such interests the “Retention Interests”). Should it be necessary for Octagon to comply with such requirements at any time, Octagon or an affiliate of Octagon may acquire and hold Retention Interests, and/or Retention Interests may be financed through a third-party lender to a “majority owned affiliate” or “MOA” of Octagon.

## ITEM 5: FEES AND COMPENSATION

### *Compensation and Billing*

#### *CLOs*

As compensation for its service as the collateral manager of the CLOs, Octagon generally receives a senior management fee, a subordinated management fee and a performance fee (collectively, the “Collateral Management Fees”). The senior management fee has a higher priority in a CLO’s priority of payment waterfalls whereas the subordinated management fee generally ranks below principal and interest payments to senior note holders in the payment waterfalls. Octagon will generally earn a subordinated management fee if over-collateralization and interest coverage tests have been satisfied for all senior CLO note holders. Octagon may also receive an additional management fee at closing of a CLO, subject to the CLO’s Governing Documents. The senior management fees and subordinated management fees are typically paid by the CLO or its trustee quarterly in arrears, in accordance with its Governing Documents. Performance fees are typically paid later in a CLO’s tenor by the CLO or its trustee in arrears if specific internal rates of return thresholds are achieved. Please consult a CLO’s Governing Documents for additional information regarding such Collateral Management Fees.

#### *Private Funds*

As compensation for its service as the investment manager of the Private Funds, Octagon generally receives a management fee. Octagon may, but will not always, receive a performance-based fee with respect to a Private Fund. Performance fees generally reflect the capital appreciation of a Private Fund and may include hurdle rates and/or high water marks. The management fees are typically paid quarterly in arrears.

Certain Octagon Private Funds will not impose a fund-level fee. Instead fees are paid to Octagon by the control equity of CLOs and CLO warehouses managed by Octagon in which such Private Funds invest. Those Fee structures are described in more detail in the Private Funds’ Governing Documents.

#### *Registered Funds*

As compensation for its services as the investment adviser to a Registered Fund, Octagon generally receives an asset based advisory fee paid monthly in arrears. Further information about a Registered Fund’s fees and expenses is included in the Fund’s prospectus which is available publicly on the SEC’s EDGAR system.

#### *Accounts*

As compensation for its service as the investment manager of the Accounts, Octagon receives a management fee. Management fees, as well as the timing and manner of payment, are established on a case-by-case basis by Octagon and each client at the beginning of the client relationship. In certain instances, Octagon may also receive a performance-based fee reflecting the capital appreciation of investments that comprise an



Account or a portion of an Account after meeting a hurdle rate and/or high water mark. Please consult an Account's Account Documents for additional information regarding such fees.

In no event will a Client pay fees six or more months in advance. To the extent fees are paid in advance, the Client will receive a *pro rata* refund if Octagon is terminated as investment manager prior to the end of a billing cycle. Management and performance fees for certain Funds and Accounts may be reduced or waived with respect to certain investments by Octagon's or a related person's personnel, or for others in Octagon's discretion.

For an additional discussion regarding performance-based compensation, please refer to Item 6 – *Performance-Based Fees and Side-by-Side Management*.

### ***Other Fees and Expenses***

As provided in or consistent with a Client's Account Documents or Governing Documents, Clients (as well as, indirectly, any investors therein) bear, in addition to the fees described above, other fees and expenses, including (1) costs and expenses with respect to any workout, restructuring, recapitalization, amendment, waiver or consent of or with respect to certain investments and the protection or enforcement of rights thereunder; (2) legal, custodial, accounting and related costs and expenses; (3) pricing service costs incurred in valuing investments; (4) expenses incurred in obtaining credit ratings on investments; (5) out-of-pocket travel costs and related expenses incurred in connection with the management of certain investments or Fund offerings including, but not limited to, travel expenses in connection with attendance at Advisory Committee meetings and annual meetings of general and limited partners of a Client; (6) all taxes imposed on a Client and all litigation expenses (and any judgments or settlements paid in connection therewith) and other extraordinary expenses; (7) the costs of forming and maintaining any alternative investment vehicle and (at the discretion of the general partner of a Client) the costs of maintaining any other pooled investment vehicle through which to invest in the Client (*e.g.*, feeder funds, offshore funds and funds established for employees and former employees); (8) costs and expenses in connection with the acquisition of insurance, such as director and officer insurance; (9) interest and commitment fees payable in connection with credit facilities made available to a Client; (10) fees of outside auditors and tax preparers and the costs of preparation of the books and records and tax returns of a Client, including periodic reports to limited partners, and fund administration service provider expenses; (11) costs of liquidation and termination of a Client; (12) expenses, including travel costs, in connection with the ongoing offering of Fund interests; (13) portfolio management and monitoring software; (14) market data and modeling services; (15) certain research and diligence costs; (16) prime brokerage and transaction-related expenses, hedging costs, transfer fees, and commissions; (17) Client-related compliance and regulatory costs; (18) all other costs incurred in connection with the administration of a Client or otherwise that may be authorized by Fund Governing Documents, Account Documents, partnership agreements or approved by a majority in interest of the limited partners or an advisory committee; (19) any other expenses actually incurred on behalf of the Funds and Accounts and paid by Octagon in connection with the management of certain investments; and

(20) certain other fees and expenses that may be authorized under a Fund's Governing Documents or an Account's Account Documents. For a more complete discussion of transactions costs that may be incurred, please refer to Item 12 – *Brokerage Practices*.

#### *Conflicts Associated with Other Fees and Expenses*

Where outside service providers (*e.g.*, legal counsel or accountants) are used, unless inconsistent with applicable governing documents, costs associated with services rendered to the benefit of Clients will typically be borne by Clients. Octagon and its affiliates use some of the same service providers as are retained on behalf of Clients. In some cases, fee rates, amounts or discounts are offered to Octagon and its affiliates by a third party service provider which differ from those offered to a Client as a result of scheduled or ad hoc rate changes, differences in the scope, type or nature of the service or transaction, alternative fee arrangements and negotiation. While Octagon is not obligated to and will not be able in all circumstances to cause such favorable rates or discounts to a Client, where Octagon is in a position to control the cost of services, it endeavors to ensure that favorable rates or discounts extended to it are also applied when costs are borne by a Client, to the extent such services are of a similar scope, type and nature.

Additionally, from time to time, and as consistent with Client Account Documents, Octagon will be required to decide whether and to what extent costs and expenses are borne by a Client, by Octagon or allocated among Clients or among one or more Clients and Octagon. Certain expenses may be relevant to only one Client or type of Client and will be borne only by such Client(s). When expenses are applicable to multiple Clients Octagon will make allocation determinations in its reasonable judgment and in a manner that it believes in good faith to be fair and equitable (*e.g.* pro rata, equal shares, or other appropriate methodology), notwithstanding its interest in the outcome, and will make corrective allocations where it determines a corrective allocation to be necessary or advisable.

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

Performance-based compensation will be paid in accordance with Section 205(3) of the Advisers Act or Rule 205-3 thereunder.

“Side-by-side management” refers to the simultaneous management of multiple types of client accounts and/or investment products. For example, as discussed above, Octagon manages the CLOs, Accounts, Private Funds and Registered Funds, which may follow similar, complementary or competing investment objectives, policies or strategies. Side-by-side management gives rise to a variety of potential and actual conflicts of interest for Octagon and its employees and affiliates, including, as discussed below, the incentive to favor certain accounts with performance-based fees or accounts that generate multiple levels of fees (*i.e.*, when fee paying Clients invest in Octagon-managed CLOs), accounts with respect to which Octagon receives or retains relatively higher fees, or accounts in which Octagon and its related persons have a pecuniary interest. Octagon and Conning, as

well as their respective personnel, including persons who serve on Octagon's investment committee, act as portfolio manager to various Clients or are otherwise in a position to influence Octagon's management, can invest in Funds and, in some cases, take interests in a Fund's general partner and thus participate in the performance fees or "carried interest" paid to the general partner by that Fund. Octagon also acts as sub-adviser to Conning for certain mandates. Accordingly, Octagon, Conning, and their respective affiliates and personnel, including persons involved in the management of one or more Clients, can have differing pecuniary interests with respect to different Clients, which could create an incentive for these persons to favor those Clients in which they have greater pecuniary interests, including any CLOs in which Octagon, other Octagon Clients (including Private Funds), or an affiliate or related person holds an interest. See Item 10 – *Other Financial Industry Activities and Affiliations*.

### ***Conflicts of Interest Associated with Performance Fees and Side-by-Side Management of Accounts***

#### *Allocation*

Octagon and its related persons have an incentive to allocate investment opportunities based on pecuniary interest. As discussed in Item 5 – *Fees and Compensation*; Item 11 – *Code of Ethics, Participation in Client Transactions and Personal Trading*; and Item 12 – *Brokerage Practices*, Octagon and its related persons may: (1) be entitled to a performance fee; and (2) directly or indirectly maintain investments in one or more Funds or Accounts. Octagon and certain of its personnel are also eligible to receive performance-based compensation in their capacity as the investment manager, general partner or managing member of certain Clients. Accordingly, Octagon and its personnel face a conflict of interest when considering how to allocate investment opportunities among accounts having different fee structures or pecuniary interests. Through its trade allocation policies and procedures and Code of Ethics, Octagon seeks to promote fair and equitable treatment of accounts, over time, based on considerations that are unrelated to pecuniary interests, which Octagon believes can mitigate any actual or potential conflicts of interest that exist with respect to, for example, Octagon's allocation of time, resources and investment opportunities to the Clients that have performance-based compensation arrangements over those Clients that: (1) do not have performance-based compensation arrangements or, if applicable, (2) are not expected to pay performance-based compensation (*e.g.*, with respect to a CLO, when a specified internal rate of return has not been, or is not expected to be, achieved). To the extent Octagon agrees to provide best efforts in obtaining specific types of investments for a certain Client, allocations of those types of investment opportunities to other Clients may be reduced. For some programs where Octagon acts as sub-adviser to Conning, certain Clients are unable to participate in investment opportunities absent participation by other Clients or where it would not be possible to allocate opportunities fairly or equitably among Clients. Octagon generally limits collective exposure by all Clients to individual assets, in an effort to preserve liquidity in those assets, and in doing so may limit the availability of investment opportunities for Clients.

### *Speculative Investments*

The existence of a performance fee or investments in Funds or Accounts creates an incentive for Octagon to make or recommend more speculative investments on behalf of certain Client accounts than it would otherwise make. However, Octagon's investment discretion, if any, to select such speculative investments is subject to the specific investment objectives, strategies, restrictions and guidelines set forth in a Client's Governing Documents or Account Documents. This is particularly true with respect to the CLOs, where the relevant Governing Documents contain specific risk limitations (*e.g.*, diversification requirements, credit-quality limitations).

### *Valuation*

Octagon's compensation, including through its ownership interests in certain Clients' Funds, Accounts' and Clients' general partners, could be reduced if Octagon determines to write-down the value of a portfolio investment, creating a disincentive for Octagon to do so. To the extent that Octagon values a portfolio investment higher than its current market value (or where such market values are unreliable), Octagon could benefit by receiving a management fee or incentive allocation that is increased by the impact, if any, of such valuation discrepancy. Additionally, where an investor purchases or redeems interests in a Fund or Account at a net asset value ("NAV") that is impacted by a discrepancy in valuation, such investor would receive a greater or lesser interest in (or increased or decreased redemption proceeds from) such Fund than would have been the case absent the discrepancy. Similarly, existing and continuing investors would be subject to dilution or accretion.

Octagon, from time-to-time, has a role in determining asset values with respect to certain Clients and may be required to price an investment when the market price is unavailable or unreliable. Because fair value pricing requires the application of judgment to establish a good faith approximation of the value of an asset as of the measurement date at the time the valuation is performed, fair valuation will not necessarily reflect the actual or empirical value of any asset as might be determined with the benefit of hindsight. Thus, the fair value assigned to an asset will not necessarily match the next available and reliable market price or, in retrospect, have been the price that would have been received had that asset actually been sold on the measurement date.

Octagon's valuation policies serve to mitigate this conflict. Octagon's valuation policies are consistent with ASC Topic 820, requiring that Octagon assign a "fair value" to certain investments representing "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date." When there is not readily available market pricing information for an investment, Octagon personnel assign a price to the investment based on various factors and inputs and taking into account a variety of relevant pricing methodologies, including, as appropriate, pre-determined valuation principles for certain investment types and the use of unaffiliated third-party pricing services and/or third-party or proprietary valuation models.

Different Client accounts will sometimes carry the same asset at different values, and performance metrics will sometimes differ slightly between Octagon and administrators due to valuation differences. Such differences can be caused by variations among Clients in pricing sources, differing methodologies for determining values when prices are not available from a third-party source, or applying prices at the bid quote versus the mid-point of bid and ask quotes, in each case as determined by a Client's Governing Documents or Account Documents.

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

As discussed in Item 4 – *Advisory Business*, Octagon manages CLOs, Accounts, Private Funds, and Registered Funds. The terms and conditions of Client accounts may vary depending on the type of services provided or the type of Client, and these terms and conditions may also vary from Client to Client. Each Client is required to execute a written investment advisory contract with Octagon, except in certain sub-advisory arrangements wherein Octagon executes a sub-advisory agreement with another adviser pursuant to that adviser's agreement with the ultimate client. Investors in the Private Funds and certain Accounts are required to execute a subscription agreement to allow Octagon to determine that the investor meets certain financial and other eligibility requirements. Furthermore, the Funds generally impose investment minimums for investors, as described in more detail in the Governing Documents for such Funds. However, in certain circumstances, including with respect to certain investments by Octagon and Octagon's or a related person's personnel, such investment minimums may be reduced. Investment minimums for the Accounts are individually negotiated on a case-by-case basis.

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

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

Octagon employs an investment process based on fundamental credit analysis and collaborative investment team input to identify relative value opportunities, while seeking to minimize downside risk and produce attractive risk-adjusted returns. Octagon's investment professionals identify investment opportunities in the credit markets through industry and company analysis supplemented by information from issuers, underwriters, agents, and sales and trading desks, as well as discussions with company management from time to time. In evaluating potential investments, Octagon focuses on, among other things, industry dynamics and competitive environments, performance history and prospects, investment sponsors and management, projected cash flow generation, quality and value of underlying collateral, downside protection, and relative value opportunities within an issuer's capital structure. Investments in CLOs, CLO warehouse vehicles, and other structured credit products incorporate Octagon's current views and forecasts of leveraged loan and high yield defaults, default recovery rates, loan prepayments rates, loan refinancing and repricing activity, and interest rates (especially LIBOR). Octagon also evaluates the CLO leverage, covenants, and overall structure and terms, as disclosed in the

CLO indenture and governing documents. When investing in third-party managed CLOs, Octagon evaluates the Collateral Manager's track record, and investment philosophy. The investment decisions may also take into account the macroeconomic backdrop, technical supply and demand, liquidity, and political and regulatory influences. In connection with portfolio management decisions, portfolio managers take into account the investment guidelines of the Funds and Accounts, including monitoring tests and constraints, and the best interests of investors in conjunction with the investment views of Octagon. This can lead to different investment decisions for the same asset among the Funds and Accounts.

Octagon also invests in stressed and distressed opportunities in high-yield bond or leveraged loan issuers for certain Clients consistent with the Clients' investment objectives and restrictions. Octagon conducts fundamental credit and valuation analyses to identify potential stressed and distressed investment opportunities in companies it believes to have long-term, defensible business models at attractive enterprise values, consistent with a Client's risk-adjusted return hurdles for the respective investment. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Octagon will correctly evaluate the value of the assets underlying these investments or the prospects for a successful reorganization or similar action.

In some cases, upon identifying a potentially attractive target company, Octagon will seek to determine the company's "fulcrum security", (*i.e.* or the class of securities or other instruments in the capital structure that will emerge from a restructuring in control of the company's equity). Investing in the fulcrum security is intended to enable a Client to directly influence the outcome of a restructuring, including leading to a Client (by itself or with other interest holders) controlling the equity and the company, when appropriate. This may include joining an ad hoc or official creditor committee that will either influence or steer the company's reorganization plan.

In some cases, Clients invest in a company's stressed or distressed debt securities or other instruments for possible price appreciation rather than to obtain a control position. In evaluating companies for potential investment, Octagon considers, among other things: cyclical downturns and subsequent liquidity pressures or other stresses that may result in the misallocation of corporate capital; the experience and quality of a company's management team; supplier pressures; structural changes within a company's industry; and other factors relating to a company's vulnerability to bankruptcy and ability to successfully reorganize its capital structure.

For certain Clients, a limited amount of assets can (but are not required to) be committed, as a supplemental strategy, to certain short-term trading opportunities that seek near-term favorable price movements ("Trading Book Opportunities"). Trading Book Opportunities are sourced by traders and discussed with Octagon's portfolio managers and principals but are not subject to full investment committee review. As a result, Trading Book Opportunities can carry an increased risk of loss.

## ***Investment Risks***

Octagon's investment activities involve a significant degree of risk of loss that you should be prepared to bear. This section contains a discussion of the primary risks associated with Octagon's investment activities. However, it is not possible to identify all of the risks associated with investing, and the particular risks applicable to a Fund or Account will depend on the nature of the Fund or Account, its investment strategy or strategies and the types of investments held by the Fund or Account.

While Octagon seeks to manage the Funds and Accounts so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved.

Clients and investors should be aware that some mandates are limited to certain types of investments (*e.g.*, leveraged loans, high-yield bonds, CLO debt, CLO equity) and are not diversified by asset type. The Funds and Accounts are generally not intended to provide a complete investment program and Octagon expects that the assets it manages do not represent all of the Client's or investor's assets. Clients and investors are responsible for appropriately diversifying their assets to guard against the risk of loss.

### **Risks Applicable to the Performing Loan Business**

*Reinvestment Risk* – As part of ordinary portfolio management, a CLO manager, including Octagon, generates cash from asset repayments and sales and reinvests those proceeds in substitute assets, subject to compliance with its investment guidelines and certain other conditions. The earnings with respect to such substitute assets will depend on the quality of reinvestment opportunities available at the time. The need to satisfy the CLO's investment guidelines and identify acceptable assets may require the asset manager to purchase substitute assets at a lower yield than those initially acquired or require that the sale proceeds be maintained temporarily in cash, either of which may reduce the yield that the asset manager is able to achieve. The investment guidelines may incentivize a CLO asset manager to buy riskier assets than it otherwise would, which could result in additional losses. Either of the foregoing could reduce the returns to Clients that invest in CLOs relative to the credit risk assumed.

*Interest Rate Risk* – Debt instruments are subject to interest rate risk. Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes can affect the value of a debt instrument indirectly (especially in the case of fixed rate obligations) or directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments can also be negatively impacted by falling interest rates, depending on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Interest rate risk is generally greater for investments with longer duration. While interest rates in the U.S. remain below historical averages, the Federal Reserve has recently implemented several increases to the Federal Funds rate, which is expected to increase a Client's exposure to risks associated with rising interest rates. Rising interest rates could also lead to decreased liquidity in the markets, making it more difficult to sell certain debt instruments.

*LIBOR Risk* – LIBOR is an interest rate benchmark that reflects the interest rate that banks charge one another for the use of short-term money. CLOs typically obtain financing at a floating rate based on LIBOR; senior secured loans also typically pay interest at a floating rate based on LIBOR. The Financial Conduct Authority of the United Kingdom ("FCA"), which has the statutory power to require banks to submit contributions to LIBOR, has decided not to require banks to continue to submit contributions by the end of 2021. While it is possible that LIBOR's administrator, ICE Benchmark Administration, and the panel banks could continue to produce LIBOR after 2021, there is no assurance that LIBOR will survive in its current form, or at all, which could adversely affect the market value or liquidity of CLO securities or senior secured loans. LIBOR could potentially continue to be calculated based upon bank quotes, LIBOR referenced by CLO securities could be maintained as of a previous determination date, or alternative reference rates could be adopted, among other possible outcomes. There remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate, and any potential effects of the transition away from LIBOR on CLOs are not known. The transition process may involve, among other things, increased volatility or illiquidity in markets for instruments that currently rely on LIBOR.

*LIBOR Floor Risk* – An increase in LIBOR or an alternative reference rate will increase the financing costs of CLOs. Since many of the senior secured loans within these CLOs have LIBOR floors, there may not be corresponding increases in investment income (if LIBOR or an alternative rate increases but stays below the average LIBOR floor rate of such senior secured loans) resulting in smaller distribution payments to the equity investors in these CLOs.

*Prepayment Risk* – The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on bonds and loans will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Floating rate issuers and borrowers tend to prepay their obligations when spreads narrow. In general, "premium" obligations (obligations whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" obligations (obligations whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. It could also be difficult to reinvest at similar risk-adjusted returns.

*Foreign Exchange (FX) Risk* – If a Client invests directly in non-U.S. currencies or in obligations of issuers that are denominated in, or receive revenues in, non-U.S. currencies, or in derivatives that provide exposure to non-U.S. currencies, such Client will be subject



to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Changes in foreign currency exchange rates can also affect the value of dividends and interest earned, and the level of gains and losses realized on the sale of such investments. Currency rates in non-U.S. countries can fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or non-U.S. governments, central banks or supranational entities (e.g., International Monetary Fund), or by the imposition of currency controls, or the international balance of payments and other economic and financial conditions or other political developments in the United States or abroad. Consequently, a Client's investment in non-U.S. currency-denominated obligations could reduce the returns of such Fund or Account. To the extent Octagon or a Client relies on "de minimis" exemptions or other exemptions in accordance with Commodity Futures Trading Commission ("CFTC") rules and regulations, Octagon's or the Clients' ability to hedge currency exchange could be reduced.

*Sovereign Risk* – Clients that invest in certain non-U.S. debt instruments are subject to the risk that the value of such investments will decrease based on the status, interpretation and application of the laws of a non-U.S. jurisdiction, or any changes thereto. The value of these investments could also be adversely affected by the overall economy and financial market of a non-U.S. jurisdiction, as well as the actions or inactions of a governmental entity in such jurisdiction. Moreover, the conditions in one country or geographic region could adversely affect investments in a different country or geographic region, including the United States, due to increasingly interconnected global economies and financial markets.

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

- CLOs: The leverage level is generally fixed at the outset of the respective CLO but varies during the life of the CLO based upon realized losses and gains, and repayments by tranche after the end of the reinvestment period.
- Accounts: Typically, Octagon's separately managed accounts do not utilize leverage but are not precluded from doing so. Accounts that hold CLO equity and debt securities and CLO warehouse vehicle investments are affected by the leverage

employed by such CLOs or CLO warehouse vehicles. The level of leverage can increase the risk of loss on an Account's CLO investments.

- Private Funds and Registered Funds: Certain Private Funds and Registered Funds can adjust leverage levels based upon market outlook and other factors. In addition, Private Funds and Registered Funds that hold CLO equity and debt securities and CLO warehouse vehicle investments are affected by the leverage employed by such CLOs or CLO warehouse vehicles. The level of leverage can increase the risk of loss on the Fund's CLO investments.

#### Risks Applicable to Both the Performing Loan Business and Non-Performing Loan Business

*Credit Risk* – Debt instruments are subject to credit risk. Credit risk refers to the likelihood that an obligor will default in the payment of principal or interest on an instrument. Financial strength and solvency of an obligor are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk can be expected to change over the life of an instrument and debt instruments that are rated by rating agencies are often reviewed and could be subject to downgrade. The value of a debt instrument could decline because of concerns about an obligor's ability to make principal or interest payments.

*Counterparty Risk* – Clients are subject to credit risk with respect to the counterparties to certain swaps, derivatives or other investment contracts, as well as other investments, such as loans. If a counterparty to such an investment becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, trade term disputes or other reasons, Clients are likely to experience significant delays in obtaining any recovery under the investment. Moreover, Clients could obtain only a limited recovery or no recovery in such circumstances. Certain standardized swaps are subject to mandatory clearing, and more are expected to be in the future. The counterparty risk for cleared derivatives is generally lower than for uncleared derivatives, but cleared contracts are not risk-free.

*General Market and Economic Conditions* – General economic conditions can affect a Client's activities. Changing economic, political, regulatory or market conditions, interest rates, general levels of economic activity, the price of securities and debt instruments and participation by other investors in the financial markets could affect the value and number of investments made by the Client or considered for prospective investment. The value of investments will generally fluctuate in accordance with changes in the financial condition of portfolio companies and other factors that affect the markets in which the Client invests. Economic, political, regulatory or market developments can affect a single obligor, obligors within an industry, economic sector or geographic region, or the market as a whole. Different parts of the market and different types of investments can react differently to these developments. Every investment has some level of market volatility risk. Economic slowdowns or downturns could lead to financial losses in the Client's investments and net assets of the Client. In addition, many portfolio companies will be

similarly subject to the same economic conditions, which could adversely impact the Client's returns.

*Possible Hedging Risk* – While the Clients are primarily long, some Clients enter into interest rate and foreign exchange hedging subject to their investment restrictions and Governing Documents. Certain Funds may, but are not required to, seek to minimize the risk of a decrease in the value of one or more investments by using certain hedging strategies subject to any limitation imposed by the de minimis exemption under CFTC Rule 4.13(a)(3) or any other exemption from registration under the Commodity Exchange Act applicable to the Fund at any time. Hedging techniques involve one or more of the following risks: (1) imperfect correlation between the performance and value of the instrument and the value of other investments or objectives of the Client; (2) possible lack of a secondary market for closing out a position in such instrument; (3) losses resulting from interest rate, spread or other market movements not anticipated by Octagon; (4) the possible obligation to meet additional margin or other payment requirements, all of which could worsen a Client's position; and (5) default or refusal to perform on the part of the counterparty with which a Client trades. Furthermore, to the extent that any hedging strategy involves the use of OTC derivatives transactions, such a strategy would be affected by implementation of the various regulations adopted pursuant to applicable law.

*Liquidity Risk* – The Clients may from time to time invest in restricted, as well as thinly traded, instruments and securities (including privately placed securities and instruments, which are assets that are subject to Rule 144A). There may be no trading market for these securities and instruments, and holders might only be able to liquidate these positions, if at all, at disadvantageous prices. As a result, Clients could be required to hold such instruments and securities despite adverse price movements.

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

*Risks Associated with Bankruptcy Cases* – Bankruptcy cases are adversarial and can be lengthy. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of Clients. If Octagon were determined to have taken over management and functional operating control of a debtor, it could lose its ranking and priority as a creditor. Reorganizations can involve substantial legal, professional and administrative costs, are subject to unpredictable and lengthy delays and, during the process, the company's competitive position may erode, key management may depart and the company might not be able to invest adequately.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a

plan of reorganization. Because the standard for classification is vague, there exists a significant risk that Clients' influence with respect to a class of investments can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) could be quite high.

Octagon invests principally in securities and other financial instruments of North American (with a focus on U.S.) issuers and assets located in these regions, although Octagon can also invest in securities and other financial instruments of other issuers domiciled, or assets located, elsewhere, particularly Europe. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. The law and process in such jurisdictions can differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. While Octagon generally favors jurisdictions where it believes the rule of law is clear, well-developed and respected, there can be no assurance that the outcome of bankruptcy or insolvency proceedings, particularly in jurisdictions outside the United States, will result in a favorable outcome. In addition, as more and more companies conduct operations internationally, multi-jurisdictional bankruptcy or insolvency proceedings are increasing in prevalence and the foregoing factors may result in unique challenges that impact the potential recovery and timing thereof.

On behalf of one or more Clients, Octagon may elect to serve on creditors' committees, official or unofficial, equity holders' committees or other groups to ensure preservation or enhancement of such Client's position as a creditor or equity holder. A member of any such committee or group could owe certain obligations generally to all parties similarly situated that the committee represents. Before Octagon elects to participate on a committee, a compliance oversight committee assesses potential conflicts of interest and may approve or restrict the firm from participating. If Octagon concludes that its Clients' interests differ and that Octagon's participation on a committee could result in unfair treatment of its Clients, Octagon may decline to participate. Similarly, if Octagon elects to participate and later determines that its obligations owed to the other parties as a committee or group member conflict with its duties owed to its Clients, it may be necessary to resign from that committee or group if Octagon believes that such conflict cannot be appropriately resolved. In such cases, Clients would not be expected to realize the benefits, if any, of Octagon's participation on the committee or group. In addition, and also as discussed above, if a Client is represented on a committee or group, it could be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

*Public and Private "Side" Risk* – Loans are negotiated, structured, administered and, as the situation arises, amended on the basis of the borrower providing its lenders with confidential information about the borrower's business. At times, such information includes material nonpublic information. As discussed in more detail in Item 10 – *Other Financial Industry Activities and Affiliations* (under the heading "Trading Restrictions Due

to Material Nonpublic Information”), under applicable law, Octagon and its related persons are prohibited from improperly disclosing or using material nonpublic information for their personal benefit or for the benefit of any other person, regardless of whether such other person is a Client of Octagon. However, investors in loans can choose whether to receive borrower information that contains material nonpublic information. Investors that choose to participate on the “private side” (*i.e.*, investors that choose to obtain borrower information that contains material nonpublic information) generally cannot purchase or sell (but can continue to hold) the securities of the borrower (*e.g.*, high-yield bonds, convertibles, equities) until such time as the information in Octagon’s possession is no longer deemed material nonpublic information in Octagon’s judgment. Octagon’s judgment with respect to whether the firm has material nonpublic information could prove incorrect and, potentially, harm a Client. Octagon chooses whether it will participate on the “private side” or “public side” (*i.e.*, whether to obtain only borrower information that does not contain material nonpublic information). However, if Octagon participates on the “public side” to avoid such trading restrictions, Octagon will not have access to borrower information that could be advantageous to a Client. Furthermore, other market participants could have possession of, and benefit from, such information.

*Regulatory Risk Related to Risk Retention* – The U.S. Risk Retention Rules require a sponsor (or affiliate or related person) of a securitized transaction, to retain at least 5% of the economic interest in the credit risk of the securitized assets (the Retention Interests). As of December 24, 2016, Octagon, as collateral manager of CLOs was considered a sponsor of these securitized transactions. However, on February 9, 2018, a three-judge panel (the “Panel”) of the United States Court of Appeals for the D.C. Circuit ruled in favor of an appeal by the Loan Syndications and Trading Association against the United States Securities and Exchange Commission and the Board of Governors of the Federal Reserve System (such decision the “DC Circuit Ruling”). The Panel ruled that managers of so-called “open market CLOs” (such as Octagon) were not required to comply with the U.S. Risk Retention Rules. CLOs comprised of broadly syndicated loans would generally be classified as “open market CLOs”. The Panel’s opinion in the DC Circuit Ruling became effective on April 5, 2018, when the district court entered its order following the issuance of the appellate mandate on April 3, 2018, in respect thereof. Accordingly, neither Octagon nor any of its affiliates intend to retain Retention Interests in Octagon-managed CLOs, in reliance on the DC Circuit Ruling.

Certain foreign governmental authorities have implemented alternate risk retention requirements for transactions within their jurisdiction or pertaining to investors subject to their jurisdiction. While Octagon has not been required to comply with these requirements, such regulations are subject to change and could affect Octagon or the broader CLO market in the future, with uncertain positive or negative impacts on the value of CLOs and their underlying assets.

*Cybersecurity Risk* – The increased use of internet-based technologies creates growing operational and security risks. Cyber incidents could result from unintentional events, or from deliberate attacks that result in the compromise of personal information, corruption of data, disruption of operational systems, or misappropriation of assets or sensitive information. Such incidents could affect Octagon, the firm’s and Clients’ service providers

(including, but not limited to custodians, administrators, trading counterparties, and accountants), governmental and regulatory authorities, and the issuers of assets in which Octagon transacts on behalf of Clients. These risks can interrupt Octagon's ability to engage in its business, cause financial loss and reputational harm, or lead to violations of applicable laws, agreements, or Octagon's policies concerning privacy protection and confidentiality. While Octagon maintains an information security program, cybersecurity threats evolve quickly and cannot always be identified and avoided. Furthermore, Octagon cannot control the cybersecurity policies of third parties. Clients and Fund investors could be affected as a result. Certain aspects of Octagon's cybersecurity program depend on the efforts of Conning.

*Geopolitical Uncertainty* – Markets in which Octagon invests on behalf of Clients can experience unpredictable political changes and periods of uncertainty that subject investments to heightened risks and potential volatility, even in established markets. Risks include: increased fluctuation in currency exchange rates and interest rates; increased default risk by borrowers; increased costs of regulatory compliance; greater social, political, and economic instability; inability to access resources due to embargo or increased tariffs; greater governmental involvement in the economy and markets; increased or decreased governmental or regulatory supervision of industries and securities markets; inability to purchase, sell, or settle transactions in securities or derivatives (i.e. due to a market freeze); difficulties in obtaining or enforcing legal judgments; volatility of markets, including individual securities, indices, currency, derivatives. In certain markets, political uncertainty may last for many years, and have substantial effects, which could cause a Client to suffer losses.

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

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

## Risks Applicable to the Non-Performing Loan Business

It is anticipated that certain loans purchased by an Octagon multi-strategy Private Fund or Registered Fund will be non-performing and possibly in default at the time of purchase. Furthermore, the obligor or relevant guarantor could 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. By their nature, these investments will involve a high degree of risk. Commercial and industrial loans in workout and/or restructuring modes or under the U.S. Bankruptcy Code and the bankruptcy or insolvency laws of other jurisdictions are subject to additional potential liabilities, which may exceed the value of the Client's original investment. For example, borrowers often resist foreclosure by asserting numerous claims, counterclaims and defenses against the holder of real estate loans, including lender liability claims and defenses, in an effort to delay or prevent foreclosure. Under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor could have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to a Client and distributions by Funds to their investors could be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. In addition to being lengthy and expensive, foreclosure and bankruptcy proceedings can disrupt ongoing leasing and management of the underlying real property. While the majority of Octagon Clients generally focus on performing loans rather than on distressed or nonperforming loans, to the extent an Octagon Client holds a loan that stops performing, it would also be faced with these risks.

*Allegations of Equitable Subordination* – Under common law principles that, in some cases, form the basis for lender liability claims, certain actions by creditors may result in the subordination of the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, called equitable subordination. Because of the nature of certain distressed investments, a Client holding such investments could be subject to allegations of lender liability and/or subject to claims from creditors of an obligor that investments issued by such obligor should be equitably subordinated. A significant number of a Client's investments may involve situations in which the Client will not be the lead creditor. Accordingly, it is possible that lender liability or equitable subordination claims that affect a Client's investments could arise without the direct involvement of the Client.

*Investments Longer than Term* – Certain distressed investments, for various reasons, may not be capable of an advantageous disposition prior to the date the fund is required to be dissolved, either by expiration of the fund's term or otherwise. In such cases, the fund would be required to sell, distribute in kind or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

*Uncertain Exit Strategies* – Due to the illiquid nature of many distressed investments, as well as the uncertainties of the reorganization and active management process, Octagon is unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will definitely be available. Exit strategies that appear to be viable

when an investment is initiated could be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

*Control Position Risk* – Certain distressed investment opportunities allow a holder to have significant influence on the management, operations and strategic direction of the portfolio companies in which it invests. The exercise of control and/or significant influence over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management and other types of liability in which the limited liability generally characteristic of business operations may be ignored. The exercise of control and/or significant influence over a portfolio company could expose the assets of a fund to claims by such portfolio company, its securities holders and its creditors. While Octagon intends to manage each Private Fund and Registered Fund in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

*Insufficient Capital for Follow-On Investments* – Following its initial investment in the securities or debt instruments of a portfolio company, a Client holding such investments may have the opportunity to increase its investment in such portfolio company. There is no assurance that the Client will make follow-on investments or that the Client will have sufficient resources to, or be permitted to, make such investments. Any decision not to make follow-on investments or inability to make them may result in missed opportunities or dilution of the investment. Additionally, if one Client has insufficient capital available to make any particular follow-on investment, one or more other Clients advised by Octagon may be permitted to make such investments which could have an adverse (or positive) effect on the first Client.

*Participation on Creditors' Committees* – Holders of distressed investments may participate on committees formed by creditors to negotiate with the management of financially troubled companies, whether or not in bankruptcy, or seek to negotiate directly with debtors with respect to restructuring issues. In situations where Octagon chooses to join creditors' committees on behalf of Clients, Octagon would likely be only one of many participants, each of whom would be interested in obtaining an outcome that is in its individual best interests (including those of its clients). There can be no assurance that participation on a creditors' committee will yield favorable results in such proceedings, and such participation may entail significant legal fees and other expenses. Octagon's participation on such committees could expose a Client to liability to other creditors.

Prior to joining any steering committee, Octagon will assess conflicts on a case by case basis, and consider the potentially differing interests of Clients invested in different parts of an issuer's capital structure. Octagon may elect to not join a steering committee, despite participation being in the interest of certain Clients, or may participate and seek to represent the interests of all Clients to the extent possible, though interests can vary.

Participation in restructuring activities frequently provides the participant with material nonpublic information that could restrict the participant's ability to trade in the company's securities or other debt instruments. Determination of whether information is material and nonpublic and how long knowledge of such information restricts trading is a matter of



considerable uncertainty and judgment. While Octagon and its affiliates each intend to comply with all applicable securities laws and to make judgments concerning restrictions on trading in good faith, there could be circumstances where Clients trade in a company's securities or debt instruments while engaged in restructuring activities relating to that company. Such trading creates a risk of litigation and liability that can result in significant legal fees and potential losses. See Item 10 – *Trading Restrictions Due to Material Nonpublic Information*.

#### Risks Related to Specific Types of Investments

Below is a table of risks where an “X” indicates that a particular type of investment may be material to a Fund’s or Account’s investment strategy. If a box does not have an “X,” it does not necessarily mean that a Fund or Account is precluded from investing in the type of investment indicated. If a box does have an “X,” it does not necessarily indicate that every Client of that type utilizes the identified investment strategy.

<b>Investment Class</b>	<b>CLOs</b>	<b>Accounts</b>	<b>Private Funds and Registered Funds</b>
Leveraged Loans	X	X	X
Fixed Income Investments	X	X	X
High-Yield Investments	X	X	X
Non-U.S. Leveraged Loans	X	X	X
Debtor-in-Possession (DIP) Loans	X	X	X
Derivatives	X		X
Structured Finance Obligations	X	X	X
CLO Warehouse Vehicles		X	X
Zero-Coupon & Deferred Interest Bonds	X		X
Options			X
Exchange-Traded Funds			X
Short Selling			X*

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\* Only in the case of a multi-strategy Private Fund or Registered Fund.

Investment Class	CLOs	Accounts	Private Funds and Registered Funds
Futures		X	X
Bridge Financing			X
U.S. Government Securities		X	X
Cash Equivalents	X	X	X
Distressed Securities			X*
Minority Investments			X*
Investments in Less Established Companies			X*
Bankruptcy Claims, Trade Claims and Other General Unsecured Claims			X*
Equity Investments			X*

*Leveraged Loans* – Most Client portfolios are expected to consist of non-investment grade senior secured loans, notes, and bonds and interests therein that are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. It is anticipated that any such investments will generally be subject to greater risks than investment grade corporate obligations. The prices of these investments may be volatile and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, U.S. and non-U.S. economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of such investments. Additionally, non-investment grade senior secured loans, notes and bonds and interests therein have significant liquidity and market value risks since they are not traded in organized exchange markets but are traded by banks and other institutional counterparties. Furthermore, because such loans are privately syndicated and the applicable loan agreements are privately negotiated and customized, such loans are not purchased or sold as easily as publicly listed securities.

While loans are generally intended to be secured by collateral, losses could result from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. Octagon cannot guarantee the adequacy of the protection of a Client's interests. Furthermore, Octagon cannot assure Clients that claims will not be asserted that might interfere with enforcement of such Client's rights. In the event of a foreclosure, Clients

may assume direct ownership of the underlying collateral. The liquidation proceeds upon sale of collateral might not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

If a Client invests in a derivative or other investment contract with economic exposure to non-investment grade senior loans, notes, and bonds and interests therein, the Client is unlikely to have voting rights with respect to the underlying borrower, depending on the financing terms of the contract.

*Fixed Income Investments* – Fixed-income investments pay fixed rates of interest. The value of fixed-income investments will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income investments can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed-income investments 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).

*High-Yield Investments* – High-yield investments may pay fixed, variable or floating rates of interest. High-yield investments face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt investments tend to reflect individual corporate developments to a greater extent than do higher-rated investments, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated investments. Companies that issue such investments are often highly leveraged and unable to access more traditional methods of financing. Major economic recessions could disrupt severely the market for such investments and have an adverse impact on the value of such investments. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such investments to repay principal and pay interest thereon and increase the incidence of default of such investments. As with other investments, certain high-yield investments lack a liquid market, which could result in Clients being unable to sell such investments for an extended period of time, if at all. In addition, as with other types of investments, the market for high-yield investments has historically been subject to disruptions that have caused substantial volatility in the prices of such investments. Consolidation in the financial services industry has resulted in there being fewer market makers for high-yield investments, which may result in further risk of illiquidity and volatility with respect to high-yield investments, and this trend may continue in the future.

*Non-U.S. Leveraged Loans* – Investing outside the United States often involves greater risks than investing in the United States. These risks may include: (1) less publicly available information; (2) varying levels of governmental regulation and supervision or changes in economic or monetary policy; (3) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of

laws; (4) fluctuating currency exchange rates (see “*Foreign Exchange (FX) Risk*”, above); and (5) less liquid, developed or efficient trading markets. Moreover, non-U.S. obligors are not necessarily subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies.

*Debtor-in-Possession (DIP) Loans* – DIP loans are generally senior secured loans to companies that have filed for bankruptcy. Although such loans contain certain contractual protections for lenders, investments in DIP loans are generally subject to all of the risks described under “*Leveraged Loans*,” above, and have additional heightened risks due to the financial distress of the borrower. DIP loans are also subject to the risk that the bankruptcy court could render decisions in a manner that is contrary to the intent of the borrower or lender, including Octagon, or commercial standards. In addition, DIP loans are often difficult to value.

*Derivatives* – The use of derivative instruments such as options, futures, forwards and interest rate, credit default and total return swaps involves a variety of material risks, including the extremely high degree of leverage sometimes embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying such derivatives sometimes do not correlate with historical patterns, resulting in unexpected losses.

Use of derivatives and other techniques such as short sales for hedging purposes involves certain additional risks, including (1) dependence on the ability to predict movements in the price of the investments hedged; (2) imperfect correlation between movements in the investments on which the derivative is based and movements in the assets of the underlying portfolio; and (3) possible impediments to effective portfolio management or the ability to meet short term obligations because of the percentage of a portfolio’s assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of such position would be limited.

*Structured Finance Obligations* – Structured finance obligations typically consist of equity or debt securities issued by private investment funds, typically CLOs, which invest on a leveraged basis in bank loans. Investors in the CLOs and structured finance securities ultimately bear the credit risk of the underlying collateral. In some instances, such as in the case of most CLOs, the structured finance securities are issued in multiple tranches, offering investors various maturity and credit risk characteristics, often categorized as senior, mezzanine and subordinated/equity according to their degree of risk. If there are defaults or the relevant collateral otherwise underperforms, scheduled payments to senior tranches of such securities take precedence over those of mezzanine tranches, and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. In addition to the general risks associated with investing in debt securities, CLO securities carry additional risks, including but not limited to: (1) the possibility that distributions from collateral assets will not be adequate to make interest or other payments; (2) the quality of the collateral could decline in value or default; and (3)

the complex structure of the security may not be fully understood at the time of investment and could produce disputes with the issuer or unexpected investment results.

In addition, the performance of structured finance obligations will be affected by a variety of factors, including its priority in the capital structure of the issuer, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying loans or other assets that are being securitized, and the adequacy of and ability to realize upon any related collateral. Rating agencies could also underestimate the default risks of the underlying loans and bonds and how likely defaults could be correlated. The value of an investment in structured finance obligations will depend on the investment performance of the assets in which the structured finance obligation invests and will therefore be subject to all of the risks associated with an investment in those assets. Clients investing in structured finance obligations will not own such assets directly and will therefore not benefit from general rights applicable to the holders of assets, such as the right to indemnify and the rights of setoff, or have voting rights with respect to such assets.

Certain Clients invest in subordinated/equity tranches of CLOs, which are subordinated to CLO debt tranches. These securities represent leveraged investments in the underlying assets of the CLOs. These securities are subject to increased risks of default relative to the holders of superior priority interests in the same CLO. In addition, at the time of issuance of the CLO equity securities, the net asset value of the equity tranche will be less than the amount paid as a result of formation costs of the CLO structure borne by the CLO equity securities holders. Clients who invest in these securities will be in a first loss position with respect to realized losses on the assets of the CLOs in which such Clients are invested. The fair value of these securities can be difficult to determine with certainty, and can be significantly affected by changes in the CLO's underlying assets' financial ratings, market value or fair value, scheduled amortization payments, defaults, recoveries, capital gains and losses, prepayments and interest rates. Changes in the market value or fair value of underlying assets could result in covenant defaults that could in turn reduce or halt the distribution of cash to Clients holding these securities or trigger a liquidation of the CLO. In certain circumstances, interest and principal proceeds otherwise payable to these securities could be diverted and these securities may suffer a loss of all or a portion of their value.

In instances where a Client invests in CLO equity or debt securities but does not hold a controlling position in any class of the securities issued by the CLO, the Client will not have the ability to control decisions to be made by that class of investors in the CLO. Any investor in such a class who controls a majority of the related class could have interests different from those of the Client and will control or have significantly more control than the Client over decisions to be made by that class. This could include Octagon, Conning or an affiliate thereof. To the extent Octagon manages Private Funds or Accounts that maintain control positions in CLOs managed by Octagon, Octagon will exercise control in the interest of the control equity held by such Private Funds and Accounts with respect to investment decisions and operational decisions of the underlying CLOs, which could be

adverse to the interests of other CLO investors, including Octagon Clients. See Item 10 – *Other Financial Industry Activities and Affiliations*.

*Zero-Coupon and Deferred Interest Bonds* – Zero coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original 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 investment 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.

*Options* – Trading options is highly speculative and subjects Clients trading options to risks that are greater than investing in other investments. Prices of options are generally more volatile than prices of other investments. In trading options, Octagon speculates on market fluctuations of investments and securities exchange indices while investing only a small percentage of the value of the investments underlying such option. A change in the market price of the underlying investments or underlying market index will cause a much greater change in the price of the option contract. In addition, to the extent that Octagon purchases options that it does not sell or exercise, the Private Funds and/or Registered Funds will suffer the loss of the premium paid in such purchase. To the extent Octagon sells options and must deliver the underlying investments at the option price, the Private Funds and/or Registered Funds have a theoretically unlimited risk of loss if the price of such underlying investments increases. If Octagon must buy those underlying investments, the participating Funds risk the loss of the difference between the market price of the underlying investments and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option.

Certain of the Private Funds and/or Registered Funds are permitted to buy or sell over-the-counter options – options on investments that are not traded on a securities exchange and are not issued or cleared by an internationally recognized clearing corporation. The risk of nonperformance by the obligor on such an option can be expected to be greater, and the ease with which Octagon can dispose of such an option can be expected to be less, than in the case of an exchange traded option issued by an internationally recognized clearing corporation.

*Exchange-Traded Funds* – For exchange-traded funds (“ETFs”), including ETFs that track an index of securities, the cumulative percentage increase or decrease in the net asset value of the shares of an ETF may, over time, diverge significantly from the cumulative percentage increase or decrease in the relevant index or underlying assets. ETFs that invest in fixed income securities and track an index often invest in a greater number of underlying securities than equity ETFs, and the underlying securities are often less liquid and more difficult to obtain than equity securities. ETFs that use an indexing approach typically decline in value where there is a general decline in market segments or asset classes

reflected in the index. Though investments in ETFs generally represent a small portion of a Fund, and the ETFs are generally diversified, to the extent an ETF in which the Fund invests holds interests in portfolio companies in which the Fund holds debt instruments, the Fund's exposure to such portfolio companies would be relatively more concentrated, which can increase the risk to the Fund. Additionally, as an investor in the ETF, the Fund will bear the management fee of the ETF, as well as the portfolio's permissible expenses (please see Item 8 – *Methods of Analysis, Investment Strategies and Risk of Loss*). Trading in ETFs typically generates counterparty commissions, at a cost to the Fund.

*Short Selling* – Octagon, on behalf of one or more Private Funds and Registered Funds, is authorized to engage in short selling of securities, including equities, or other debt instruments. Short selling is highly speculative in nature, and typically involves greater risks than other investment strategies. In a short sale, the seller sells a security or asset it does not own, typically that it has borrowed from a broker or dealer. The seller is obligated to return the borrowed security or asset to the broker or dealer, by purchasing it prior to the date when delivery to the broker or dealer is required. Octagon will engage in short selling when it has analyzed the financial and business conditions of an issuer, among other factors, and believes that the value of a security or asset is likely to decline between the date of the short sale and the date when the security or asset must be returned to the broker or dealer. Short selling carries the risk that the market value of the asset or security could rise, rather than fall, which would result in a theoretically unlimited loss to the Fund. Short selling also carries a risk that the security or asset will not be available for purchase prior to the time seller is obligated to return it to the broker or dealer.

*Futures* – Futures trading will have effects on the Private Funds and Registered Funds similar to the effects of leverage. The Private Funds and Registered Funds may participate in market price fluctuations of investments underlying futures (or options on futures), while investing only a small percentage of the value of those underlying investments. The Private Funds and Registered Funds would open a futures position by placing with a futures commission merchant an initial margin that is small relative to the value of the futures contract, making the transaction “leveraged”. If the market moves against a Fund's position or margin levels are increased, the Fund would be called upon to pay potentially substantial additional funds on short notice to maintain its position. If a Fund were to fail to make such payments, its position could be liquidated at a loss, and the Fund would be liable for any resulting deficit in its account. Futures positions can be illiquid because, among other things, exchanges may limit fluctuations in certain futures contract prices during a single day. Once the price of a contract for a particular future has increased or decreased by an amount equal to the “daily limit”, positions can be neither taken nor liquidated unless traders are willing to effect trades at or within the limit. Such an occurrence could prevent Octagon from liquidating unfavorable positions and subject a Private Fund or Registered Fund to substantial losses. In addition, Octagon might not be able to effect futures contract trades at favorable prices if trading volume in those contracts is low. Some Octagon Clients may use futures, among other instruments to hedge currency risk. (See above for a discussion of risks associated with hedging and foreign exchange.)

*CLO Warehouse Vehicles* – Certain Private Funds and Accounts invest in the first loss position of CLO warehouse vehicles managed by Octagon. CLO warehouse vehicles are used to acquire loans on an interim basis that are expected to be sold into a future CLO to be managed by Octagon. CLO warehouse vehicles take a variety of forms. During the warehouse period, Octagon, as the collateral manager, on behalf of the CLO issuer, commits to acquire or acquires (directly or indirectly through a total return swap) the loans which the CLO issuer intends to purchase at the CLO closing at which time it issues its CLO securities. While it is expected that the warehouse will be fully repaid and extinguished at the CLO closing, there typically will be no assurance that the future CLO will be consummated or that the loans held in such a warehouse vehicle are eligible for purchase by the CLO. CLO warehouses are leveraged investments. Although Octagon, on behalf of the CLO issuer, selects the loans to go into the warehouse, the senior warehouse lender often must consent to the loans acquired during the warehouse period and may also have consent rights with respect to material modifications or sales of such loans. The senior warehouse lender's interests can diverge from those of the Clients investing in the CLO warehouse. During the warehouse period, loans could be sold at a loss which could result in a loss to the Clients of all or a portion of their investment in the warehouse. Many CLO warehouses include mark-to-market triggers, which require first loss providers to commit additional capital to avoid liquidation of the warehouse assets in cases of significant value decline. To the extent CLO warehouses require first loss/equity capital to be committed from time to time, Clients investing in the warehouse are subject to the risk that they or other first loss/equity warehouse investors will not advance capital when required. In such a case, if other representations, warranties or covenants in the warehouse documents are breached, or if the CLO fails to close, the warehouse lender may require a liquidation of the warehouse assets which could result in a loss of all or a portion of a Client's investment in the CLO warehouse vehicle.

*Bridge Financings* – Certain Clients are permitted to lend to portfolio companies on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. However, for reasons not always in Octagon's control, such long-term securities issuance or other refinancing or syndication may not occur. To the extent bridge loans and interim investments remain outstanding, the interest rate on such loans or the terms of such interim investments likely would not adequately compensate the Client for the risk associated with the position taken by the Client.

*U.S. Government Securities* – U.S. Government securities include a variety of securities that differ in their interest rates, maturities, and dates of issue. While securities issued or guaranteed by some agencies or instrumentalities of the U.S. Government (such as the Government National Mortgage Association) are supported by the full faith and credit of the United States, securities issued or guaranteed by certain other agencies or instrumentalities of the U.S. Government (such as Federal Home Loan Banks) are supported by the right of the issuer to borrow from the U.S. Government, and securities issued or guaranteed by certain other agencies and instrumentalities of the U.S. Government (such as Fannie Mae and Freddie Mac) are supported only by the credit of the issuer itself. Although Fannie Mae and Freddie Mac are now under conservatorship by the



Federal Housing Finance Agency, and are benefiting from a liquidity backstop of the U.S. Treasury, no assurance can be given that the liquidity backstop will continue to be made available by the U.S. Treasury or that Fannie Mae and Freddie Mac will not be placed into receivership. If the U.S. Government fails to continue supporting Fannie Mae or Freddie Mac in the same manner that the U.S. Government currently is, or Fannie Mae or Freddie Mac are placed into receivership, the market price of securities issued by Fannie Mae or Freddie Mac may decline significantly and such securities may suffer losses. Investments in these securities are also subject to interest rate risk, prepayment risk, extension risk, and the risk that the value of the securities will fluctuate in response to political, market, or economic developments.

*Cash Equivalents* – Cash and cash equivalents, including money market funds, U.S. Government treasury bills, notes, bonds, bank deposits and commercial paper, do not necessarily protect against the risk of loss and the value of a Client's investment in such instruments could decline. Furthermore, under adverse market conditions, a Client might not have immediate access to its cash investments. Because these investments provide relatively low income, a defensive or transition position generally would not be consistent with achieving the Client's investment objective. Furthermore, the Client's fees and expenses may exceed the return on such cash equivalents.

*Distressed Securities* – An Octagon multi-strategy Private Fund and one or more Registered Funds may invest in securities and obligations of issuers that are, at the time of the investment, in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Distressed securities are likely to be particularly risky investments although they also can offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently is difficult to obtain information as to the true condition of such issuers. Such investments can also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities are likely to be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, except as otherwise agreed, there is no minimum credit standard that is a prerequisite to a Client's investment in any instrument and a significant portion of the obligations and securities in a portion of a Fund may be considered significantly less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Octagon will correctly evaluate the value of the assets underlying these investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Client invests, the Client could lose its entire investment, may be required to accept cash or securities with a value less than the Client's original investment and/or be required to accept payment over

an extended period of time. Under such circumstances, the returns generated from the Client's investments may not compensate the Client adequately for the risks assumed.

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 (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security or instrument the value of which may be less than the purchase price to the Client of the security in respect to which such distribution was made.

*Investments in Less Established Companies* – Certain Clients advised by Octagon are permitted to invest a portion of their assets in the securities or debt instruments of less established companies. Investments in such early stage companies typically involve greater risks than generally are associated with investments in more established companies. Even if there is a public market for these securities or debt instruments, securities or debt instruments of less established companies can be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Such companies also generally have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow.

*Bankruptcy Claims, Trade Claims and Other General Unsecured Claims* – In some cases, Octagon provides advice regarding interests in bankruptcy claims, trade claims and other general unsecured claim holders of a debtor. Bankruptcy claims are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. Trade Claims generally include, but are not limited to, claims of suppliers for goods delivered and not paid, claims for unpaid services rendered, claims for contract rejections and claims related to litigation. Bankruptcy and trade claims are frequently unsecured and often are subordinated to other unsecured obligations of the debtor. The repayment of unsecured claims is subject to significant uncertainties, including potential set-off by the debtor as well as the other uncertainties described herein with respect to other distressed securities or debt instruments. Such investments could, in certain circumstances, subject a Client to certain additional potential liabilities that may exceed the value of their original investments. A claim could be transferred or assigned before or after a petition in bankruptcy is filed, including after a proof of claim has been filed. Investments in bankruptcy claims, trade claims and high risk receivables often entail special risks including, but not limited to, fraud on the part of the assignor of the claim as well as logistical and mechanical issues which may affect the ability of the Client or its agent to collect the claim in whole or in part. In addition, under certain circumstances, payments to and distributions by these Clients to their respective limited partners could be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws.

*Equity Investments* – Certain Private Funds and Registered Funds are permitted to acquire directly, and other Clients may acquire indirectly through conversion of debt investments, equity securities in portfolio companies. This includes minority equity investments in private companies where the Client has limited influence, and limited liquidity that could result in substantial losses. Equity securities generally involve a high degree of risk and will be subordinate to the debt securities and other indebtedness of the issuers of such equity securities. Prices of equity securities generally fluctuate more than prices of debt securities or debt instruments and are more likely to be affected by poor economic or market conditions. In some cases, the issuers of such equity securities are highly leveraged or subject to other risks such as limited product lines, markets or financial resources.

## **ITEM 9: DISCIPLINARY INFORMATION**

Not applicable.

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

### ***Other Financial Industry Affiliations***

Octagon is affiliated with other entities engaged in the financial services business and in some cases has business arrangements with such entities that are material to its advisory business or to its Clients. These are described in more detail below and, in some cases, will cause Octagon's or a related person's interests to diverge from the best interests of a Client.

Conning & Company owns a majority interest in Octagon. Conning Holdings Limited, the parent company of Conning & Company, is a wholly-owned subsidiary of Cathay Life Insurance Co., Ltd., a Taiwanese company. A list of Octagon's affiliated entities is specifically disclosed on Schedule D of Form ADV, Part 1 at Item 7.A. (Part 1 of our Form ADV can be accessed by following the directions provided on the cover page of this Brochure.)

Octagon is an affiliate of Conning, Inc., Conning Investment Products, Inc., and Goodwin Capital Advisors, Inc., (referred to herein collectively as "Conning") as well as Global Evolution USA, LLC, each of which is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940. Certain individuals will assume dual responsibilities within Octagon and Conning, for example in relation to human resources, legal, information technology, or other responsibilities as determined from time to time by management. In the event such individuals have access to current Octagon investment information, they are subject to relevant portions of Octagon's Code of Ethics as outlined in Item 11. All Conning employees are also subject to Conning's Code of Ethics.

Conning Investment Products, Inc. is also a broker-dealer registered with the Financial Industry Regulatory Authority (“FINRA”). Certain employees of Octagon are licensed as representatives or principals of Conning Investment Products, Inc. for purposes of distribution of Private Funds. Octagon does not use Conning Investment Products, Inc. for loan or securities transactions within Client accounts.

#### *Other Investment Related Activities*

Octagon has filed for an exemption from registration as a commodity trading adviser in accordance with CFTC Rule 4.14(a)(8) and from registration as a commodity pool operator in accordance with CFTC Rule 4.13(a)(3) on behalf of each of the Funds, as applicable.

#### Conflicts of Interest Associated with Affiliated Advisers and Other Business Activities

As described above, Conning & Company owns a majority interest in Octagon. Octagon’s investments generally consist of below investment grade corporate debt and CLO debt and equity securities, while Conning primarily invests in investment grade bonds on behalf of its clients. Investments in CLO debt and CLO equity securities and leveraged loans on behalf of Conning’s clients are generally sub-advised by Octagon. Therefore, any overlap in investment opportunities among the affiliates is expected to be minimal, though occasionally Clients of Octagon and Conning can pursue the same investment strategy. Additionally, as noted above, Conning and its affiliates will invest in Octagon-managed CLOs or Private Funds, including those that invest in Octagon-managed CLOs. Conning also refers prospective clients (or investors) to Octagon and, where Conning deems appropriate, recommends that clients or investors retain Octagon or invest in an Octagon Fund.

Octagon may elect to invest in securities of the CLOs it manages. Octagon will act in its own interest in electing to maintain or divest of current CLO investments, or making future CLO investments, which could adversely impact existing Clients or CLOs. Octagon’s holding of each CLO’s securities will give Octagon voting rights with respect to matters as to which the holders of securities are entitled to vote. These can include, without limitation, any vote to direct a redemption or refinancing and any vote to accelerate or not accelerate the payment of certain CLO securities. Where Private Funds or Accounts hold control equity positions in CLOs managed by Octagon, Octagon will exercise rights on behalf of the Private Funds or Accounts. Octagon intends to act in the best interest of the control equity with respect to such securities and such interest may conflict with or be adverse to the interests of other holders of securities in such CLOs.

Octagon and Conning seek to mitigate potential conflicts of interest associated with overlapping opportunities by maintaining separate investment committees which are responsible for making the investment decisions on behalf of each adviser’s Clients, in accordance with their investment strategies. Conning has the right to appoint one member of Octagon’s general investment committee and/or persons to serve as an observer, and accordingly has appointed one person as an observer with respect to Octagon’s investment committee. This individual is not involved in the investment decision-making process or portfolio management for Conning, and is subject to compliance policies and procedures

intended to prevent unauthorized personnel from accessing investment information provided by Octagon.

### *Material Nonpublic Information*

Discussions and interactions between Octagon and its affiliates' personnel are subject to the compliance policies and procedures that have been implemented within and among their respective businesses, including the establishment of information barriers in order to mitigate the potential for any conflict of interest involving material nonpublic information concerning an issuer of securities or a borrower of bank loans. Octagon and certain affiliates' employees maintain offices at the same location and can access common areas, but are otherwise separated from each other by physical barriers and separate technology access. Physical access to non-common areas within the office space is strictly controlled. Conning Information Technology personnel who provide services to Octagon are subject to compliance policies and procedures with respect to Octagon client and investment information.

Despite information barrier procedures put in place at Octagon or between Octagon and its affiliates, a breach or failure of information barriers could occur, which could result in Octagon Clients being unable to engage in certain transactions they would otherwise find attractive, or being able to engage in such transactions only during limited periods of time. This could result in an Octagon Client not being able to acquire or sell an investment that it otherwise might have acquired or sold.

In an effort to manage possible risks from the inadvertent sharing of such information notwithstanding the barriers described above, Octagon and its affiliates maintain Codes of Ethics and provide training to supervised persons with respect to the receipt and handling of material nonpublic information. In addition, Octagon's and Conning's respective Chief Compliance Officers each maintain a list of restricted securities as to which Octagon and Conning may have access to material nonpublic information and in which certain clients are not permitted to trade. Nevertheless, notwithstanding the maintenance of restricted lists and other internal controls, it is possible that the internal controls relating to the management of material nonpublic information could fail and result in Octagon, or one of its investment professionals, buying and selling a security while, at least constructively, in possession of material nonpublic information. Inadvertently trading while deemed to be in possession of material nonpublic information could have adverse effects on Octagon's reputation, result in the imposition of regulatory or financial sanctions, or Octagon could be required to refrain from taking an investment action. Each of these could negatively impact Octagon's ability to perform its investment management services on behalf of the Octagon Clients.

Octagon may decline to receive certain information available to loan market participants, which may include material nonpublic information about a loan issuer, in order to avoid trading restrictions with regard to securities of that issuer, even though access to such information would otherwise have been advantageous to a Client investing in loans. Clients and investors could be adversely affected by such restrictions.

### *Competition for Resources, Time or Attention*

Octagon's investment professionals divide their business time among multiple Clients. As noted above, Octagon and its personnel could have various investment and other pecuniary interests (including interests in performance compensation paid by certain Clients) with respect to Clients. Personnel would have an incentive to devote more resources, time or attention to certain Clients, investment or activities based on pecuniary or other interests.

### *Overlapping Opportunities*

Overlapping opportunities (including competing and conflicting investments as well as co-investments) create the potential for a variety of conflicts of interest among Octagon Clients.

Overlapping opportunities include situations where Clients invest in a common portfolio company whether in the same, similar or different classes of securities. Investments may be made at the same or different times and/or prices, and such investments may or may not have been coordinated. Clients will not always have the same economic interests or investment objectives with respect to the portfolio company, including with respect to views on the operations or activities of the portfolio company, the targeted returns for the investment and the timeframe for, and method of, exiting the investment. Depending on the nature of the opportunity or investments, and of the potential actions that Octagon could take in connection therewith, Octagon, acting in a fiduciary capacity, will at times take an investment position or action for certain Clients that is different from, or inconsistent with, an action or position taken for other Clients having similar or different investment objectives, or investments and actions could overlap or compete with other Clients.

Potential conflicts of interests among Clients, as well as some of the means through which Octagon seeks to mitigate these conflicts, are described below. In addition to those conflicts, the ability for Clients to invest in overlapping opportunities itself creates a potential conflict for Octagon, as potential efficiencies of such investments, when weighed against the related policies, procedures and conflicts associated therewith, could create an incentive for Octagon to favor (or disfavor) opportunities that fall within the permissible investment universe for more Clients as opposed to opportunities in which a narrower range of Clients can invest. Co-investments also can have the effect of benefiting or adversely impacting Clients and create other potential conflicts of interest, including those described below and in Item 6 – *Conflicts of Interest Associated with Performance Fees and Side-by-Side Management of Accounts*.

Octagon has developed processes, including those described below, to reasonably mitigate any incentive to direct more favorable investments to certain Clients, to engage in transactions where the assets of some Clients are committed to transactions that might unduly benefit other Clients, or otherwise to resolve conflicts based on pecuniary or other interests.

### *Allocation of Opportunities*

Certain conflicts arising from overlapping opportunities are partially mitigated through structural limitations on the ability of a Client to invest in certain opportunities or requirements to obtain approval for such investments. New investment opportunities will be allocated among Clients as described in Item 12 – *Aggregation and Allocation of Orders* below.

Similar investments can be acquired by different Clients at different times and at lower or higher prices. Alternatively, investments can be made in securities or debt instruments of the same issuer that differ significantly including with respect to seniority, interest rates, security, dividends, voting rights, and participation in liquidation proceeds. The different prices paid for, or terms of, securities or debt instruments held by such investment vehicles may create conflicts of interest.

As discussed in Items 11 and 12, below, Octagon Clients will often co-invest through aggregated transactions.

### *Conflicting Interests as to Common Portfolio Companies*

Portfolio companies often issue different classes of securities with differing rights and, in some cases, rights will differ even among the same class of interests. Clients will not necessarily hold the same or similar securities as, and could acquire interests at different times or at higher or lower prices than, other Clients. Each Client's interests could occupy a different position in the portfolio company's capital structure and have different rights as to seniority, security or collateral rights, interest rates, dividends, voting or consent rights, and participation in liquidation proceeds. In some cases, a Client could hold interests in a broader spectrum of the capital structure of a portfolio company than other accounts.

Clients that hold interests in common portfolio companies will not always have identical goals and/or investment objectives, including as these relate to the structuring of, or exercise of rights with respect to, investment transactions and the timeframe for and method of exiting the investment. Subsequent decisions made by an adviser as to a Client's holdings of interests in a portfolio company issuer could also cause one Client's interest in, and rights with respect to, the portfolio company to differ from another's. As a result, their respective goals and interests might diverge, particularly when the issuer experiences financial distress. When called upon to take action with respect to an investment (*e.g.*, to sell, to vote, or to exercise a right or remedy) a Client's overall holdings, and related rights, may be such that it is in the Client's best interest to take action (or refrain from taking action) in a manner that would be contrary to the interest of a person holding only the particular class of interest on which the right is conferred, when doing so is in the overall best interests of the Client based on its overall holdings. In these circumstances, other Clients that have co-invested with such a Client in some, but not all, of the classes of interests of the issuer held by that Client could be disadvantaged. As discussed below, because Octagon intends to take actions in the best interest of its Clients, Octagon would expect, for example, to cast votes for some Clients in favor of a particular proxy question

while voting other Clients' holdings against that proxy question, when doing so is consistent with Octagon's Proxy Voting Policies and Procedures.

Subsequent investments by Clients in a common portfolio company (*e.g.*, when a new holder invests in a portfolio company but the existing holder lacks sufficient assets to make a follow on investment) could harm existing holders through diluting or otherwise disadvantaging the value of investments held by existing holders or impacting the cost to existing holders of implementing portfolio decisions or strategies. In other cases, a subsequent investment might have the effect of increasing the value of the existing holders' interests in the portfolio company but, in hindsight, have provided little or no benefit to new holders. Although subsequent investments might improve the prospects of a portfolio company (or even be necessary to prevent a portfolio company from failing), in determining to make an investment or in negotiating the terms and conditions of any such investment, or subsequent amendments or waivers, or in voting proxies or exercising rights with respect to such investments, Octagon could find that its own interests, the interests of a Client, and/or the interests of one or more other Clients conflict. In cases where an issuer in which multiple Clients hold interests acquired at different points in time or in different positions within the issuer's capital structure experiences financial distress, decisions over the terms of any workout will raise conflicts of interest (including, for example, conflicts over proposed waivers and amendments to debt covenants). For example, the holder of a more senior position in an issuer could be better served by the liquidation of the issuer in which it may be paid in full whereas holders of more junior positions might prefer a reorganization that holds the potential to create or preserve value for equity holders.

#### *Resolving Conflicts Related to Overlapping Opportunities and Investments*

As the investments held by, and actions taken with respect to, different Clients will depend on the particular interests of those Clients (which may not be aligned, particularly where Clients hold different, or overlapping but not identical investments in an issuer), decisions made by Octagon for one Client differ from those made for, and in some cases could harm the interests of, other Clients. Octagon recognizes that the mitigants described in this Item 10 will not always be sufficient to prevent or resolve every conflict that might arise from overlapping investments. When considering whether to pursue a particular course of action, including asserting available claims or remedies, factors that Octagon expects to consider include the costs of pursuing the course of action (or alternative courses of action) and the likelihood of a favorable outcome. As a result, not every potential claim or course of action will be pursued and it will not always be the case that conflicts will be able to be resolved in the best interest of any particular client nor can there be any assurance that actual or potential conflicts of interest can be resolved such that the ultimate terms of an investment (or an amendment to such terms) will be as favorable as they would be in the absence of such conflicts.

Because these conflicts vary based on the particular circumstances that exist at the time the conflict arises and must be resolved, it is anticipated that most conflicts will be resolved on a case-by-case basis pursuant to general fiduciary principles, under which Octagon will seek to resolve potential conflicts associated with overlapping opportunities (including those described herein) in the best interests of each Client without consideration of



Octagon's own interests, or the interests of other Clients. In certain instances, a compliance oversight committee will review such conflicts of interest and corresponding facts and circumstances, to determine an appropriate course of action that it believes to be fair to Octagon's Clients.

#### *Funds and Accounts as Related Persons*

As discussed above, Octagon acts as the investment adviser to the Funds and Accounts and receives management fees in the ordinary course of business and for some Funds and Accounts, Octagon's fees include a performance fee component. To the extent that (1) Octagon acts as a general partner or a managing member (or in a similar capacity) to the Fund, or as investment adviser or sub-adviser to a Registered Fund; and/or (2) Octagon and its personnel and related persons may directly or indirectly maintain substantial investments in the Fund or Account, including interests held by Conning, Octagon or a related person, in an Octagon-managed CLO, the Fund or Account would be a related person of Octagon. Also, one or more Clients invests in CLO equity and/or debt securities of CLOs where Octagon acts as collateral manager to such CLOs, and in CLO warehouse vehicles that are expected to form part of the portfolio of future CLOs to be managed by Octagon. In these instances Octagon will (and may during the warehouse period, if and to the extent provided in the warehouse's governing docs) receive fees (which can include asset based and/or performance fees, depending on Octagon meeting internal rates of return thresholds) and payment or reimbursement of certain expenses from the CLOs, in addition to fees and expenses paid to it by one or more Clients, please see Item 5 - *Fees and Expenses*. These additional fees or other benefits received by Octagon from CLOs in which it acts as collateral manager create potential conflicts of interest with such Clients since Octagon may be incented to invest such Clients in CLOs it manages when other investment opportunities in CLOs managed by other investment advisers exist for such Clients. The negotiation between Octagon and one such Client as to the minimal percentage of securities of CLOs managed by Octagon invested for such Client serves as a partial mitigant as it pertains to this Client arrangement. For a discussion of the investments by Octagon and its personnel in the Funds and Accounts, please see Item 6 – *Performance-Based Fees and Side-by-Side Management* and Item 11 – *Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*.

#### *Referral Fees*

Octagon has entered into referral arrangements with Conning and its affiliates, whereby Octagon receives a fee in connection with referrals of clients to Conning or an affiliate, and reciprocal agreements whereby Octagon pays a fee to Conning or its affiliates in connection with referrals. This practice creates a conflict of interest, in that Octagon and Conning have an incentive to refer prospective clients to an affiliate based on the compensation received, rather than based on that prospective client's needs. Prospective clients are under no obligation to engage with or purchase investment products from an Octagon affiliate. Any compensation received for a referral to an affiliate will be paid by that affiliate from fees collected from a client, and will not be imposed on the client in addition to established fees in connection with management of an account or product.

In addition, Octagon has entered a placement agreement with Conning Investment Products, Inc., an affiliated broker-dealer through which certain interests in Octagon Private Funds are offered. Octagon will pay placement fees out of existing management and incentive fees, and additional fees will not be imposed on the client or investor. To the extent permitted by a Private Fund's Governing Documents, expenses in connection with offering Private Fund interests, including those incurred by Conning Investment Products, Inc., will be borne by the Private Fund. Certain Octagon personnel are registered as representatives or principals of Conning Investment Products, Inc., for purposes of offering the Private Funds. Octagon has entered into similar placement agreements with non-U.S. affiliates to place interests with certain non-U.S. investors.

In certain instances, Octagon co-manages or sub-advises portfolios of Conning clients, which could create a potential conflict of interest due to Conning's economic interest in and control of Octagon.

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

### ***Code of Ethics***

Octagon has adopted a Code of Ethics in accordance with Rule 204A-1 under the Advisers Act covering such matters as (1) general standards of business and personal conduct; (2) the proper use and safeguarding of confidential information; (3) prohibitions against securities transactions when in possession of material nonpublic information; (4) personal conflicts of interest, including outside activities and gifts; and (5) personal securities transactions policies.

Any Client or prospective client may obtain a copy of the Code of Ethics upon request by contacting Octagon at the contact information that appears on the cover page of this Brochure.

### ***Participation or Interest in Client Transactions***

As discussed in Item 5 – *Fees and Compensation* and Item 6 – *Performance-Based Fees and Side-by-Side Management*, Octagon and its related persons may: (1) be entitled to a performance fee; and (2) directly or indirectly maintain investments in one or more Funds, including interests held by Conning, Octagon or a related person, in an Octagon-managed CLO. For example, certain key personnel of Octagon (including, but not limited to, Octagon's portfolio management personnel responsible for the management of the Funds and Accounts) or Conning, who are "knowledgeable employees" (as defined in Rule 3c-5 under the 1940 Act) or who meet the Fund's financial eligibility criteria may invest, and have invested, in certain Private Funds and CLOs, and personnel of Octagon or Conning may also invest, and have invested, in certain Registered Funds. Octagon and its affiliates also directly or indirectly maintain investments in some or all of the Funds, and Octagon serves as sub-adviser to Conning for certain accounts or mandates.

These interests can create an incentive to favor one Client over another when, for example, placing trades, aggregating orders or engaging in cross or principal trades, as applicable. Octagon maintains policies and procedures, including the Code of Ethics and policies and procedures regarding the aggregation and allocation of investments (please see Item 12 – *Brokerage Transactions*), reasonably designed to ensure that Octagon and its personnel service all Client accounts in a manner consistent with the duties an adviser owes to its clients and applicable law and without considering such persons' ownership, compensatory or other pecuniary or financial interests.

Due to “co-investment,” incentive fee, and certain long-term compensation arrangements, most of Octagon’s senior investment professionals will also have a financial interest in the securities purchased and sold by the Funds, which can create an incentive for Octagon to make more speculative investments on behalf of the Funds than it would otherwise make in the absence of such performance-based arrangement, although any capital commitments to a particular Fund by the direct and indirect partners of the Fund should tend to reduce this incentive. In addition, Octagon’s determination of fair value of an investment may impact the calculation of the management fee and carried interest to the extent such valuation would result in a write down, which could incentivize Octagon to refrain from writing down the investment.

#### *Cross Trades*

A cross trade occurs where an adviser effects a transaction between two or more different funds or accounts over which the adviser exercises discretionary management authority. Although an investment adviser may find it advantageous to effect such cross trades (*e.g.*, to minimize transaction expenses), these transactions pose the potential for conflicts of interest because an adviser could effect a transaction on terms more favorable to one client than the other.

Octagon can cause a Fund or Account to acquire or dispose of an investment in cross trades between the Fund or Account and other Clients advised by Octagon or its affiliates. For example, during the wind-down period of a CLO, Octagon may purchase assets of the CLO on behalf of a Fund or Account, provided such purchase is consistent with the Fund’s Governing Documents or Account’s Account Documents. Such trades will be effected at market value or, in the absence of a readily ascertainable market value, at “fair value” as reasonably determined by Octagon in accordance with its relevant policies and procedures. Octagon will only effect cross trades if the trades are: (1) pre-approved by Octagon’s Chief Compliance Officer or her designee, and Chief Executive Officer or Co-Chief Investment Officer in his absence; and (2) consistent with applicable law, industry standards, a Fund’s Governing Documents or Account’s Account Documents and Octagon’s policies and procedures. Octagon currently does not anticipate engaging in cross-trades involving Registered Funds. In the event that Octagon engages in cross-trades involving Registered Funds in the future, such transactions will be executed in accordance with Rule 17a-7 under the 1940 Act.

### *Principal Trades*

Principal transactions are transactions conducted by an investment adviser with a client when the adviser or its affiliate is acting as principal for its own account and knowingly buys securities from, or sells securities to, a client. Principal transactions pose the potential for conflicts of interest between an adviser and its client.

To the extent that a Fund or Account is deemed to be controlled by Octagon and its related persons (generally, if more than 25% of the Fund's or Account's assets are attributable to proprietary and personal investments by Octagon and its related persons), any transaction between the Fund or Account and another account advised by Octagon will be treated as a "principal transaction." Octagon will effect such trades at market value or, in the absence of readily ascertainable market value, at "fair value" as reasonably determined by Octagon in accordance with its relevant policies and procedures, provided that as to each principal transaction, Octagon obtains consent from the client following written disclosure prior to settlement of such transaction, in accordance with applicable law. The approval of the board of directors, managers, or another review board or entity will constitute client consent where consistent with the Client's governing documents. Octagon generally does not intend to engage in principal trades and Octagon will only effect principal trades if the trades are: (1) pre-approved by Octagon's Chief Compliance Officer or her designee, and Chief Executive Officer or Co-Chief Investment Officer in his absence; and (2) consistent with applicable law, industry standards, a Fund's Governing Documents or Account's Account Documents and Octagon's policies and procedures.

### ***Inconsistent Investment Positions, Timing of Competing Transactions and Transactions with Other Clients***

As discussed in greater detail in Item 10, above, Octagon will at times take investment positions or actions for one or more Funds or Accounts that are different from, or inconsistent with, an action or position taken for one or more other Funds or Accounts having similar or differing investment objectives and such actions can be taken at differing and potentially inopportune times. When a position is established or disposed for one Fund or Account ahead of, or contemporaneously with, similar portfolio decisions or strategies for another Fund or Account, market impact, liquidity constraints, or other factors could result in one or more Funds or Accounts receiving less favorable trading results, the costs of implementing such portfolio decisions or strategies could be increased, such Funds or Accounts could be diluted, the values, prices or investment strategies of another Fund or Account could be impaired or such Funds or Accounts could otherwise be disadvantaged. For example, if one Fund or Account sells an investment and the other Funds and Accounts maintain or add to their position in the same investment and the initial sale results in a decrease in the price of the investment which the other Funds and Accounts continue to hold, the value of an investment in the other Funds or Accounts would decrease, depending on the market impact of such sale. Furthermore, if Octagon also acts as collateral manager of a CLO in which a Client invests, as a registered investment adviser, Octagon will owe fiduciary duties separate to such Client and to the CLO and could choose to take, or be required by contract or applicable law to take, actions that are not in the best interests of or may be adverse to the interests of such Client. Conversely, in certain instances an Octagon

Private Fund or Account will hold controlling equity interests in Octagon-managed CLOs, and Octagon's actions on behalf of those CLOs could also benefit those Private Funds or Accounts holding such controlling interests.

## **ITEM 12: BROKERAGE PRACTICES**

### ***Selection of Broker-Dealers***

Pursuant to the investment guidelines set in the relevant Governing Documents or Account Documents, Octagon may have the authority to determine, without obtaining specific consent of a Client, the securities and loans to be bought or sold (and the amounts thereof) on behalf of the Funds and Accounts. Octagon is authorized to determine the broker or dealer to be used in each of such transactions, if any. To the extent Octagon uses broker-dealers who provide placement agent services, it will not take such services into account when selecting broker-dealers to execute transactions for Clients.

Octagon has a fiduciary obligation to seek to obtain "best execution" in executing portfolio transactions on behalf of its Clients. However, Octagon does not typically pay commissions for each securities or loan transaction; rather, it seeks to obtain the best overall terms at the time of execution. In certain Private Funds, Octagon executes options trading through a prime broker pursuant to a fixed commission schedule. Such commissions are not expected to have a material impact on fees and expenses; however, such commissions will not necessarily be the lowest available. In addition, in some cases, Octagon's transactions on behalf of the Funds and Accounts are privately negotiated and do not involve the use of a broker or dealer. In those cases, Octagon seeks to negotiate and execute transactions in an efficient manner and consistent with its fiduciary duties to the Funds and Accounts.

In executing transactions for Clients and selecting brokers or dealers, Octagon uses commercially reasonable efforts to seek the best overall terms available, and executes or directs the execution of all such transactions in a manner permitted by law and in a manner that it believes to be in the best interest of the Client, taking into account all factors it deems relevant including, but not limited to, the timing for such purchase or sale, the breadth of the market in the relevant security or loan, market conditions, assignment fees, price, the financial condition and execution capability of the broker or dealer and the reasonableness of any basis. Pursuant to its investment determinations for a Client, in placing orders with brokers and dealers, Octagon will use commercially reasonable efforts to obtain the best net price and the most favorable execution of its orders. If Octagon believes that the most favorable terms and executions are obtainable from more than one broker or dealer, it can give consideration to placing portfolio transactions with those brokers and dealers who also furnish research, execution and other services to the Client or to Octagon itself ("soft dollar services").

Octagon presently has no soft dollar arrangements in place, although certain broker-dealers selected by Octagon sometimes provide over-the-transom, proprietary research at no stated cost or requirement of executing a particular amount of transactions. In the event Octagon initiates a soft dollar service arrangement, the Chief Compliance Officer and Compliance Committee must first approve the arrangement. Soft dollar services, if any, might be used

to service all of Octagon's Clients, or just those Clients paying for the service. Soft dollar service arrangements could give rise to a conflict of interest because Client brokerage commissions would be used to pay for research, execution and other services that Octagon would have otherwise been required to pay for out of its own expenses. Furthermore, Octagon would have an incentive to select a broker or dealer that provides such research, execution and other services over those that do not provide such services. However, notwithstanding such incentive, Octagon remains obligated to seek to obtain "best execution" in executing portfolio transactions on behalf of Clients.

Octagon uses a variety of broker-dealers to execute transactions, some of which could also refer clients or investors to Octagon or the Funds. Such referrals can create a conflict of interest because they benefit Octagon without benefitting the Funds. As a matter of policy, Octagon does not allocate brokerage to compensate any broker for, or in recognition of, client or investor referrals; however, Octagon, on behalf of a Fund, can select a broker-dealer that has referred, or may refer, business when doing so is consistent with its duty to seek best execution. To prevent brokerage commissions from being used to compensate brokers for past or expected referrals, Octagon will not allocate brokerage business to a broker that has referred or may intend to refer clients or investors unless Octagon determines in good faith that the commissions payable to such broker are reasonable in relation to those available from non-referring brokers offering services of substantially equal value to a Fund or Account. Octagon does not consider a broker-dealer's referrals to Octagon or the Funds when determining whether to select a broker-dealer to execute portfolio transactions of a Registered Fund.

### ***Aggregation and Allocation***

Octagon maintains policies and procedures related to the allocation of investment opportunities, and the aggregation and allocation of trades, among Clients (the "Allocation Policies"), which Octagon believes are reasonably designed to assure fair and equitable treatment of Clients over time. Under the Allocation Policies, if it is determined that the purchase or sale of the same asset is in the best interest of more than one Client, the applicable trader(s) may, but is not obligated to, aggregate orders placed simultaneously in order to seek to obtain best execution and reduce transaction costs to the extent permitted by applicable law. Such orders will be placed, and associated transaction costs allocated, in accordance with the Allocation Policies and the applicable organizational documents for the Clients involved. Clients participating in aggregated trades are allocated positions based on the average price achieved, and costs paid, for such trades.

Where Octagon determines that an investment opportunity is in the best interest of more than one Client, the ability to purchase or sell an asset remains subject to market supply and other factors. Octagon generally limits collective exposure by all Clients to individual assets, in an effort to preserve liquidity in those assets, which can also limit the availability of investment opportunities for Clients. If Octagon is presented with an investment opportunity that falls within the investment objectives of more than one Client, Octagon will allocate the opportunity among one or more of such Clients on a basis that Octagon determines in good faith is appropriate taking into consideration such factors as:

- the fiduciary duties owed to a Client;
- the primary mandates of Clients;
- the purchasing capacity available to Clients;
- any restrictions or limitations on investment;
- the perceived liquidity of an investment;
- the relation of such opportunity to the investment strategy of the Client;
- reasons of portfolio balance; and
- any other consideration deemed relevant by Octagon.

Under the Allocation Policies, pre-trade allocation decisions for such opportunities will be made by the portfolio manager(s) responsible for the purchase and sale of investments for the relevant Clients; while such allocations may be *pro rata* to account size or capacity, for a variety of reasons including but not limited to those above, pre-trade allocations are unlikely to be strictly *pro rata* in most cases. Allocations and allocation methodologies are also impacted by the type of investment under consideration. Octagon applies different allocation methodologies and, to varying extents, considerations, to: (i) primary trades in loans and bonds, (ii) secondary trades in loans and bonds, and (iii) CLO debt and equity trades. Opportunities to participate in primary trades in loans and bonds are available to all portfolio managers and all accounts, subject to account restrictions and consideration of relevant factors as noted above. If less than the full amount of an aggregated purchase or sale (based on the pre-trade allocation decisions) is able to be executed, Octagon typically gives special consideration to certain Clients such as a new account and/or a Client with a substantial amount of purchasing capacity (including, incidentally, those in which Octagon and/or its personnel have a direct or indirect interest or those that pay a performance-based fee, as discussed in Item 6 – *Performance-Based Fees and Side-by-Side Management*), or could otherwise deviate from *pro rata* treatment on execution, subject to appropriate justification and documentation. Although typical, Octagon is not required to give special consideration to new accounts or Clients with substantial capacity, and can take into consideration other factors and circumstances, or, in Octagon’s discretion, can allocate an executed transaction *pro rata* to the pre-trade allocations.

For secondary trades in loans and bonds, portfolio managers maintain discretion to submit orders on behalf of Clients subject to consideration of relevant factors as noted above. For secondary loan and bond trades, and CLO debt and equity trades (both primary and secondary), when Octagon is unable to execute the full order amount based on pre-trade interest, Octagon generally allocates trade allocations on a *pro rata* basis and does not preference accounts based on the amount of cash held.

From time to time, Octagon also uses rotational, percentage or other allocation methods, as permissible under a Client’s respective Governing Documents or Account Documents.

Allocations of investment opportunities among Clients can also be impacted by an agreement with a Client to provide best efforts in obtaining certain types of investments

for such Client. Finally, as Non-discretionary Accounts are expected to experience lower trade frequency and/or larger transaction sizes, and must provide pre-approval before Octagon may implement a trading recommendation or decision, non-discretionary Clients' trades often cannot be included in an aggregated transaction if Client authorization is not obtained on a timely basis. In these cases, such Clients may be unable to acquire or dispose of the investment at the same time, price and/or cost as other Clients, which can adversely impact performance.

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

### ***Nature and Frequency of Client Account Reviews***

Each Fund and Account has at least one assigned portfolio manager. On a daily basis, Octagon's portfolio managers and analysts will monitor events relating to the investments held by the Funds and Accounts, including their performance and credit quality. The Governing Documents for the Funds and Account Documents for the Accounts contain certain investment restrictions and, with respect to the CLOs and Accounts, may contain other tests, such as detailed coverage tests, portfolio profile tests, and/or collateral quality tests, that are monitored. For the CLOs, the trustee prepares schedules of fees and expenses, distributions and dividends (the "priority of payment waterfalls"), which are reviewed and agreed to by Octagon's finance group. On at least a monthly and quarterly basis (as applicable), Octagon's finance group reviews investment holdings for compliance with their respective investment guidelines. For those Clients whose organizational documents require a trustee or administrator to produce monthly or quarterly compliance reports, the finance group also works with them to review and approve such reports. The applicable portfolio manager for each such account will receive and review a copy of the monthly and quarterly reports, as applicable. In addition, the firm's Co-Chief Investment Officers meet with portfolio managers as needed to review the trustee's or administrator's account reports or to discuss riskier credits that may be held in an account.

For the Private Funds, Octagon's finance group or administrator generates a daily flash profit and loss report based on daily third-party mark-to-market values of fund positions. This report is reviewed by Octagon's finance group and portfolio managers.

Octagon's investment committee consists of Octagon's Co-Chief Investment Officers and portfolio managers. The Chief Executive Officer of Conning serves in an observer capacity with respect to Octagon's investment committee. The Market Outlook Committee, which includes Octagon's investment committee and heads of business development and investor relations, meets periodically to review current macro-economic trends. As necessary, Octagon's investment committee will meet to approve new investments. Octagon's investment committee generally meets weekly to review assets that are held in each Fund's or Account's portfolio, rotating by industry. If special developments occur, Octagon's investment committee will meet as necessary. With respect to a multi-strategy Private Fund, the investment committee is responsible for determining the allocation of available



fund assets among the classes of credit instruments comprising the fund strategy, as well as establishing leverage and hedging parameters.

Octagon's Compliance Committee, which comprises members of senior management and the compliance department, and other related committees provide oversight over trading and other activities for Octagon Clients, including, but not limited to, seeking best execution, trade errors, valuation, allocation and aggregation, assessment of conflicts of interest, adherence to investment guidelines and related issues. Octagon's Compliance Committee and other related committees meet several times per year.

### ***Frequency and Content of Client Account Reports***

Octagon will provide written reports at such frequency and include such information as required by the applicable agreements with each Client. As a general matter, however, investors in the CLOs receive monthly trustee reports and quarterly note valuation reports from each CLO's trustee. These reports are reviewed for accuracy and completeness by Octagon.

Investors in the Accounts receive monthly trustee reports from their account's trustee. The Private Funds and certain Accounts also receive an annual audit of their account pursuant to their respective organizational documents. Other reports may be given as per the terms of each particular investment advisory agreement. Investors in the Private Funds and Registered Funds receive reports as provided for in such Fund's Governing Documents and, with respect to Registered Funds, as required under the 1940 Act and other relevant law. Periodic and other reports with respect to Registered Funds are available through the SEC's EDGAR system.

Certain investors in a Private Fund or CLO may request additional information relating to the Fund or Octagon's services, which Octagon may elect to provide subject to limitations imposed by confidentiality agreements. This may result in some investors having greater information about a Fund than other investors in that Fund.

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

Octagon has entered into placement agent agreements from time to time in connection with its periodic activities in raising capital for Funds, including, as discussed in Item 10 - *Other Financial Industry Activities and Affiliations*, above, with Octagon's affiliated broker-dealer and affiliated non-U.S. placement agents. In addition, as also discussed in Item 10, Octagon has entered into referral agreements with Conning and affiliates, whereby Octagon will pay a portion of management fees received to Conning or its affiliates in the event that Conning or an affiliate refers a Client to Octagon.

## **ITEM 15: CUSTODY**

Octagon is deemed to have “custody” of certain Client accounts within the meaning of Rule 206(4)-2 under the Advisers Act to the extent Octagon has access to or authority over funds and securities held in these accounts for purposes other than issuing trading instructions.

With respect to any Private Funds for which Octagon is deemed to have custody, Octagon complies with Rule 206(4)-2 under the Advisers Act by maintaining Fund assets in properly designated accounts with qualified custodians, and providing investors in the Private Fund with audited financial statements within 120 days following the Private Fund’s fiscal year end. Investors should review these audited financial statements carefully. If you have not received audited financial statements timely, please contact us immediately.

As noted in Item 13 – *Review of Accounts*, above, Octagon may provide you, separately, with reports or account statements providing information about the account. You should compare these carefully to the account statements you receive from your custodian or administrator.

## **ITEM 16: INVESTMENT DISCRETION**

As discussed in Item 4 – *Advisory Business*, Octagon generally provides advisory services on a discretionary basis to the Funds and Accounts. The limits upon Octagon’s investment discretion are established with the investors in the Funds and Accounts, and are ultimately reflected in the Governing Documents for a Fund or Account Documents for an Account. These limits are established on a case by case basis and will vary from Fund to Fund or Account to Account. Octagon also provides advisory services to certain Clients on a non-discretionary basis.

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

Octagon has adopted written proxy voting policies and procedures as required by Rule 206(4)-6 under the Advisers Act. Under these policies and procedures, Octagon will vote proxies in the best economic interests of its Clients over the long term and will not place its interests above those of its Clients. These policies and procedures also include how Octagon addresses material conflicts that may arise between its interests and those of its Clients. However, due to the nature of Octagon’s business, it is rare that Octagon will be asked to vote a proxy for a publicly traded equity security held on behalf of a Fund or Account. The following is a brief summary of Octagon’s proxy voting guidelines.

All proxy materials received by Octagon are forwarded to Octagon’s Chief Compliance Officer or his or her designee. The Chief Compliance Officer records on a log the name of the company to which the proxy materials relate, the date the proxy materials are received and the date by which the proxy needs to be voted.

Upon completion of a reconciliation process, the Chief Compliance Officer forwards the proxy materials to the appropriate investment committee member for voting. The investment committee or its designee shall vote all proxies in the best interests of Octagon's Clients pursuant to the goals of the Client's investment strategy. The investment committee will follow the procedures set forth in the policies and procedures in order to ensure that proxies are voted in the best economic interests of Octagon's Clients.

Prior to exercising voting authority on any other matter, the investment committee shall review the proxy materials and undertake a reasonable investigation to determine whether any of the matters to be voted on present a material conflict of interest between Octagon and the interests of its Clients.

Where the investment committee's investigation determines that a material conflict of interest may exist, it shall take reasonable steps to ensure that the conflict does not influence the investment committee to vote a proxy in a manner that is not in the best interests of its Clients. These steps may include, but are not limited to any one or a combination of the following: (1) consult with Octagon's outside counsel to determine how to vote in a manner that will be in the best interests of its Clients; and (2) erecting information barriers around conflicted personnel to ensure that they do not influence the voting decision.

Where applicable, the investment committee shall make and maintain a record describing any steps taken to prevent a potential material conflict of interest from causing a proxy to be voted in a manner that is not in the best economic interest of its Clients. Where the investment committee determines that no material conflict of interest exists, the matter shall be analyzed based on its specific facts and circumstances and the investment committee shall vote on the matter in the best interests of its Clients.

Clients of Octagon, as well as investors in the Funds, may obtain (1) information about how Octagon voted proxies on their behalf; and (2) a copy of Octagon's proxy voting policy and procedures, by contacting Investor Relations, at:

Octagon Credit Investors, LLC  
Attn: Head of Investor Relations  
250 Park Avenue, 15th Floor  
New York, New York 10177  
(212) 400-8400  
investorrelations@octagoncredit.com  
www.octagoncredit.com

Pursuant to rules under the 1940 Act, information regarding proxy voting activities for Registered Funds is available on Form N-PX through the SEC's EDGAR system.

## **ITEM 18: FINANCIAL INFORMATION**

Not applicable.