

# TOWERBROOK

TowerBrook Capital Partners L.P.

Part 2A of Form ADV

The Brochure

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This brochure provides information about the qualifications and business practices of TowerBrook Capital Partners L.P. (“TowerBrook” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at (212)-699-2200. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

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

## Material Changes

This brochure, dated March 29, 2019, serves as an update to TowerBrook’s brochure dated March 29, 2018. This brochure contains routine annual updates to the prior brochure.

## Table of Contents

Material Changes .....	2
Table of Contents .....	2
Advisory Business .....	2
Fees and Compensation .....	3
Performance Based Fees and Side-by-Side Management .....	10
Types of Clients .....	12
Methods of Analysis, Investment Strategies and Risk of Loss.....	13
Disciplinary Information.....	41
Other Financial Industry Activities and Affiliations .....	41
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	44
Brokerage Practices .....	46
Review of Accounts.....	47
Client Referrals and Other Compensation .....	47
Custody .....	48
Investment Discretion .....	48
Voting Client Securities.....	49
Financial Information.....	49

## Advisory Business

TowerBrook is an investment management firm founded in March 2005 and organized under the laws of the State of Delaware as a limited partnership. The Firm is based in New York and London. TowerBrook, together with its related investment manager entities, provides investment advisory services to a number of private investment partnerships (each individually, a “Partnership” and, collectively, the “Partnerships”). Certain Partnerships pursue a “control oriented” private equity strategy, comprising buyouts and other control-oriented debt and equity investments (the “PE Partnerships”), whereas other Partnerships pursue a non-control-oriented structured opportunities strategy, comprising not-for-control stressed and distressed debt investments and other investments in equity or assets where control-oriented private equity attributes may not apply (the “TSO Partnerships”). The Firm also serves as an investment manager to various co-investment vehicles structured to facilitate investments by third party co-investors alongside the Partnerships (“Co-Investment Vehicle Clients”, and together with the “Partnerships”, each a “Client”). As of December 31, 2018, TowerBrook managed in excess of \$12.4 billion of assets on a discretionary basis on behalf of the Partnerships. TowerBrook’s general partner and principal owner is TowerBrook Capital Partners, LLC, a Delaware limited liability company that is wholly controlled and substantially owned by Neal Moszkowski and Ramez Sousou (the “Co-CEOs”).

Affiliates of TowerBrook serve as the general partners and direct investment managers of the Partnerships and Co-Investment Vehicle Clients; however, the investment management duties and responsibilities are performed by TowerBrook through investment advisory agreements. For a list of the Partnerships, Co-Investment Vehicle Clients and TowerBrook's affiliated entities that serve as general partners and direct investment managers of existing Partnerships and Co-Investment Vehicle Clients, please refer to the table in the "Other Financial Industry Activities and Affiliations" section below.

TowerBrook and its affiliated investment managers provide investment advice to the Partnerships and not individually to the limited partners of the Partnerships. As investment advisers, TowerBrook and its affiliated investment managers are primarily responsible for identifying investment opportunities for the Partnerships, effecting all investment transactions, monitoring and evaluating the Partnerships' investments and making recommendations regarding the purchase and/or sale of investments. The assets of each Partnership are managed in accordance with the terms of the Governing Documents (as defined below) applicable to such Partnership.

The Firm may from time to time, consistent with the terms of the Governing Documents of the Partnerships, pursue, on behalf of clients other than the Partnerships, various investment strategies and lines of business that vary from those pursued on behalf of the Partnerships.

## **Fees and Compensation**

Each Partnership is governed by a limited partnership agreement ("LPA" and, together with any applicable private placement memoranda and other offering and/or organizational documents, the "Governing Documents") that sets forth in detail the fee structure relevant to such Partnership. The terms of the Governing Documents are generally established during the fundraising period of the applicable Partnership.

Pursuant to a Partnership's LPA, an affiliate of TowerBrook may be entitled to compensation for its services in the form of an annual management fee payable quarterly in advance by the Partnership. The management fees payable by the Partnerships vary, but are generally based on either (i) during the investment period, a percentage of the Partnership's capital commitments, and thereafter based on a percentage of capital invested, or (ii) during the life of the Partnership, a percentage of its capital invested. As of the date of this brochure, the maximum asset-based management fee payable by a Partnership is based on a rate of 2% per year of capital commitments.

TowerBrook affiliates, in their roles as general partners of certain Partnerships, are eligible to receive a performance-based profit allocation, or carried interest, with respect to realized investments, which is generally determined as a percentage of profits derived from the disposition of investments (after taking into account fees, costs and expenses of the Partnership, including management fees, and following a preferred return to limited partners). If the performance-based carried interest results in an over distribution of the agreed upon amount of carried interest to a Partnership's general partner, the general partner is generally subject to an after-tax "claw back" arrangement. As of the date of this brochure, the maximum carried interest allocable to a general partner of a Partnership is 20% of the profits derived from the disposition of investments (after taking into account fees, costs and expenses of the Partnership, including management fees, and following a preferred return to limited partners of up to 8% per annum).

TowerBrook may also receive transaction fees, origination fees, monitoring fees, advisory fees, consulting fees, break-up fees, services fees, director fees and similar fees from a Partnership's portfolio companies or portfolio holding companies, and break-up fees associated with investment opportunities that are not consummated (collectively, "Other Fees"). With respect to Partnerships that currently pay management fees to TowerBrook (or its affiliates), a percentage of the Other Fees (net of fees, costs and expenses) is applied to reduce the management fees, if any, payable by the management fee-bearing limited partners of such Partnership. Further, for those Partnerships that currently pay management fees, the Other Fees that reduce the management fee are limited to the extent of a Partnership's proportionate interest (or intended proportionate interest) in the applicable portfolio company. The types of fees that constitute Other Fees may vary among the Partnerships. Detailed information regarding the types and amounts of Other Fees that may offset the management fees otherwise payable by a Partnership, and the mechanics for such offset, is provided in the Governing Documents of such Partnership. Other Fees do not include (a) compensation due to members of TowerBrook's MAB or SAB (each as defined below) or other consultants, in each case, who serve on the boards of directors of portfolio companies of the Partnerships or otherwise provide services to the Partnerships or portfolio companies or (b) underwriting fees, placement commissions, or other compensation payable to TowerBrook Financial (as defined below) in respect of services rendered to portfolio companies of the Partnerships. Any such payments described in the preceding sentence that are excluded from Other Fees and retained by TowerBrook and/or its affiliates will not offset or reduce the management fee.

In addition to management fees and performance-based carried interest as described above, the Partnerships pay or reimburse TowerBrook and/or its affiliated parties for certain fees, costs and expenses. Those fees, costs and expenses will vary from Partnership to Partnership, but typically will include, without limitation: (i) all reasonable legal and other organizational and offering fees, costs and expenses incurred in connection with the formation of a particular Partnership and related entities (including the general partner and the investment manager) and the offering of the limited partner interests in a Partnership; (ii) fees, costs and expenses of counsel to and accountants for a Partnership and related entities; (iii) reasonable costs of the Firm's hosting of meetings with existing or prospective investors; (iv) travel-related fees, costs and expenses (including transportation, meal, entertainment and lodging fees, costs and expenses) of personnel of a Partnership and related entities and each of their respective advisors (which may include travel by way of private or non-commercial planes at rates not in excess of commercial rates for first class or business class travel), and other expenses, in each case, incurred in connection with the formation of a Partnership or related entities, the preparation of the Governing Documents, compliance with applicable laws or regulations and the offering of interests in a Partnership, including fees, costs and expenses incurred in connection with the offering of limited partner interests in accordance with the Alternative Investment Fund Managers Directive ("AIFMD") (including any fees, costs and expenses incurred in connection with the formation and marketing of a parallel fund that is an alternative investment fund within the meaning of the AIFMD), other national private placement regimes, expenses related to complying with the reporting requirements of AEOI (as defined below) and certain regulations and other administrative guidance thereunder and, in each case, similar regulations and administrative requirements in other jurisdictions, and printing costs (organizational expenses will not include placement fees or expenses related to entering, negotiating and complying with side letters or most favored nations processes associated with side letters); (v) fees, costs and expenses incurred in connection with the discovery,

evaluation, acquisition, disposition, holding, hedging or monitoring of investments (whether or not consummated), including, without limitation, private placement fees (other than fees paid to TowerBrook Financial), sales commissions, appraisal fees, costs and expenses, taxes, brokerage fees, costs and expenses (including those of prime brokers) (see “Brokerage Practices” on page 37 below), depositary fees, underwriting commissions and discounts, investment sourcing database licenses and fees, mobile device and conference call service fees, costs and expenses, syndication, solicitation, arranger, clearing, settlement and bank charges, other fees, costs and expenses in respect of derivative contracts (including any payments under, and any margin expenses relating to, such derivative contracts or any posting of margin or collateral with respect to such derivative contracts), and legal, accounting, investment banking, advisory, consulting, information services and professional fees, costs and expenses (which reimbursement in respect of professional fees may include payments to affiliates of TowerBrook); (vi) travel-related fees, costs and expenses (including transportation, meal, entertainment and lodging fees, costs and expenses) related to or arising from the sourcing, discovery, evaluation, acquisition, holding, hedging, monitoring or disposition of investments, including potential investments (which may include travel by way of private or non-commercial planes at rates not in excess of commercial rates for first class or business class travel); (vii) fees, costs and expenses incurred in connection with the carrying, hedging, or management of investments, including custodial, depositary, actuarial, trustee, transfer agent, accounting, record keeping and other administration fees, costs and expenses, as well as portfolio accounting and reporting system licenses and fees, costs and expenses (including internal costs that the Firm may incur to produce a Partnership’s books and records), portfolio company reporting system licenses and fees, costs and expenses, and performance management system licenses and fees; (viii) fees, costs and expenses incurred in connection with any market data, relevant news or third-party research services and related terminals for the delivery of such services; (ix) fees, costs and expenses incurred in connection with the preparation and distribution of a Partnership’s reports and financial statements, tax returns, K-1s (or similar schedules) and other communications with the partners of a Partnership and the limited partner advisory board (each, an “Advisory Board”) of a Partnership, including fees, costs and expenses incurred in connection with (A) purchasing, licensing or leasing computer software systems and hardware for such uses, (B) providing the partners of a Partnership access to a database or other forum hosted on a website designated by a Partnership, (C) fees, costs and expenses incurred with investor webcasts, (D) representation by the partnership representative as defined in the partnership agreement of a Partnership and (E) preparation of any reports for, and for information requests of, one or more limited partners of a Partnership; (x) fees, costs and expenses of any third party administrator hired to provide fund administration services to a Partnership; (xi) fees, costs and expenses incurred in connection with the valuation of assets of a Partnership; (xii) attorneys’ and accountants’ fees, costs, expenses and disbursements (including allocable compensation for in-house attorneys employed by the Firm or its affiliate); (xiii) taxes and other governmental charges levied against a Partnership (including under the Bipartisan Budget Act of 2015); (xiv) insurance premiums and expenses, including for errors, omissions, fidelity, crime, general partner liability, directors’ and officers’ liability policies; regulatory and litigation fees, costs and expenses, and damages, including regulatory expenses of TowerBrook and its affiliates (including affiliates that perform sub-advisory services to a Partnership) incurred in connection with the operation of a Partnership and any investment (including fees, costs and expenses related to the preparation and filing of Form PF and other similar U.S. and non-U.S. regulatory filings and fees, costs and expenses related to complying with the AIFMD and other national private placement regimes, fees,

costs and expenses related to complying with the reporting requirements of Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (“AEOI”) and certain regulations and other administrative guidance thereunder and, in each case, similar regulations and administrative requirements in other jurisdictions); (xv) fees, costs and expenses incurred in connection with any litigation or government inquiry, investigation, examination or proceeding involving a Partnership or any of its investors or investments, including the amount of any judgment, settlements or fines; (xvi) fees, costs and expenses associated with maintaining a Partnership and any of its subsidiary entities, including fees, costs and expenses incurred in connection with the organization, operation and restructuring of such subsidiary entities; (xvii) interest on, and fees, costs and expenses arising out of, a Partnership’s borrowings, investment guarantees, the incurrence of leverage and indebtedness (including guarantees), including derivatives and swaps (including the fees, costs and expenses incurred in obtaining lines of credit, loan commitments and letters of credit for the account of a Partnership); (xviii) fees, costs and expenses incurred in connection with the dissolution, winding up or liquidation of a Partnership; (xix) fees, costs and expenses relating to defaults by partners of a Partnership in the payment of any capital contributions but only to the extent not borne by the defaulting partners; (xx) out-of-pocket fees, costs and expenses for transactions that are not consummated; (xxi) fees, costs and expenses incurred in connection with any restructuring or amendments to the constituent documents of a Partnership and related entities (including alternative investment vehicles and special purpose investment vehicles) (whether or not consummated); (xxii) fees, costs and expenses relating to transfers of partnership interests (and admission of a substitute partner) or a permitted withdrawal of a Partner (but only to the extent not paid or otherwise borne by the relevant transferring Partners of a Partnership and/or the assignee or the withdrawing Partner, as applicable); (xxiii) fees, costs and expenses incurred in connection with the formation of any alternative investment vehicles or special purpose investment vehicles to the extent permitted under a Partnership’s Governing Documents; (xxiv) fees, costs and expenses incurred in connection with any amendments, modifications, revisions or restatements to the constituent documents of a Partnership, Partnership related entities or any special purpose investment vehicles; (xxv) fees, costs and expenses incurred in connection with any indemnification obligations of a Partnership; (xxvi) fees, costs and expenses incurred in connection with distributions to the Partners of a Partnership; (xxvii) fees, costs and expenses incurred in connection with any meetings of Partner(s) of a Partnership called by the general partner of a Partnership; (xxviii) fees, costs and expenses incurred in connection with any meetings of the Advisory Board of a Partnership called by the general partner of a Partnership; (xxix) reasonable out-of-pocket expenses incurred by the members of the Advisory Board of a Partnership in connection with the fulfillment of their duties pursuant to the Governing Documents of a Partnership (including transportation, meal, entertainment and lodging expenses); (xxx) fees, costs and expenses incurred in connection with annual meetings called by the general partner of a Partnership for the chief executive officers, chief financial officers and other senior managers of a Partnership’s portfolio companies; (xxxi) expenses incurred in connection with any meetings of TowerBrook’s Senior Advisory Board (“SAB”) or TowerBrook’s Management Advisory Board (“MAB”), in each case, called by a Partnership’s general partner (including transportation, meal, entertainment and lodging expenses), including expenses incurred by the partners and employees of TowerBrook and members of the SAB and MAB in connection with attending such meetings; (xxxii) compensation and other similar expenses of consultants (including industry executives, advisors, research consultants, sourcing consultants, expert networks, operating executives, subject matter and

industry and regulatory experts or other persons acting in a similar capacity) who provide services to a Partnership or its portfolio companies (including with respect to potential portfolio investments), expenses incurred in connection with engaging and recruiting consultants for the recruitment of potential MAB and SAB members and, to the extent not borne by the applicable portfolio company, expenses incurred in connection with engaging and recruiting consultants for the recruitment of portfolio company board members and other executives, in each case, whether or not such persons are engaged by a Partnership and/or its affiliates in an exclusive or non-exclusive capacity; (xxxiii) a Partnership's proportionate share of fees payable by TowerBrook to members of the MAB and SAB, but not including the compensation of any of the Firm's senior advisors on the Partnership's investment committee (subject to any applicable caps on such fees pursuant to a Partnership's LPA); however, any such caps will not apply to any fees, costs or expenses incurred by members of the MAB or SAB in performing services (such as, without limitation, transportation, meal, entertainment and lodging expenses, which will be reimbursable by the Partnership) and any compensation payable to members of the MAB or SAB that is borne by or allocable to a given portfolio company and not borne directly by a Partnership; (xxxiv) fees, costs and expenses incurred in connection with transfers of interests by partners of a Partnership that are not otherwise borne by the applicable transferor or transferee; (xxxv) fees, costs and expenses incurred in connection with the preparation and negotiation of, and compliance with, side letters and the most favored nations processes associated therewith; (xxxvi) fees, costs and expenses incurred in connection with the formation, maintenance, operation, administration and liquidation of any entities through which a Partnership makes, holds or manages investments, including (A) rent, employee costs, office expenses and administrator fees incurred with respect to tax planning and tax compliance for such entities and (B) without duplication, if the Firm or TCP UK (as defined below) establishes any subsidiaries to manage such entities, the allocable rent and other overhead of such subsidiaries; and (xxxvii) any other fees, costs and expenses permitted by a Partnership's Governing Documents. This list is not intended to be exhaustive; prospective and existing limited partners are advised to review the applicable Partnership's Governing Documents for a more extensive description of the fees, costs and expenses associated with an investment in the Partnerships.

As further described herein and in the applicable Governing Documents of each Partnership, it is TowerBrook's practice to use or retain certain consultants (including but not limited to the MAB and SAB) to provide services to (or with respect to) one or more Partnerships or certain current or prospective portfolio companies in which one or more Partnerships invest. Such consultants may provide services in relation to the identification, acquisition, holding, improvement and disposition of portfolio companies, including operational aspects of such companies. In certain circumstances, these services also include serving in management or policy-making positions for portfolio companies. Consultants receive compensation, including but not limited to cash fees, retainers, transaction fees, profits or equity interests in a portfolio company, profits or equity interests in one or more Partnerships, Co-Investment Vehicle Clients, or general partners, remuneration from TowerBrook and/or its Partnerships or affiliates or other compensation, which typically is determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of such consultants, a percentage of the value of the portfolio company at the time of investment, a percentage of the capital invested in such portfolio company by the Partnership, amounts charged by other providers for comparable services, the degree to which the Consultant contributed to the sourcing, evaluation or execution of the applicable investments, and/or a percentage of cash flows from such company. Consultants also

generally will be reimbursed for certain travel and other costs in connection with their services. As described above, no such amounts will offset the management fee. The use of consultants subjects TowerBrook to conflicts of interest, as discussed under “Conflicts of Interest,” below.

As noted above, the Partnerships pay or reimburse TowerBrook or its affiliates for insurance premiums and expenses, including without limitation, for errors, omissions, fidelity, crime, general partner liability, directors’ and officers’ liability policies, however, a portion of such insurance premiums and expenses which are deemed to benefit TowerBrook are borne by TowerBrook.

To the extent that any operating expenses are incurred for the benefit of a Partnership and any other pooled investment vehicle or account managed or advised by the Firm, such operating expenses will generally be borne by each benefiting vehicle on a pro rata basis or in such other manner as the general partner determines in good faith to be reasonable. The Firm may from time to time consult with outside accounting and legal professionals or the Advisory Board of a Partnership in making determinations with respect to the allocation of fees, costs or expenses and the Firm may rely on such advice in allocating expenses.

In certain circumstances, one Partnership may pay an expense common to multiple Partnerships (including, without limitation, legal expenses for a transaction in which all such Partnerships participate, or other fees or expenses in connection with services the benefit of which are received by other Partnerships over time), and be reimbursed by the other Partnerships for their share of such expense, without interest. While TowerBrook believes such circumstances to be highly unlikely, it is possible that one of the other Partnerships could default on its obligation to reimburse the paying Partnership. In certain circumstances, TowerBrook may advance amounts related to the foregoing and receive reimbursement from the Partnerships to which such expenses relate.

Investment vehicles owned by TowerBrook investment professionals, employees and related persons invest in certain Partnerships. Such persons, as well as certain co-investors and unrelated persons, may not pay management fees and/or be subject to performance based carried interest in connection with their investment in the Partnerships. In addition, certain special purpose partnerships that invest alongside other Partnerships in certain investments do not pay management fees and are not subject to performance based carried interest in connection with their investment in such special purpose partnerships.

The general partner of a Partnership, in its sole discretion, may call capital for management fees and other expenses or pay such fees and expenses out of a Partnership’s current income and proceeds from disposition of investments.

If any limited partner is participating in a co-investment alongside a Partnership (a “Co-Investor”), such Co-Investor will typically bear its *pro rata* share of fees, costs and expenses related to the sourcing, monitoring, investigation, development, acquisition or consummation, ownership, maintenance, hedging and disposition of the underlying co-investments. In the event that a Co-Investor participates in a co-investment through a Co-Investment Vehicle Client, the Co-Investor will generally bear its *pro rata* share of the aggregate organizational costs and expenses of such Co-Investment Vehicle Client, unless such organizational costs and expenses (and related transaction costs of the relevant investment) are borne by the portfolio company in which the applicable Partnership and such Co-Investment Vehicle Client invest. With respect to a co-



investment opportunity, TowerBrook generally endeavors to have each Co-Investor agree at the time it makes a binding commitment to participate in an investment to be responsible for its *pro rata* share of any fees, costs and expenses relating to such co-investment opportunity should the investment not be completed (a “Broken Deal”), though often a Co-Investor will not agree to be responsible for any such fees, costs or expenses. In the event of a Broken Deal, all fees, costs and expenses relating to such Broken Deal generally are allocated as follows: (i) to the extent a Co-Investor has agreed to be responsible for its *pro rata* share of any fees, costs and expenses related to the Broken Deal, to the Co-Investor; (ii) to the extent a Co-Investor has not agreed to be responsible for its *pro rata* share of any fees, costs and expenses related to the Broken Deal, to the Partnerships on whose behalf TowerBrook evaluated and pursued the Broken Deal to the extent consistent with the terms of the Governing Documents of such Partnerships; and (iii) to the extent that fees, costs and expenses relating to a Broken Deal are not allocated to a Co-Investor or a Partnership pursuant to the foregoing clauses (i) and (ii), to TowerBrook. TowerBrook or any of its affiliates may (or may not) in their discretion (a) charge performance based carried interest, management fees or other similar fees to Co-Investors and (b) collect customary fees in connection with actual or contemplated portfolio investments that are the subject of such co-investment arrangements (such as fees that may be considered Other Fees under a Partnership’s LPA). Any such carried interest, management fees or other similar or customary fees that are allocable to the investment of Co-Investors will not constitute Other Fees and will not reduce the management fees otherwise payable by the applicable Partnership(s) alongside which such Co-Investors are investing in the underlying investment.

Neither TowerBrook nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

Certain affiliates of Wafra Strategic Investors L.P. (“WSI”) hold a 10% minority equity interest in the Firm. This interest entitles WSI to participate in the net fee income and carried interest from certain Partnerships managed or advised by the Firm, including 10% of the net fee income and 5% of the carried interest attributable to such Partnership. WSI does not participate in the investment process or the day-to-day management of the Firm, but has certain minority rights in respect of entities that indirectly hold interests in the general partners and the investment managers of the Firm’s investment funds, including the right to receive certain performance information related to the Firm’s investment funds. Affiliates and clients of WSI are limited partners in certain of the Firm’s investment funds and co-invest in certain investments made by the Firm’s investment funds.

TowerBrook has retained LeverPoint to provide certain services for the Partnerships, the cost of which are borne by the Partnerships. Functions to be provided by LeverPoint may include basic accounting, wires and payments, cash reconciliations, and merging and posting investor communications. TowerBrook believes that retaining LeverPoint will enhance the level of service we provide to our investors due to the superior processing capabilities of the administrator, increased security, enhanced segregation of duties, and ongoing updates on industry best practices and processes.

## **Performance Based Fees and Side-by-Side Management**

As described in the Fees and Compensation section above, the general partners of certain Partnerships are entitled to performance-based carried interest. Performance-based carried interest may create an incentive for TowerBrook to make investments on behalf of the Partnerships that are riskier or more speculative than would be the case in the absence of such carried interest. TowerBrook seeks to address these conflicts through careful vetting of investment opportunities by its investment professionals and disclosure of investments to limited partners by way of capital calls or other notices distributed to the limited partners in advance of or following each investment and quarterly reports to the limited partners. Additionally, investment vehicles owned by TowerBrook investment professionals invest in certain Partnerships in an effort to align TowerBrook's and such Partnerships' interests. Furthermore, the constituent documents of the Partnerships that provide for performance-based carried interest have after-tax "claw back" arrangements as described in the Fees and Compensation section above.

Although TowerBrook and its affiliates accept performance-based carried interest from some Partnerships, but not others, TowerBrook does not believe that it faces conflicts of interest in this regard because the Partnerships that are not subject to performance-based carried interest do not make investments other than investments alongside Partnerships that are subject to performance-based carried interest.

TowerBrook maintains policies and procedures relating to allocations of investment opportunities between or among the Partnerships. TowerBrook may, from time to time, be presented with investment opportunities that fall within the investment objectives of more than one Partnership. As a general matter, TowerBrook will allocate investment opportunities that are within such common objectives between the Partnerships in a manner that TowerBrook believes in good faith to be fair and reasonable over time.

When determining whether an investment opportunity (including a follow-on investment opportunity) is appropriate for the PE Partnerships or the TSO Partnerships, TowerBrook will consider the factors and circumstances that TowerBrook considers to be relevant to the determination (the "Investment Allocation Considerations"), which may include, without limitation: (i) the respective investment guidelines, parameters, restrictions, strategies and objectives of the applicable Partnerships (each of which may take into account certain other Investment Allocation Considerations); (ii) any priority (or exclusivity) requirements under the respective Partnerships' Governing Documents; (iii) the size, nature and type of investment opportunity; (iv) current and anticipated market and general economic conditions; (v) the costs and complexity of allocating the investment opportunity across multiple Partnerships; (vi) the risk profile of the investment opportunity in light of the Partnerships' respective risk tolerances and the composition of such Partnerships' existing portfolios; (vii) the probability that an investment will be a control-oriented investment; (viii) the desire to achieve or maintain diversification, including with respect to exposure to asset classes, geographic exposure, currency exposure, exposure to the same, similar or correlated sectors or industries and commodity exposure; (ix) the respective investment time horizons of the respective Partnerships and the proximity of such Partnerships to the end of their respective specified investment periods or specified terms; (x) available capital of the respective Partnerships, including funding limitations and expected cash flows; (xi) degree of leverage availability and any requirements or other terms of any existing leverage facilities; (xii)

existing contractual rights or restrictions or fiduciary duty considerations that are relevant to the respective Partnership's participation in the investment opportunity, whether arising out of an existing investment by such Partnership, the terms of a non-disclosure agreement to which such Partnership is party or otherwise; (xiii) the probability/possibility of future capital investments by such Partnerships with respect to a follow-on investment opportunity, and the purpose and/or circumstances of the follow-on investment; (xiv) the existence, type, nature and role of co-investors; (xv) availability of management, director or advisory talent; (xvi) legal and/or regulatory restrictions or consequences; (xvii) tax consequences; and (xviii) potential conflicts of interest, including whether a Partnership has an existing investment (directly or indirectly) in the portfolio company or issuer in question and the portfolio company or issuer in question is a competitor and/or a potential transaction partner of, or lender to, an existing portfolio company or issuer of a Partnership.

The possibility exists that multiple Partnerships with similar strategies that do not, by their terms, invest together, may have capital available for investment at the same time (including in connection with a follow-on investment in a portfolio company of a Partnership). If an investment opportunity develops that is within the investment parameters and strategies of two or more Partnerships that do not, by their terms, then invest together, TowerBrook will seek to allocate such investment in accordance with its investment allocation policies. In certain instances, if and as required by the participating Partnerships' Governing Documents, TowerBrook will bring such conflict to the applicable Partnerships' Advisory Boards, which are comprised of representatives of the investors in such Partnerships. In such case, the applicable Partnerships' Advisory Boards will approve or disapprove of such co-investment, and if approved, TowerBrook will allocate the opportunity through a methodology determined by TowerBrook in consultation with such Advisory Boards, subject in all cases to the applicable provisions of the Governing Documents of such Partnerships.

Except as required by the LPA of a particular Partnership, TowerBrook is under no obligation to present any particular investment opportunity to any particular Partnership. TowerBrook cannot assure that a Partnership will participate in all investment opportunities that may meet its investment objectives. Moreover, the application of the Investment Allocation Considerations to a particular investment opportunity may result in allocations of certain investments among Partnerships on a basis that is not *pari passu* or in a manner that is different (or less favorable to a Partnership) than similar investment opportunities were allocated amongst such Partnerships in prior situations.

TowerBrook has adopted guidelines governing co-investment opportunities pursuant to which TowerBrook may, to the extent it believes in its sole discretion that it is appropriate to do so, offer any limited partner of a Partnership or any third party the opportunity to co-invest in any transaction in which a Partnership has made, or will make, an investment, subject in all cases (including with respect to the allocation of co-investments among potential co-investors) to the provisions of the LPA of the applicable Partnership, the terms of any side letter or other terms negotiated with a Partnership's limited partners with respect to the particular Partnership and the terms of TowerBrook's co-investment guidelines. Such guidelines set forth certain factors that TowerBrook may consider, based on the facts and circumstances of a potential investment, in determining whether or not to offer a co-investment opportunity to a potential co-investor. Such factors may include, without limitation, the jurisdiction in which the co-investor is based, any

existing relationships between the co-investor and management of the relevant portfolio company or any other party relevant to the transaction, any relevant experience of the co-investor in the same industry or sector as the relevant portfolio company, if the co-investor may provide a strategic, sourcing or similar benefit to the Firm, a Partnership, a portfolio company or one or more of their respective affiliates, or any other factors which TowerBrook deems relevant. Although a prospective co-investor's willingness to invest in future Partnerships may be considered by TowerBrook, it generally will not be the sole determining factor considered by TowerBrook in identifying co-investors. TowerBrook may grant certain third-party investors the opportunity to evaluate specified amounts of prospective co-investments in Partnership portfolio companies or otherwise to have priority in co-investment opportunities. Furthermore, decisions regarding whether and to whom to offer co-investment opportunities may be made by TowerBrook or its related persons in consultation with other participants in the relevant transactions, such as a co-sponsor. Co-investment opportunities may, and typically will, be offered to some and not to other limited partners of a Partnership, and the consideration of the factors set forth above may result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments may receive none.

The structure and terms of any co-investment opportunity to be offered by TowerBrook to any limited partner of a Partnership shall be determined by TowerBrook, subject to the restrictions, if any, set forth in the LPA of the relevant Partnership. TowerBrook or any of its affiliates may (or may not) in their discretion charge performance based carried interest, management fees or other similar fees to co-investors. Any such carried interest, management fees or other similar or customary fees that are allocable to the investment of co-investors will not be considered Other Fees and will therefore not reduce the management fees otherwise payable by the applicable Partnership(s) alongside which such co-investors are investing in the underlying investment.

When and to the extent that employees and related persons of TowerBrook and its affiliates make capital investments in or alongside certain Partnerships, TowerBrook and its affiliates are subject to conflicting interests in connection with these investments. There can be no assurance that any Partnership's return from a transaction will be equal to and not less than another Partnership participating in the same transaction or that it will be as favorable as it would have been had such conflict not existed.

## **Types of Clients**

TowerBrook and its affiliated investment managers provide advisory services to privately offered funds that generally pursue either a "control oriented" private equity investment strategy or a "non-control oriented" structured opportunities investment strategy. The Firm also serves as investment manager to various co-investment vehicles structured to facilitate investments by third party co-investors alongside the Partnerships.

The Partnerships may include alternative investment vehicles established from time to time in order to permit one or more investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons. Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the Governing Documents of such vehicles and the related Partnership.

Limited partners in the Partnerships may include high net worth individuals, pension plans, sovereign wealth funds, endowments, foundations, banks, pooled investment vehicles (*e.g.*, funds-of-funds), trusts, estates or charitable organizations, and corporate or business entities. Investment advice is provided directly to the Partnerships and not individually to the limited partners.

Details concerning applicable limited partner suitability criteria are set forth in the respective Partnership's Governing Documents and subscription materials. Although TowerBrook and/or its affiliates have the authority to accept commitments for lesser amounts, the minimum commitment in the Partnerships is generally \$10 million. Each limited partner of a Partnership is required to meet certain suitability qualifications, such as being an "accredited investor" within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended, or being a "qualified purchaser" as defined under the Investment Company Act of 1940, as amended.

TowerBrook and its affiliates may enter into separate agreements, commonly referred to as "side letters", with certain limited partners with respect to the Partnerships that would have the effect of establishing rights under, altering, or supplementing the terms of the LPA of the applicable Partnership with respect to such limited partner, in a manner more favorable to such limited partner than those applicable to other limited partners in such Partnership. Such rights or terms pursuant to such agreements may include fee or carried interest arrangements with respect to a limited partner (including any reduction or waiver of such fee or carried interest), reporting obligations of TowerBrook, waiver of certain confidentiality obligations, consent of TowerBrook to certain transfers by a limited partner, indemnification, sovereign immunity, payment of placement fees, Advisory Board representation, investment excuse rights, rights or terms necessary in light of particular organizational, legal, regulatory or tax characteristics of a limited partner or arrangements with respect to other investment funds or accounts managed or advised by TowerBrook.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

On behalf of the PE Partnerships, TowerBrook generally pursues control-oriented private equity investments in large and middle-market European and North American companies. On behalf of the TSO Partnerships, TowerBrook generally pursues investments in "structured opportunities". TowerBrook generally considers "structured opportunities" to be complex transactions incorporating contractual downside protection that take advantage of changing market conditions or situation-specific events where traditional control-oriented private equity attributes may not apply.

TowerBrook strives to control its investment risk by staging its capital commitments. In the case of equity investments by the PE Partnerships, TowerBrook usually requires the initial investment to have sufficient critical mass to survive as a stand-alone entity, but may seek to identify one or more add-on acquisitions at the time of the initial investment. Investments by the PE Partnerships primarily take the form of leveraged buy-outs, leveraged build-ups and distressed situations with a path to control. The TSO Partnerships invest primarily in not-for-control stressed and distressed debt, structured equity and structured assets, as described in more detail below.

Buy-outs: TowerBrook pursues, on behalf of the PE Partnerships, buyouts of what TowerBrook believes at the time of the acquisition to be fundamentally strong businesses in complex situations

and collaborates with corporate sellers to identify divestiture candidates that are not appropriate for auction. The Firm attempts to identify fragmented industries with favorable economic fundamentals and long-term growth potential, where companies can be acquired at attractive valuations.

Distressed Situations with a Path to Control: TowerBrook regards “distress” as a tactical opportunity for the PE Partnerships to acquire an ownership interest in a viable business at an attractive valuation. In pursuing this strategy, TowerBrook targets fundamentally sound companies that are suffering from financial distress or a capital markets dislocation. These are generally difficult, highly complex and/or contrarian value investment opportunities. All potential targets should have sound business fundamentals, a compelling valuation and substantial upside opportunity.

Not-for-Control Stressed and Distressed Debt: These are typically corporate loans, bonds and other financial obligations and securities in the secondary market that are priced at a discount to par. This category also includes primary privately negotiated debt instruments, rescue financing and debtor-in-possession (DIP) financing, where the investment is structured to offer significant downside protection and, in some cases, the potential to convert the holding into equity. In the case of both secondary market purchases and primary privately negotiated debt investments, the TSO Partnerships will focus on situations where, at the time of the initial investment, TowerBrook believes in good faith that a path to control is not reasonably probable. Debt investments where a path to control is reasonably probable at the time of initial investment will be allocated exclusively to the TowerBrook PE Partnerships.

Structured Equity: These are typically equity investments into an operating company incorporating structural and contractual protection, in situations where TowerBrook has no initial intent of gaining control or TowerBrook believes in good faith that it is not reasonably probable that a Partnership will gain control. This may involve investment in a combination of two or more elements of a company’s capital structure, such as convertible preferred shares, payment-in-kind preferred shares, warrants, convertible debt and common equity, where the investment can be structured to offer strong minority shareholder rights, preferred participation in the capital structure and potential upside through some equity participation. TowerBrook is generally not expected to invest in minority stakes through common equity only.

Structured Assets: These are typically real assets, cash flow streams, portfolio purchases or other specialty finance assets. Suitable assets are likely to be found in industries such as transportation, media rights, natural resources, power generation, specialty finance and telecommunications infrastructure, among others. In the case of structured assets, TowerBrook, on behalf of the TSO Partnerships, will focus on investments where the generation of franchise value or goodwill is not anticipated at the time of the initial investment.

TowerBrook’s investment strategy is based on two fundamental principles: (i) focused proprietary sourcing of investment opportunities; and (ii) a proactive, value-added approach to overseeing portfolio companies.

**Proprietary Sourcing.** TowerBrook generally avoids competitive auctions by seeking to source investment opportunities on a proprietary basis through its network of long-standing relationships

and through targeting special situations that attract few or no competitors because of the complex or contrarian nature of the investment opportunity. TowerBrook proactively pursues proprietary opportunities by formulating and researching investment theses and initiating dialogue about potential acquisitions with the management teams or owners of prospective target companies. TowerBrook consults with third-party investment and industry experts to assist the Firm in identifying noncompetitive investment opportunities and developing a proprietary advantage when there is competition for investment opportunities. TowerBrook will also use industry experts as part of its overall due diligence process to help evaluate the operational aspects of potential investments, existing portfolio companies, and the macro-economic environment to make informed investment decisions.

In the case of investments made by the TSO Partnerships, TowerBrook will strive to limit the potential risks of capital impairment that stem from the nature of many structured opportunities, including tighter due diligence timeframes, more limited available information and, by definition, lower levels of influence compared with private equity investments. Risk will be mitigated in part through structural and contractual protection and, in some instances, governance rights.

In the case of investments made by the PE Partnerships, TowerBrook will generally develop a comprehensive understanding of an industry before committing to an opportunity. Although TowerBrook considers itself a generalist in terms of industry focus, it has built up substantial knowledge and expertise in the following industry sectors: Healthcare Products and Services, Retail, Luxury, Financial Services, Consumer Goods, Telecommunications, Media, Chemicals, Knowledge Services, and Selected Industrial Segments. TowerBrook seeks to leverage this experience by proactively looking for new opportunities in these sectors. In other sectors, TowerBrook will, at the expense of the applicable Partnership, engage third-party industry experts to assist with industry and investment analysis.

When analyzing new opportunities, TowerBrook seeks to be rigorous in maintaining price discipline and looks wherever possible to structure downside protection into new investments, including use of vendor loan financing and earn-out structures. When suitable opportunities do not present themselves, TowerBrook refrains from putting money to work.

**Overseeing Portfolio Companies.** TowerBrook believes that the management teams of its portfolio companies are a key asset of any investment, and, in connection with its control investments, it will look wherever possible to strengthen the management team post-closing. With respect to control investments, TowerBrook collaborates with the management teams of portfolio companies to oversee the implementation of operational improvements.

**Analysis of Exit Scenarios, Realizations.** From the outset, TowerBrook will carefully consider the potential to exit an investment. It will determine the most likely exit route at an early-stage meeting of the applicable Partnership's transaction committee at which a specific investment is considered, while all forms of exit will be evaluated throughout the investment's life. Potential routes to realizations may include, without limitation, outright sales, initial public offerings or full or partial returns of capital by holding an asset until maturity (in the case of debt instruments) or restructurings. The most appropriate route chosen will eventually depend on the nature of the underlying asset and the financial market conditions at any given time.

## **Certain Associated Risks**

All investing involves a risk of loss that investors should be prepared to bear. The descriptions contained below are a brief overview of different risks related to TowerBrook's investment strategies; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operations of the Partnerships. Investors should consider an investment in a Partnership as involving a high degree of financial risk and should therefore carefully consider all risk factors set forth in a Partnership's Governing Documents. Each prospective investor should carefully review the applicable Partnership's Governing Documents before deciding to make an investment in a Partnership.

**General Business and Management Risk.** Investments subject the Partnerships to the general risks associated with the underlying businesses or assets, including market conditions, changes in regulatory requirements, reliance on management at the company level, interest rate and currency fluctuations, general economic downturns, domestic and foreign political situations and other factors. With respect to management at the portfolio company level, many portfolio companies rely on the services of a limited number of key individuals, the loss of any one of whom could significantly adversely affect the portfolio company's performance. While in all cases TowerBrook will monitor portfolio company performance, the management of each portfolio company will have day-to-day responsibility over such portfolio company.

**Dependence on Key Personnel.** The success of the Partnerships is highly dependent on the expertise and performance of TowerBrook's Managing Directors. There can be no assurance that the Managing Directors will continue to be associated with TowerBrook or any of its affiliates throughout the life of the Partnerships, as they are under no contractual obligation to remain with TowerBrook or any of its affiliates for all or any portion of the term of any Partnerships. The loss of the services of one or more of these individuals could have an adverse effect on the performance of the Partnerships.

**Responsible Ownership Considerations.** The Firm's approach is to take into account certain Responsible Ownership considerations, including environmental, social and governance factors in the discovering, developing, negotiating, evaluating, acquiring, structuring, holding, carrying, monitoring, managing and disposing of portfolio investments. Although compliance with such factors could result in compliance expenses or costs that otherwise would not apply to certain investment opportunities, the Firm believes that responsible investing enhances the long-term value of portfolio investments and is an important element of TowerBrook's investment discipline. Furthermore, there are no universally accepted Responsible Ownership and/or ESG standards, and not all investors may agree on the appropriate standards to apply in a particular situation. The Firm will apply Responsible Ownership standards in its sole discretion.

**Liquidity Issues.** TowerBrook often invests in instruments where there is likely to be no actively traded market. Moreover, many of the Partnerships' investments may be held by relatively few other investors. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer or of the asset, a Partnership may find it more difficult to sell such instruments when TowerBrook believes it advisable to do so or may be forced to sell them at prices lower than if the instruments were widely held. Thus, the range of disposal strategies available to the Partnership may be further limited. Finally, dispositions of investments may be



subject to contractual and other limitations on transfer, or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms obtainable upon a disposition.

**Contingent Liabilities.** In connection with investments in private securities, a Partnership may assume, or acquire a portfolio company subject to, contingent liabilities. These liabilities may be material and may include liabilities associated with pending litigation, regulatory investigations or environmental actions, among other things. To the extent these liabilities are realized, they may materially and adversely affect the value of a portfolio company. In addition, if a Partnership has assumed or guaranteed these liabilities, the obligation could be payable from the assets of the Partnership, including the unfunded commitments of investors. In connection with the disposition of an investment in a portfolio company, a Partnership may be required to make representations about the business and financial affairs of the underlying portfolio company, or be responsible for the contents of disclosure documents. A Partnership may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate or with respect to certain potential liabilities or other obligations. These arrangements may result in the incurrence of accrued expenses, liabilities or contingencies for which the general partner may establish reserves or escrow accounts. In that regard, distributions, including final distributions, to investors will be subject to any such reserves or holdbacks and investors may be required to return amounts distributed to them to fund a Partnership's indemnity obligations or other Partnership obligations (including operating expenses) arising out of any legal proceeding against a Partnership, subject to certain limitations set forth in the LPA. Furthermore, each investor that receives a distribution in error or in violation of applicable law will, under certain circumstances, be obligated to recontribute such distribution to a Partnership.

**Highly Competitive Market for Investment Opportunities.** The activity of identifying, completing and realizing attractive investments is highly competitive and involves a high degree of uncertainty. TowerBrook faces competition for investments from a variety of other investment vehicles, as well as individuals, financial institutions and other institutional investors. Additional funds with similar investment objectives may be formed in the future by other unrelated parties. There can be no assurance that TowerBrook will be able to locate and complete investments which satisfy the investment objectives of the Partnerships or that it will be able to invest fully the Partnerships' capital.

**Valuations.** A Partnership may own securities that are not publicly traded and are required to be fairly valued by TowerBrook in accordance with its valuation policies and procedures. Valuations are subject to multiple levels of review for approval. Investors should review the Partnerships' Governing Documents to understand the risks and potential conflicts of interest that may arise in connection with valuation of assets.

The valuation of the assets of a Partnership will likely affect such Partnership's reported performance. A Partnership's investments generally will have no, or a limited, liquid market, and the fair value of such investments may not be readily determinable. There is no assurance that the value assigned to an investment at a certain time will accurately reflect the value that will be realized by a Partnership upon the eventual disposition of the investment and the performance of

a Partnership could be adversely affected if such valuation determinations are materially higher than the value ultimately realized upon the disposition of the investment.

TowerBrook may change its valuation procedures and methods from time to time (within the framework of GAAP) to reflect market practice, regulatory requirements, or other factors deemed appropriate by TowerBrook.

**No Assurance of Returns.** There is no assurance that TowerBrook will be able to generate returns for limited partners, or that the Partnerships' investment objectives will be achieved, or that there will be any return of capital. Therefore, an investor should only invest in a Partnership if the investor can withstand a total loss of its investment. The past investment performance of the entities with which officers, partners and employees of TowerBrook have been associated cannot be taken to guarantee or indicate future results of any investment in the Partnerships, or in any other clients other than the Partnerships that may be formed by the Firm and/or its affiliates from time to time.

**Nature of the Partnerships' Investments.** The Partnerships' investments may be in control-oriented equity, equity-related or debt investments and/or in "structured opportunities", which TowerBrook considers to be complex transactions incorporating contractual downside protection that take advantage of changing market conditions or situation-specific events through mispriced opportunities where traditional control-oriented private equity attributes may not apply. While both types of investments offer the opportunity for significant capital gains, they also involve, by their nature, a high degree of business, financial, market and legal risk, that may result in substantial losses. In particular, these risks could arise from changes in the financial, condition or prospects of the entity in which the investment is made, changes in competitive dynamics, changes in national or international economic and market conditions and changes in laws, regulations, trade barriers, commodity prices and controls, fiscal policies or political conditions of countries in which investments are made, including the risks of war and the effects of terrorist attacks and security operations. Certain changes in market conditions may adversely affect a Partnership by reducing the value or performance of its investments or by reducing its ability to raise or deploy capital, each of which could negatively impact the returns to investors. There can be no assurance that the Partnerships will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Valuations of the investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Partnerships' activities. As a result, the Partnerships' performance over a particular period may not necessarily be indicative of the results that may be expected in future periods.

The Partnerships may make investments in companies over which TowerBrook may have limited influence. Such a company may have economic or business interests or goals that are inconsistent with those of TowerBrook and the Partnerships, and the applicable Partnership may not be in a position to limit or otherwise protect the value of its investment in the company. The Partnerships' control over the investment policies of these companies may also be limited. In addition, in certain situations, including where the issuer is in bankruptcy or undergoing a reorganization, minority investors (such as the Partnerships) may be subject to the decisions taken by majority investors and the outcome of a Partnership's investment may depend on such majority controlled decisions, which decisions may not be consistent with a Partnership's objectives.

The Partnerships may co-invest in a company with financial, strategic or other third-party investors. Such investments will involve additional risks not present in investments in which a third party is not involved, including the possibility that the co-investor may have interests or objectives that are inconsistent with those of the Partnerships or may be in a position to take (or block) action in a manner contrary to the Partnerships' investment objectives. In addition, the Partnerships may, in certain circumstances, be liable for actions of their third-party co-investors or partners.

The Partnerships' investments may involve the formations of new companies (albeit with substantial balance sheets). Significant risks are associated with the formations of such companies, which may require substantial additional capital to support expansion or to achieve or maintain a competitive position. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

The Partnerships' investments may involve turnarounds or underperforming companies or companies identified by TowerBrook as being in need of additional capital. The financial condition of such companies may be weak or their balance sheets highly leveraged and any investment in them may involve a high degree of risk.

The Partnerships may invest in debt obligations, securities and assets that are inefficiently priced as a result of business, financial, market or legal uncertainties. The level of analytical sophistication, both financial and legal, necessary for successful returns on such investments is unusually high. There can be no assurance that a general partner or TowerBrook will evaluate correctly the nature and magnitude of the various factors that could affect the value of the applicable Partnership's investments.

The Partnerships may invest in companies that operate in regulated industries including, without limitation, financial services and telecommunications. The operations of such companies will be subject to compliance with applicable regulations, and such companies may be subject to increased regulations resulting from both new requirements and re-regulation of previously de-regulated markets. Prices may be artificially controlled, and regulatory burdens may increase costs of operations. New or increased regulations could adversely affect the performance of the companies in which the Partnerships invests.

**Investor Due Diligence.** Due in part to the fact that prospective investors may ask different questions and request different information, a Partnership's investment manager or general partner may provide certain information to one or more prospective investors that it does not provide to all prospective investors. Answers and additional information provided in response to such questions may be limited, incomplete, or depend upon a specific context. None of such answers or additional information provided is or will be integrated into this brochure, and no prospective investor may rely on any such answers or information in making its decision to subscribe for an ownership interest.

**Leverage.** The Partnerships' investments will often involve leveraged acquisitions, leveraged recapitalizations or other financing arrangements, which by their nature may result in companies

undertaking a high ratio of fixed charges to available income. Such investments are inherently more sensitive to declines in revenues and to increases in expenses. Utilization of leverage is a speculative investment technique and involves risks. The leverage provided will result in interest expense and other costs incurred in connection with such borrowings, which may not be covered by available cash flow. While leverage may enhance total returns, if investment results fail to cover borrowing costs, then returns will be lower than if there had been no borrowings.

Partnerships may often leverage investments with debt financing at the portfolio company level. Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also substantially increase the risk of loss. Although the Firm will seek to use leverage in a manner that it believes is appropriate under the circumstances, the leveraged capital structure of portfolio company investments will increase the exposure of the portfolio companies to adverse economic factors such as rising interest rates, downturns in the economy, or deteriorations in the condition of the portfolio company or its industry, which may impair such portfolio company's ability to finance its future operations and capital needs and result in restrictive financial and operating covenants. Under such circumstances, a portfolio company's flexibility to respond to changing business and economic conditions may be limited. If, for any reason, a portfolio company is unable to generate sufficient cash flow to meet principal and/or interest payments on its indebtedness or make regular dividend payments, then the value of the relevant Partnership's investment in such portfolio company could be significantly reduced or even eliminated. The ability of the portfolio companies to refinance debt securities may depend on their ability to sell new securities in the public high-yield debt market or otherwise, or to raise capital in the leveraged finance debt markets, which historically have been cyclical with regard to the availability of financing. The availability of debt facilities may be further limited following guidance issued by the Federal Reserve, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corp. relating to loans to highly leveraged companies. The debt financing utilized by Partnerships to leverage investments, which may include, without limitation, Partnership-level credit facilities, may be collateralized by assets of the Partnership (and may be cross-collateralized with the assets of any parallel fund or alternative investment vehicle of the applicable Partnership or any portfolio company, and such entities may be held jointly and severally liable for the full amount of the obligations arising out of such debt financing). Furthermore, such Partnership-level credit facilities may be utilized to pay fees, costs and expenses or to finance acquisitions and may be used in lieu or in addition to Clients' calling of capital from investors. The use of such Partnership-level credit facilities generally improve internal rates of return and return multiples that are reported by TowerBrook to investors in Clients because the use of such borrowings reduces the amount of time between the capital call for an investment and a distribution of proceeds in respect of such investment, thereby reducing the time denomination employed in calculating the internal rate of return or return multiples.

**Investments In Distressed Securities And Restructurings.** The investment strategies of the Partnerships include stressed and distressed investing (*e.g.*, investments in defaulted, out-of-favor or stressed or distressed bank loans and securities) or may involve investments that become "nonperforming" following a Partnership's acquisitions thereof. The Partnerships' investments may therefore include specific securities or instruments (including bank loans and other forms of indebtedness) of companies that typically are highly leveraged, with significant burdens on cash flow, and therefore involve a high degree of financial risk. The Partnerships may also make investments in companies that are experiencing financial or operational difficulties or are

otherwise out-of-favor. Some or all of these companies may operate at a loss or with substantial variation in operating profits from period to period, and may have a need for substantial additional capital to support expansion or to achieve or maintain a stable operating position. Such companies may not have ready access to the traditional capital markets. Such companies' securities or instruments may be considered speculative, and the ability of such companies to pay their debts on schedule could be adversely affected by interest rate movements, changes in the general economic climate or the economic factors affecting a particular industry, or specific developments within such companies. Investments in companies operating in workout or bankruptcy modes also present additional legal risks, including fraudulent conveyance, voidable preference and equitable subordination risks.

The financial difficulties of a company may never be overcome and may cause such company to become subject to bankruptcy proceedings. Such investments could, in certain circumstances, subject a Partnership to certain additional potential liabilities that may exceed the value of a Partnership's original investment therein. For example, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Furthermore, investments in restructurings may be adversely affected by statutes related to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions. Such investments could be subject to federal bankruptcy law and state fraudulent transfer laws, which may vary from state to state, if the securities relating to such investments were issued with the intent of hindering, delaying or defrauding creditors or, in certain circumstances, if the issuer receives less than reasonably equivalent value or fair consideration in return for issuing such securities. If such investments constitute debt and such debt is used for a buyout of shareholders, this risk is greater than if the debt proceeds are used for day-to-day operations or organic growth. Under certain circumstances, payments to a Partnership and distributions by a Partnership to certain limited partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Such debt may also be disallowed or subordinated to the claims of other creditors if the relevant Partnership is found to have engaged in other inequitable conduct resulting in harm to other parties. A Partnership's investment may be treated as equity if it is deemed to be a contribution to capital, or if the Partnership attempts to control the outcome of the business affairs of a company prior to its filing under Title 11 of the United States Code, as amended. While the Partnerships will attempt to avoid taking the types of action that would lead to such liability, there can be no assurance that such claims will not be asserted or that the Partnerships will be able successfully to defend against them.

**Litigation.** TowerBrook anticipates that, during the term of a Partnership, a general partner, an investment manager and one or more of their respective affiliates may be named as defendants in civil proceedings. The transactional nature of the business of a Partnership exposes a Partnership, general partner, investment manager and each of their respective affiliates generally to the risk of third-party litigation. The adoption of new or enhancement of existing laws and regulations may increase the risk of litigation. Any such litigation would likely have a negative financial impact on a Partnership. For instance, the expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by a Partnership and

would reduce such Partnership's assets. A Partnership will also generally be responsible for indemnifying certain indemnitees for any losses, claims, damages or liabilities they may incur in connection with any such litigation to the extent not covered by insurance.

**Implications of Service on Creditors' Committees.** TowerBrook, on behalf of a Partnership, may elect to serve on creditors' committees, official or unofficial, equity holders' committees or other groups (in addition to boards of directors) to ensure preservation or enhancement of the such Partnership's position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If TowerBrook concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to such Partnership, it may resign from that committee or group, and such Partnership may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if such Partnership is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group and potentially thereafter.

**Private Stressed And Distressed Investments.** Sourcing, diligence, structuring and governance of stressed and distressed investments require consideration of factors that are often not present in standard private equity investing or investments in the debt of financially sound companies. If TowerBrook's evaluation of the anticipated outcome of an investment situation proves incorrect, a Partnership could experience losses. Successful investing requires a specialized skill set that includes, without limitation: (i) the ability to accurately value a company's assets and analyze its capital structure; (ii) a sophisticated knowledge of the complex legal environment in which such investing occurs, particularly bankruptcy, securities and corporate law; (iii) the experience necessary to determine accurately the financial interests and legal rights of the debtor and each of its creditor constituencies; and (iv) refined negotiating skills. A wide variety of considerations makes any evaluation of the outcome of an investment in a financially distressed company uncertain. These considerations include the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain consents from governmental authorities or others, as well as numerous other factors. In addition, TowerBrook may not have access to reliable and timely information concerning material developments affecting a company. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of TowerBrook to reliable and timely information concerning material developments affecting an investment, or which cause lengthy delays in the completion of a reorganization or liquidation proceeding. Competition from other investors may also render it unadvisable for TowerBrook to pursue intended results or promptly effect transactions.

**Non-Controlling Investments.** The TSO Partnerships may hold joint control and/or non-controlling interests in their investments and, although such Partnerships will generally seek negative covenants and other contractual restrictions for each investment, it will primarily be the responsibility of management teams and boards of directors of the underlying businesses, which may include representation by other investors whose interests may conflict with the interests of the Partnerships, to operate the portfolio companies on a day-to-day basis. Accordingly, the TSO Partnerships may have a limited ability to protect their investments in such businesses. Further,

the TSO Partnerships may not be entitled to appoint directors and may have a limited ability to protect their interests in such businesses and to influence such companies' management.

**Capital Structure Arbitrage.** In certain circumstances, the execution of a stressed or distressed investing strategy involves the ability of TowerBrook to identify and benefit from the relationships between movements in different securities and instruments within an issuer's or borrower's capital structure (*e.g.*, senior bank debt, second liens, debt securities and other obligations, convertible and non-convertible senior and subordinated debt, preferred equity and common stock). Identification and efforts to benefit from these opportunities involve uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer's securities or instruments were to fail to materialize as expected by TowerBrook, the relevant Partnerships could incur losses.

**Investments in Structured Assets.** The TSO Partnerships may invest in structured assets where TowerBrook has identified cash flow streams, portfolio purchases or other specialty finance assets that meet TowerBrook's investment criteria. Suitable assets are likely to be found in industries such as aircraft, media rights, natural resources, power generation, specialty finance and telecommunications infrastructure. Although such investments may result in significant returns to certain Partnerships, they involve a substantial degree of risk. Further, the level of analytical sophistication, both financial and legal, necessary for successful investment in assets of these kinds may be unusually high. There is no assurance that TowerBrook will correctly evaluate the intrinsic value of any or all of the assets that certain Partnerships may acquire.

**Derivatives.** The Partnerships or their investments may engage in derivative or similar transactions. These transactions may involve the purchase and sale of commodities or commodity futures, the use of forward contracts, put and call options, swap agreements (such as credit default swaps or total return swaps), floors, collars, bilateral agreements or other arrangements. Such instruments may be difficult to value, may be illiquid and may be highly volatile as a result of changes in the price of commodities or other underlying assets. In addition, derivative instruments may trade principally on markets organized outside the U.S. markets for such instruments, may be illiquid, highly-volatile and subject to interruption. Suitable hedging instruments may not continue to be available at reasonable cost. The investment techniques related to derivative instruments are highly specialized and may be considered speculative. Such techniques often involve forecasts and complex judgments regarding relative price movements and other economic developments. The success or failure of these investment techniques may turn on small changes in exogenous factors not within the control of the Partnerships or the Firm. Moreover, derivative agreements and contracts entered into by the portfolio companies may be subject to the risk that one or more counterparties thereto would default on their payment obligations to the companies, due to such counterparty's insolvency, bankruptcy or other factors that are outside of the control of TowerBrook and the portfolio companies. For all the foregoing reasons, the use of derivatives and related techniques can expose the Partnerships and their investments to significant risk of loss.

**OTC Derivatives.** The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") includes provisions that comprehensively regulate the OTC derivatives markets for the first time. The European Market Infrastructure Regulation ("EMIR") has similar requirements applicable to derivatives traded in Europe.

The Dodd-Frank Act and regulations implementing it mandate that certain OTC derivatives must be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearing member and clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose minimum margin requirements on non-cleared OTC derivatives and new requirements on holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral a Partnership is required to provide and the costs associated with providing it. Although the Dodd-Frank Act includes limited exemptions from the clearing and margin requirements for certain “end-users,” a Partnership does not expect to be able to rely on such exemptions with respect to its portfolio level hedging. In addition, the OTC derivative dealers with which a Partnership executes the majority of its OTC derivatives will be subject to clearing and margin requirements irrespective of whether a Partnership is subject to such requirements. OTC derivative dealers also will be required to post margin to the clearinghouses through which they clear their customers’ trades instead of using such margin in their operations, as is currently permitted. This will increase the OTC derivative dealers’ costs, and these increased costs are expected to be passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the possible imposition of new or increased fees.

The CFTC requires certain derivative transactions that were historically executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. The SEC may impose similar execution requirements in the future. Such requirements may make it more difficult and costly for investment funds to enter into tailored or customized transactions. They may also render certain strategies in which a Partnership might otherwise engage impossible or so costly that they will no longer be economical to implement.

Although the Dodd-Frank Act and EMIR will require many OTC derivative transactions previously entered into on a principal-to-principal basis to be submitted for clearing by a regulated clearinghouse, certain of the derivatives that may be traded by a Partnership may remain over-the-counter or principal-to-principal contracts between a Partnership and third parties entered into privately. The risk of counterparty nonperformance can be significant in the case of these over-the-counter instruments, and “bid-ask” spreads may be unusually wide in these heretofore substantially unregulated markets. While the Dodd-Frank Act, EMIR and other global regulations are intended in part to reduce these risks, its success in this respect may not be evident for some time after the regulations are fully implemented, a process that may take several years or more.

**Risks From Debt-Related Investments Generally.** The Partnerships may acquire, and the TSO Partnerships may originate, loans, bonds and other debt obligations. The borrower under a loan often provides the lenders thereunder with extensive information about its business, which is not generally available to the public. Because of the provision of such confidential information, the unique and customized nature of a loan agreement, and the private syndication of the loan, leveraged loans are generally not as easily resold as publicly traded securities, and historically the trading volume in the loan market has been small relative to, for example, the high yield bond market. In addition, the unique nature of the loan documentation may involve a degree of complexity in negotiating a secondary market purchase or sale which may not exist, for example, in the bond market. There can be no assurance that future levels of supply and demand in loan



trading will provide a sufficient degree of liquidity in the market. This means that such assets may be subject to greater disposal risk in the event that a Partnership wishes to sell such assets.

With respect to investments in loans, the return of capital, if any, will generally occur only upon the repayment of loans, and the Partnerships do not expect loans to be repaid in full for a number of years following the entering into such arrangements. Trade sales of portfolio companies to generate principal repayments may rely on the buyers' ability to finance acquisitions and cash realizations may be delayed because of deferred consideration structures. In addition, there may be a risk that capital and accrued interest (if any) in respect of an instrument may not be repaid on their due date and accordingly the issuer of such loan may default on its repayment obligations, thus causing a Partnership to suffer a loss.

Although any particular loan often will share features with other loans and obligations of its type, its actual terms will have been a matter of negotiation and will thus be unique. Any particular loan or obligation may contain terms that are not standard and that provide less protection to creditors than might be expected, including in respect of covenants, events of default, security or guarantees.

There is limited historical data available as to the levels of defaults and/or recoveries that may be experienced on loans and no assurance can be given as to the levels of default and/or recoveries that may apply to any loans originated or acquired by a Partnership. Recoveries on loans will be affected by the particular circumstances of the borrower and its owners and creditors, its assets and other factors. Ultimate recovery rates are difficult to predict and may not achieve a Partnership's investment return objectives.

The contractual rights of a Partnership, in relation to the loans that it acquires, will depend on the way in which the Partnerships acquire the loans. It is intended that a Partnership may acquire interests in loans either (i) directly or (ii) indirectly by way of a participation or sub-participation. In a participation or sub-participation arrangement, a Partnership will gain an economic exposure to a loan or group of loans without becoming a lender of record. In these circumstances, a third party, such as a loan trading desk at a financial institution, holds the loan as the lender of record and retains the voting rights in respect of the loan.

Accordingly, the contractual rights acquired by a Partnership may vary considerably and the Partnership may be required to adopt particular contractual arrangements and structures in order to satisfy the legal and regulatory requirements of a particular jurisdiction. Additionally, a purchaser by way of transfer or assignment of a loan typically acquires all the rights and obligations of the assigning institution, becomes a lender under the credit agreement with respect to the debt obligation (although its rights can be more restricted than those of the assigning or transferring institution) and has a direct contractual relationship with the borrower. Acquisition of a participation or sub-participation interest in a loan typically results in a contractual relationship only with the lender which is participating out its interest under the loan, rather than with the borrower. On the acquisition of a participation or sub-participation, a Partnership will generally not have a right to enforce compliance with the terms of the loan agreement against the borrower, and will be reliant on the lender which is participating its interest under the loan. As a result, the Partnership will assume credit risk in relation to both the borrower and the entity which is participating or sub-participating its interest under the loan.

Moreover, the Partnerships' portfolio investments, particularly investments in loans or other forms of indebtedness, may be subject to early redemption features, refinancing options, prepayment options or similar provisions which, in each case, could result in the issuer or borrower repaying the principal on an obligation held by a Partnership earlier than expected (which could result in such Partnership's investment return from such portfolio investment being less than that anticipated by such Partnership when it made the portfolio investment). As a consequence, such Partnership's ability to achieve its investment objectives may be affected.

**Investments in Debt Instruments.** A Partnership may, in certain circumstances, make investments in debt instruments or convertible debt securities in connection with investments in equity or equity-related securities (including as additional capital) or may make debt investments that have an expected return comparable to equity or equity-related securities. Such debt may be unsecured and structurally or contractually subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. Moreover, such debt investments may not be protected by financial covenants or limitations upon additional indebtedness and there is no minimum credit rating for such debt investments. Other factors may materially and adversely affect the market price and yield of such debt investments, including investor demand, changes in the financial condition of the applicable issuer, government fiscal policy and domestic or worldwide economic conditions.

**General Credit Risks.** Credit risk refers to the financial soundness of the issuer or borrower. It is the risk that the borrower or issuer will be unable to fulfill its commitment in the form of periodic interest payments and the repayment of the principal amount. Bonds have varying levels of credit risk depending on the issuer's monoline insurer (if any), hedge counterparty (if any) and liquidity provider (if any) of the financial profiles. Credit risk is often used interchangeably with default risk. However, the former also includes the risk of downgrade, which may impact the valuation of the particular bond or loan.

With respect to certain Partnerships' investments, the value of any underlying collateral, the creditworthiness of the borrower or issuer and the priority of the lien are each of great importance. A Partnership cannot guarantee the adequacy of the protection of its interest, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, a Partnership cannot assure that claims may not be asserted that might interfere with enforcement of the rights of the holder(s) of the relevant debt. In the event of a foreclosure, the liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan or a Partnership's investment in such loan, resulting in a loss to the Partnership. Any costs or delays involved in the effectuation of a foreclosure of a loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss. A Partnership may not have the right to proceed directly against obligors on such Partnership's interests.

**Below Investment Grade Securities And Loans.** The Partnerships may invest in "below investment grade" bonds of issuers, and loans made to borrowers, in a weak financial condition including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although they also may offer the potential for correspondingly high returns, these bonds or loans are likely to be particularly risky investments for reasons including the following: (i) it may be difficult to obtain information as to the true condition of such issuers or borrowers; (ii) such

investments may 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; (iii) the issuer of the securities or the borrower will frequently be, or will be, facing insolvency procedures and may be in breach of covenants and unable to pay debts as they fall due; (iv) insolvency laws and procedures will vary between jurisdictions and may be amended during the life of the applicable Partnership; (v) loans to such companies or bonds issued by such companies may 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; and (vi) in certain transactions, the loans may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the entity being liquidated.

**Middle-Market Companies.** A component of TowerBrook's investment objectives is to invest in middle-market companies. While investments in middle-market companies may present greater opportunities for growth, such investments may also entail larger risks than are customarily associated with investments in large companies. Medium-sized companies may have more limited product lines, markets and financial resources, and may be dependent on a smaller management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required. Further, there is ordinarily a more limited marketplace for the sale of interests in smaller, private companies, which may make realizations of gains more difficult, by requiring sales to other private investors. In addition, the relative illiquidity of private equity investments generally, and the somewhat greater illiquidity of private investments in small- and medium-sized companies, could make it difficult for TowerBrook to react quickly to negative economic or political developments.

**Toehold Investments.** A Partnership or a portfolio company may accumulate minority positions in the outstanding voting stock, or securities convertible into the voting stock, of potential target companies. The Partnership and/or such portfolio company may be unable to accumulate a sufficiently large position in a target company to execute its strategy. In such circumstances, the Partnership and/or such portfolio company may dispose of its position in the target company within a short time of acquiring it and there can be no assurance that the price at which such stock is sold will not have declined since the time of acquisition. This may be exacerbated by the fact that stock of the companies that such portfolio company may target may be thinly held and that the position held may nevertheless have been substantial and its disposal may depress the market price for such stock.

**Risks of Multi-Step Acquisitions.** In the event that a Partnership or a portfolio company chooses to effect a transaction by means of a multi-step acquisition (such as a first-step cash tender offer or stock purchase followed by a merger or in the case of a simultaneous acquisition and concurrent merger of two separate companies), there can be no assurance that the latter steps can be successfully consummated. This could result in the Partnership or such portfolio company, as applicable, having only partial control over the investment or partial access to its cash flow to service debt incurred in connection with the acquisition.

**Integration of Acquisitions.** A Partnership may acquire multiple companies or businesses or a portfolio company may acquire one or more companies or businesses in each case, with the intent of integrating the companies or businesses into a single portfolio company. The integration activities associated with any such acquisition are complex, and such portfolio company may encounter unexpected difficulties or incur unexpected costs as a consequence, including, without limitation: (i) the diversion of the attention of such portfolio company's management to integration matters; (ii) difficulties in the integration of the operations and systems of such portfolio company and such acquired companies; (iii) difficulties in the assimilation of the employees of such portfolio company and such acquired companies; and (iv) challenges in attracting and retaining key personnel of such portfolio company and such acquired companies. As a result, TowerBrook and the management teams and such portfolio company may be required to devote additional resources to integration activities that would otherwise be spent on additional investment activities that could benefit a Partnership.

**Portfolio Concentration.** Although the constituent documents of the Partnerships may provide for limitations regarding the amount of aggregate capital commitments that may be invested in a single portfolio company of a particular Partnership or a particular underlying business, credit or asset, diversification is not a requirement of the Partnerships. The Partnerships' portfolios may include a small number of large positions. If the Partnerships' investments are concentrated in a few issuers or industries, any adverse change in one or more of such issuers or industries could have a material adverse effect on a particular Partnership's investments. Therefore, while any potential investment concentration may enhance total returns to the partners of a particular Partnership, if any large position has a material loss returns to partners of a particular Partnership may be lower than if they had invested in a diversified portfolio.

**Foreign Investments.** Although TowerBrook intends for the Partnerships to invest primarily in companies domiciled or headquartered in North America and Europe, the Partnerships may from time to time invest in indebtedness, securities or assets of companies headquartered elsewhere. Investing outside the United States may involve greater risks than investing in the United States. In particular, the value of a Partnership's investments in foreign securities, debt obligations or assets may be significantly affected by changes in currency exchange rates, which may be volatile. Although TowerBrook may attempt to hedge against foreign currency exchange rate risks by utilizing spot and forward foreign exchange contracts, foreign currency options or other instruments, there can be no assurance that TowerBrook will be able to do so successfully or cost-effectively, and TowerBrook may decide not to hedge against such risks or to do so only incompletely. Additional risks include, without limitation: (i) risks of economic dislocations in the host country; (ii) less publicly available information; (iii) less developed regulatory institutions; and (iv) greater difficulty of enforcing legal rights in a foreign jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

Additionally, in some countries outside the U.S. and Western Europe, there is the possibility of expropriation of value, including through confiscatory taxation, limitations on the repatriation or sale of securities, debt obligations, property or other assets of the Partnerships, political or social instability or diplomatic developments, each of which could have an adverse effect on the Partnerships' investments in such foreign countries. While TowerBrook will take these factors into

consideration in making investment decisions for the Partnerships, no assurance can be given that TowerBrook will be able to evaluate these risks accurately.

**Provision of Managerial Assistance and Control; Board Participation.** TowerBrook may designate directors (and non-executive chairpersons) to serve on the boards of directors of the businesses underlying the Partnerships' investments. The designation of directors could expose the assets of a Partnership to claims by a portfolio company, its security holders and its creditors. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability which the limited liability characteristic of business operations usually ignores. If these liabilities were to arise, a Partnership could suffer losses in its investments. While TowerBrook intends to manage the Partnerships in a way that will seek to minimize exposure to these risks, the possibility of successful claims cannot be precluded.

Although such board positions in certain circumstances may be important to a Partnership's investment strategy and may enhance TowerBrook's ability to manage investments, they may also have the effect of impairing TowerBrook's ability to sell the related securities when, and upon the terms, it may otherwise desire and may subject TowerBrook and the applicable Partnership(s) to claims they would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims and other director-related claims. In general, the applicable Partnership will indemnify TowerBrook from such claims.

**Fraud.** Instances of fraud and other deceptive practices or devices employed by management or owners of portfolio companies in which a Partnership invests may undermine an investment manager's due diligence efforts with respect to such companies and, if such fraud is discovered, negatively affect the valuation of a Partnership's investments. In addition, when discovered, fraud may contribute to overall market volatility that could negatively impact a Partnership's investments. In the event of fraud by any portfolio company in which a Partnership invests, the Partnership may suffer a partial or total loss of its capital investment in that company.

**Possibility of Misconduct of Employees and Service Providers.** Misconduct by employees of a general partner, an investment manager, service providers to the Partnership and/or their respective affiliates could cause significant losses to a Partnership. Misconduct may include, without limitation, entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by a Partnership, the improper use or disclosure of confidential, personal or material non-public information, which could result in litigation or serious financial harm, including limiting a Partnership's business prospects or future marketing activities, and non-compliance with applicable laws or regulations and the concealing of any of the foregoing. Such activities may result in reputational damage, litigation, business disruption and/or financial losses to a Partnership. TowerBrook has controls and procedures through which it seeks to minimize the risk of such misconduct occurring; however, no assurances can be given that a general partner or an investment manager will be able to identify or prevent such misconduct.

**Operational Risk.** A Partnership depends on the investment manager and its other service providers to develop appropriate systems and procedures to control operational risk. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from

transactions not being properly booked, evaluated or accounted for or other similar disruption in a Partnership's operations, may cause the Partnership to suffer financial loss, the disruption of its business, liability to Clients or third parties, regulatory intervention or reputational damage. A Partnership's business is highly dependent on its ability to process transactions across numerous and diverse markets. Consequently, a Partnership relies heavily on its service providers that provide financial, accounting and other data processing systems. The ability of these systems to accommodate an increasing volume of transactions could also constrain a Partnership's abilities to properly manage its portfolio.

**Compliance Failures.** TowerBrook and certain of its affiliates, including investment managers, are regulated entities, and any compliance failures or other inappropriate behavior by them may have a material adverse effect on a Partnership. The provision of investment management services is regulated in most relevant jurisdictions, and the investment manager (and TowerBrook generally) must maintain their regulatory authorizations to continue to be involved both in the management of the Partnership's investments and to continue TowerBrook's businesses generally. An investment manager's ability to source and execute investments for the Partnership, and investor sentiment with respect to the Partnership, may be adversely affected by negative publicity arising from any regulatory compliance failures or other inappropriate behavior by any TowerBrook affiliate or TowerBrook investment professionals.

**Other Investment Activities.** TowerBrook personnel are responsible for managing Partnerships with varying investment strategies (*e.g.*, private equity and structured opportunities).

Moreover, TowerBrook personnel may serve as members of the boards of directors or similar governing bodies of various companies and may participate in other activities outside of TowerBrook. Furthermore, TowerBrook personnel may receive MNPI about various companies through such positions or otherwise. Such positions and/or receipt of MNPI may have the effect of impairing the ability of a general partner or investment manager to sell the related securities when, and upon the terms, it may otherwise desire. Conflicts may arise as a result of such activities and in the allocation of management resources. The possibility exists that the companies with which one or more of the members of the TowerBrook team is involved could engage in transactions which would be suitable for a Partnership, but in which such Partnership might be unable to invest. As a result, a Partnership may be restricted in certain investments which could negatively impact returns received by the Partnership.

Although the PE Partnerships and the TSO Partnerships generally pursue different investment strategies TowerBrook may be required, from time to time, to address potential conflicts of interests between these Partnerships, including with respect to the consummation of an investment, the administration of an investment (including with respect to exercising voting rights, granting or withholding a waiver or taking or refraining from taking any other action) or the disposition of an investment. Subject to the provisions of the Governing Documents of the applicable Partnerships, on any matter involving a conflict of interest, TowerBrook will be guided by its duties to the Partnerships and will seek to resolve such conflict in good faith and in the best interest of each Partnership, including, where deemed necessary, to cause the affected Partnership(s) to take such steps as may be necessary to minimize or eliminate the conflict, even if that would require a Partnership to (i) forego an investment opportunity or divest investments that, in the absence of such conflict, it would have made or continued to hold, (ii) vote a security or instrument of

indebtedness in a certain way, (iii) exercise or refrain from exercising any right as an equity holder or debt holder, or (iv) otherwise take action that may have the effect of benefiting TowerBrook, any of its affiliates, or another Partnership and may not be in the best interests of the affected Partnership(s).

TowerBrook and its personnel have ongoing interests, including economic interests in the Partnerships. The PE Partnerships may from time to time invest in one or more of the businesses in which the TSO Partnerships' are invested, or in competitors of such businesses, or vice versa. The performance and operation of such competing businesses could conflict with and adversely affect the performance and operation of the business in which a Partnership is invested and may adversely affect the prices and availability of business opportunities or transactions available to such business. Accordingly, such entities and persons are likely to experience a variety of conflicts of interest to the extent that the interests of a Partnership would be adversely affected by investment decisions that would otherwise be in the best interest of another Partnership. Similarly, if the TowerBrook team is faced with investment decisions that would be in the best interest of a Partnership but would otherwise adversely impact another Partnership, it may nevertheless be incentivized to make such decisions for the benefit of a Partnership to the detriment of the other Partnership if the team members are economically or otherwise incentivized to do so (*e.g.*, due to the prospect of earning more carried interest, management fee or other fees).

TowerBrook expects that the PE Partnerships and the TSO Partnerships will not invest in the same portfolio company or issuer, other than when presented with unique and compelling circumstances or, as may occasionally be the case, if TowerBrook determines that a follow-on investment in a company or issuer in which a TSO Partnership is already invested is appropriate for a PE Partnership. In the case of initial investments, in the rare instance that TowerBrook determines that an investment opportunity is to be allocated in relevant part to both the PE Partnerships and the TSO Partnerships, then the Partnerships will in all cases invest in the same levels of the company's capital structure and in approximately the same proportions. In the case of follow-on investments, if TowerBrook determines that an investment opportunity is to be allocated in relevant part to both the PE Partnerships and the TSO Partnerships, then TowerBrook will attempt to limit conflicts of interest and perceived conflicts of interest by seeking to avoid circumstances in which the PE Partnerships and the TSO Partnerships are invested in different levels of a company's capital structure or disproportionately in the same levels of a company's capital structure. However, avoiding those circumstances in the case of a follow-on investment may not always be possible for a variety of reasons, including the lack of flexibility afforded to TowerBrook to structure the follow-on investment due to the constraints presented by the existing capital structure and other facts and circumstances relating to the initial investment, availability of capital in particular Partnerships, investment limitations in a particular Partnership, age of one Partnership versus another Partnership, the availability of the applicable equity security or debt instrument in the market and several other factors. From time to time, therefore, a PE Partnership may make a follow-on investment in a company or issuer in which a TSO Partnership holds an investment in a different part of the capital structure of such company or issuer and/or in a different proportion to the investment held by such Partnerships in another part of the capital structure of such company or issuer (and vice versa). In general, such investments will be made only when, at the time of investment and after giving effect to the investment, TowerBrook reasonably believes that (i) such investment is in the best interests of both the applicable PE Partnerships and TSO Partnerships, (ii) the possibility of actual adversity between such Partnerships is unlikely and/or (iii) in light of

the particular circumstances, TowerBrook believes that such investment is appropriate, notwithstanding the potential for conflict, and TowerBrook has received, to the extent required by the applicable Partnerships' Governing Documents, any required approval for the Advisory Boards of such Partnerships.

Members of the Advisory Boards of the applicable Partnerships may themselves have conflicts of interest that do not disqualify such members from voting or consenting to matters submitted to their Advisory Boards for consideration or review. Furthermore, if a member of an Advisory Board has an interest unrelated to TowerBrook, it may not act in the best interest of a Partnership that it represents. While TowerBrook may adopt policies or procedures to address such conflicts in the future, it has not done so to date and it may not be possible to eliminate such conflicts.

Accordingly, prospective investors should expect that conflicts will arise when a TSO Partnership is investing in a company in which a PE Partnership holds, or is making, an investment. While TowerBrook will seek to limit the possibility of actual adversity between the TSO Partnerships and the PE Partnerships, no assurance can be given that such conflicts will not occur.

With respect to any other conflicts of interest, TowerBrook will endeavor to resolve them in a manner that they determine to be fair and equitable under the circumstances and over time. Nevertheless, there can be no assurance that TowerBrook will succeed in resolving any such conflicts in a manner that is fair and equitable to a Partnership.

**Cybersecurity Risks.** TowerBrook, the Partnerships and/or their respective service providers and portfolio companies are susceptible to cybersecurity risks that include, without limitation, theft, unauthorized monitoring, release, misuse, loss, destruction or corruption of confidential and highly restricted data; denial of service attacks; unauthorized access to relevant systems, compromises to networks or devices that TowerBrook, the Partnerships and/or their service providers and portfolio companies use to service the Partnerships' operations; or operational disruption or failures in the physical infrastructure or operating systems that support TowerBrook, the Partnerships and/or their respective service providers and portfolio companies. Cyber-attacks against or security breakdowns of TowerBrook, the Partnerships and/or their respective service providers and portfolio companies may adversely impact the Partnerships and their investors, potentially resulting in, among other things, financial losses; the inability of us or the investors to transact business and the Partnerships to process transactions; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs; and/or additional compliance costs. The Partnerships and TowerBrook may incur additional costs for cybersecurity risk management and remediation purposes. In addition, cybersecurity risks may also impact issuers of securities in which the Partnerships invest, which may cause a Partnership's investment in such issuers to lose value. There can be no assurance that TowerBrook, a Partnership, its service providers and/or a portfolio company will not suffer losses relating to cyber-attacks or other information security breaches in the future.

**Partnership Expenses.** A Partnership's investments will require extensive due diligence, legal, and other costs and expenses prior to their consummation and may be subject to broken deal expenses if they are not consummated. Such costs may include, without limitation, payment to third parties for successfully sourcing deals or other services and could be in the form of cash or equity in the portfolio company, which may dilute the Partnership's investment. A Partnership will



pay any fees, costs and expenses incurred in connection with the discovery, investigation, evaluation, development, acquisition, holding, monitoring or disposition of investment opportunities it pursues, whether or not such investments are ultimately consummated, including investments pursued by TCP prior to the initial closing of a Partnership that are intended to become Partnership investments. Additionally, a Partnership may enter into agreements that involve payments by the Partnership, such as reverse break-up fees, if it does not consummate the transaction. These expenses can be significant and may be material to a Partnership. A Partnership may incur, either directly or pursuant to its obligation to reimburse the general partner, investment manager or any of their respective affiliates for any such expenses advanced by them, significant expenses in connection with proposed investments that are not consummated without the opportunity for gain or recoupment of such expenses. In addition, co-investors may not agree to pay or otherwise bear fees, costs or expenses related to unconsummated co-investments. In such event, such fees, costs and expenses will be considered operating expenses of and be borne by the Partnership.

**Co-Investments.** Where appropriate and at all times subject to the Firm’s allocation policy and co-investment policy, a general partner may (but is not obligated to) provide co-investment opportunities to any person (other than such general partner and its affiliates), including to any person who participated in the origination of such investment opportunity, management team members, consultants or advisors, persons or entities who the general partner believes will be of benefit to the Partnership or one or more portfolio companies or other subsidiaries or who may provide a strategic, sourcing or similar benefit to TowerBrook, the general partner, the Partnership, a portfolio company or one or more of their respective affiliates due to industry expertise, regulatory expertise, operating expertise or otherwise, members of TowerBrook’s SAB and/or MAB, any investor in its individual capacity and any other private fund managed by TowerBrook. Co-investment opportunities may be made available through limited partnerships or other entities formed to make such investments. All co-investment opportunities will be allocated as a general partner determines in its sole discretion, subject at all times to TowerBrook’s allocation policy and co-investment policy of the respective fund.

TowerBrook has adopted a co-investment policy that it will use in making allocation decisions with respect to available co-investment opportunities for limited partners of the Partnerships (for purposes herein, a “Co-Investment Opportunity”). Pursuant to such policy, TCP would consider the following with respect to each Partnership:

- **Concentration Risk:** A Co-Investment Opportunity may be appropriate if the proposed investment opportunity presents a concentration risk for the Partnership. Examples of concentration risk may include, without limitation, (i) the investment opportunity requiring a disproportionately large amount of capital as compared to the total committed capital of the Partnership or (ii) the investment opportunity being in an industry or geography or asset class in which the Partnership or the other TowerBrook funds are already significantly invested.
- **Strategic Rationale:** Even in the absence of concentration risk, a Co-Investment Opportunity may be appropriate if TowerBrook believes there is a unique, strategic rationale to offer a Co-Investment Opportunity to a particular limited partner (a “Strategic Partner”). Examples include, without limitation, TowerBrook’s belief that:

- the jurisdiction in which the Strategic Partner is based may positively impact the likelihood of the Partnership capitalizing on a potential investment opportunity;
- the Strategic Partner has existing relationships with management or other parties relevant to the target company or lenders;
- the Strategic Partner has relevant experience in the same industry or sector as the target company;
- TowerBrook’s association with the Strategic Partner may help position companies related to the investment favorably with counterparties such as suppliers, distributors or customers;
- the Strategic Partner could be a potential ultimate purchaser of the investment at exit;
- the Strategic Partner may develop another relationship with companies related to the investment which may be beneficial to the Partnership or one or more of the other TowerBrook Partnerships;
- the allocation of the investment opportunity to a Strategic Partner may help establish, recognize, strengthen and/or cultivate relationships that may provide indirect longer-term benefits to the Partnership or one or more of the other TowerBrook Partnerships; and
- any other factors as TowerBrook deems relevant, which may include subjective determinations such as working relationships and strategic benefits to the Partnership and/or one or more of the other TowerBrook Partnerships and/or TowerBrook.

Any fees, costs, or expenses related to co-investments (irrespective of whether such co-investments are ultimately consummated), that are not borne by co-investors will be considered operating expenses of, and be borne by, the Partnership. Co-investments that are made within a reasonable time after the Partnership’s investment may be facilitated by way of a sale or other disposition of a portion of the Partnership’s interest in such investment. The capital contributions attributable thereto will be returned to the partners funding such amounts on a *pro rata* basis in proportion to their respective capital contributions in respect of such investment, as though such amounts were unexpended capital contributions, and such amounts (if not distributed) may be invested in permitted temporary investments pending the reinvestment or reuse thereof by the Partnership. Unless otherwise determined by the general partner, the purchase price for the interest in such investment to be acquired by the co-investors participating in such sale or disposition by the Partnership will be equal to original cost, and if the general partner so determines, an interest charge may be imposed thereon. Such interest charge may also be distributed on a *pro rata* basis to all partners that funded such amounts in proportion to their respective capital contributions in respect of such investment.

A general partner, an investment manager or any of their affiliates may (or may not) in their sole discretion (i) charge or otherwise receive carried interest, incentive allocation, management fees or other similar fees from any such co-investors with respect to any co-investment, and may make an investment, or otherwise participate, in any vehicle formed to structure a co-investment to

facilitate, among other things, receipt of such carried interest, incentive allocation, management fees or other similar fees, and (ii) collect customary fees in connection with actual or contemplated investments that are the subject of such co-investment arrangements. Any such carried interest, incentive allocation, management fees or other similar fees charged to co-investors with respect to any co-investment may (or may not) differ from those charged to the Partnership.

**Conflicts of Interest.** TowerBrook and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own accounts and providing transaction-related legal, management and other services to Partnerships and portfolio companies. TowerBrook will devote such time, personnel and internal resources as are necessary to conduct the business of the Partnerships in an appropriate manner, as required by the relevant Governing Documents, although the Partnerships and their respective investments will place varying levels of demand on these from time to time. In the ordinary course of TowerBrook conducting its activities, the interests of a Partnership may conflict with the interests of TowerBrook, one or more other Partnerships, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, TowerBrook will determine all matters relating to structuring transactions and Partnership operations using its reasonable judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the Advisory Boards of the participating Partnerships.

During the commitment period of a Partnership, all appropriate investment opportunities will be pursued by TowerBrook principals on behalf of such Partnership, subject to certain limited exceptions set forth in the Partnership's Governing Documents and TowerBrook's allocation policies and guidelines. Without limitation, TowerBrook principals currently manage, and expect in the future to manage, several other investments similar to those in which a Partnership will be investing, and may direct certain relevant investment opportunities to those investments. TowerBrook anticipates that TowerBrook's principals and TowerBrook's investment staff will continue to manage and monitor such investments until their realization. Such other investments that TowerBrook principals may control or manage may potentially compete with companies acquired by a Partnership. Following the commitment period of a Partnership, TowerBrook's principals may and likely will focus their investment activities on other opportunities and areas unrelated to such Partnership's investments.

TowerBrook's allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While TowerBrook will allocate investment opportunities in a manner that it believes in good faith is fair and equitable to its clients under the circumstances over time and considering relevant factors, there can be no assurance that a Partnership's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the conflicts of interest to which TowerBrook may be subject, discussed herein, did not exist.

In certain cases, TowerBrook will have an opportunity (but, subject to any applicable restrictions or procedures in the relevant Governing Documents, no obligation) to identify one or more secondary transferees of interests in a Partnership. In such cases, TowerBrook will not receive compensation for identifying such transferees, and will use its discretion to select such transferees

based on eligibility and other factors similar to those employed in selecting co-investors, and unless required by the relevant Governing Documents, will determine in its sole discretion whether the opportunity to receive a transfer of Partnership interests should be offered to one or more existing Partnership investors.

Where multiple Partnerships invest at the same, different or overlapping levels of a portfolio company's capital structure, there is a potential for conflicts of interest in determining the terms of each such investment. Questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any workout or restructuring may raise conflicts of interest, particularly with respect to Partnerships that have invested in different securities within the same portfolio company. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, Partnerships may or may not provide such additional capital, and if provided, each Partnership generally will supply such additional capital in such amounts, if any, as determined by TowerBrook in its sole discretion. Because of the different legal rights associated with debt and equity of the same portfolio company, TowerBrook may face a conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of, one Partnership versus another Partnership (*e.g.*, the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies). If a Partnership enters into any indebtedness with another Partnership on a joint and several basis, the applicable general partner is expected to enter into one or more agreements that provide each Partnership with a right of contribution, subrogation or reimbursement. In administering, or seeking to reinforce, these agreements, TowerBrook may be subject to conflicts of interest, for example between a Partnership with a reimbursement obligation and a Partnership seeking reimbursement. In certain circumstances, Partnerships may be prohibited from exercising (or TowerBrook may deem it appropriate to refrain from exercising) voting or other rights in order to mitigate the relevant potential conflicts, notwithstanding the fact that the investment(s) of one Partnership or the other may be subject to creditor claims regarding subordination of interests. TowerBrook intends to mitigate any potential conflicts by structuring such agreement in a manner intended to cause each Partnership to bear its proportionate share of the applicable indebtedness, without undue favoritism over time.

Conflicts may arise when a Partnership makes investments in conjunction with an investment being made by another Partnership, or if it were to invest in the securities of a company in which another Partnership has already made an investment. It may be the case, for example, that a particular Partnership does not invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Partnerships. This may result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant Partnership and the other Partnership(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. TowerBrook and its affiliates may express inconsistent views of commonly held investments or of market conditions more generally, including in instances where different portfolio managers express different views regarding the same investment. There can be no assurance that the return on one Partnership's investments will be the same as the returns obtained by other Partnerships participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such

conflict can be resolved in a manner that is beneficial to both Partnerships. In that regard, actions may be taken for one or more Partnerships that adversely affect other Partnerships.

As a result of the Partnerships' controlling interests in portfolio companies, TowerBrook and/or its affiliates typically have the right to appoint portfolio company board members (including current or former TowerBrook personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. From time to time, portfolio company board members approve compensation and/or other amounts payable to TowerBrook and/or its affiliates. Except to the extent such amounts are subject to the Governing Documents' offset provisions, they will be in addition to any management fees or carried interest paid by a Partnership to TowerBrook.

TowerBrook generally exercises its discretion to recommend to a Partnership or to a portfolio company thereof that it contract for services with (i) TowerBrook or a related person of TowerBrook (which may include a portfolio company of such Partnership), (ii) an entity with which TowerBrook or its affiliates or current or former members of their personnel has a relationship or from which TowerBrook or its affiliates or their personnel otherwise derives financial or other benefit or (iii) certain limited partners or their affiliates. For example, TowerBrook may be presented with opportunities to receive financing and/or other services in connection with a Partnership's investments from certain limited partners or their affiliates that are engaged in lending or related business. This discretion subjects TowerBrook to conflicts of interest, because although TowerBrook selects service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Partnership, TowerBrook may have an incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest. There is a possibility that TowerBrook, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Partnerships or TowerBrook), may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not TowerBrook has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

In certain circumstances, former TowerBrook personnel may serve in interim or part-time roles at a portfolio company, or may provide services to a portfolio company as a secondee or in similar capacities. Under such arrangements, TowerBrook and/or the relevant portfolio company may pay all or a portion of the personnel costs of such employee, or supervise or oversee such employee. These arrangements have the potential to create conflicts of interest, in that amounts paid by a portfolio company in connection with secondee relationships will not result in additional offsets to the management fee. Due to the nature of secondee relationships, which are often initiated to meet a temporary portfolio company need, the arrangements between such employees and the related portfolio company are expected to change over time, and in many cases will be terminated when the portfolio company is sold.

In addition, as described above, portfolio companies (and, to a lesser extent, the Partnerships) typically pay certain fees to certain consultants (including consultants introduced or arranged by

TowerBrook and/or its affiliates that regularly provide services to one or more portfolio companies, including members of the MAB and SAB), and such fees do not offset the management fee as described herein. Consultants generally make use of TowerBrook resources or otherwise are associated with TowerBrook. TowerBrook and/or its affiliates may agree to compensate certain of such persons to the extent portfolio company-related compensation falls below certain specified levels on an aggregate annualized basis, or provide other compensation. Consultants generally receive investment opportunities, reimbursements and other compensation that do not offset the management fee of any Partnership, as described herein. Although the use of consultants and the allocation of compensation paid to them by TowerBrook, its affiliates and/or the portfolio companies subjects TowerBrook and/or its affiliates to potential conflicts of interest, TowerBrook believes that such potential conflicts may be reduced by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Partnership(s)) that will result if the cost of the consultant is lower than market rates for the services provided and/or if the services of the consultant align with TowerBrook's model for the portfolio company and improve portfolio company performance. Although TowerBrook seeks to retain consultants with a view to reducing costs to portfolio companies (and, ultimately, the Partnerships) and/or improving portfolio company performance, a number of factors may result in limited or no cost savings from such retention. TowerBrook also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that TowerBrook believes will align such persons' interests with those of the Partnerships' limited partners, and seeks to retain only consultants and service providers which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Although uncommon, from time to time TowerBrook may cause a Partnership to enter into a transaction whereby the Partnership purchases securities from, or sells securities to, other Partnerships managed by TowerBrook, or co-investors or co-investment vehicles. Such transactions may arise in the context of re-balancing an investment among parallel investing entities or in contexts where a portfolio company owned by one Partnership is acquired by a portfolio company acquired by another Partnership. Any such transactions raise potential conflicts of interest, including where the investment of one Partnership supports the value of portfolio companies owned by another Partnership. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment's fair value. To the extent required by the relevant Partnerships' Governing Documents or otherwise in the sole discretion of TowerBrook, TowerBrook may seek to mitigate such conflicts by seeking the opinion of an unaffiliated third party (including the use of a consultant or investment banker to opine as to the fairness of a purchase or sale price) or by obtaining the consent of the relevant Partnership(s) (including, where authorized, the consent of each Partnership's Advisory Board) to such transactions. In certain circumstances, TowerBrook may determine that the willingness of a third party to make an investment on the same terms demonstrates the fairness of the relevant transaction to the Partnership under then-current market conditions. TowerBrook intends that any such transactions be conducted in a manner that it believes in good faith to be fair and equitable to each Partnership under the circumstances, including a consideration of the potential present and future benefits with respect to each Partnership.

TowerBrook and/or its affiliates may also, from time to time, employ personnel with pre-existing ownership interests in portfolio companies owned by the Partnerships or other investment vehicles advised by TowerBrook and/or its affiliates; conversely, current or former personnel or executives of TowerBrook and/or its affiliates may serve in significant management roles at portfolio companies or service providers recommended by TowerBrook. Similarly, TowerBrook, its affiliates and/or personnel maintain relationships with (or may invest in) financial institutions, service providers and other market participants, including but not limited to managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, current and former employees, and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, TowerBrook and/or its affiliates, and/or the Partnerships or other investment vehicles they advise. TowerBrook may have a conflict of interest with a Partnership in recommending the retention or continuation of a third-party service provider to such Partnership or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Partnerships, will provide TowerBrook information about markets and industries in which TowerBrook operates (or is contemplating operations) or will provide other services that are beneficial to TowerBrook. TowerBrook may have a conflict of interest in making such recommendations, in that TowerBrook has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Partnership, while the products or services recommended may not necessarily be the best available to the portfolio companies held by a Partnership.

TowerBrook, its affiliates, and equity holders, officers, principals and employees of TowerBrook and its affiliates may buy or sell securities or other instruments that TowerBrook has recommended to a Partnership. In addition, officers, principals and employees may buy securities in transactions offered to but rejected by a Partnership. Such transactions are subject to any restrictions in the Partnership's Governing Documents and any policies and procedures set forth in TowerBrook's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Partnership. Employees and related persons of TowerBrook have, and are expected to continue to have, capital investments in or alongside certain Partnerships, or in prospective portfolio companies directly or indirectly, as well as in investment vehicles (including private funds) sponsored by potential competitors, and therefore may have additional conflicting interests in connection with these investments.

Because certain expenses are paid for by a Partnership and/or its portfolio companies or, if incurred by TowerBrook, are reimbursed by a Partnership and/or its portfolio companies, TowerBrook will not necessarily seek out the lowest cost options when incurring (or causing a Partnership or its portfolio companies to incur) such expenses.

Because there is a fixed investment period after which capital from investors in a Partnership may only be drawn down in limited circumstances and because management fees are, at certain times during the life of a Partnership, based upon capital invested by such Partnership, this fee structure may create an incentive to deploy capital when TowerBrook may not otherwise have done so.

Since TowerBrook is permitted to retain certain Other Fees (as described under “Fees and Compensation”) in connection with Partnership investments, it could have a conflict of interest in connection with approving transactions and setting such compensation. Additionally, TowerBrook, its personnel, affiliates or others designated by TowerBrook expect from time to time to receive compensation in the form of portfolio company securities. To the extent any such securities are received, after any applicable offset provisions in the relevant Governing Documents are applied (typically based on the then-present value of such securities), TowerBrook and/or such other recipients will be permitted to retain such securities as Other Fees, and in doing so will be subject to potential conflicts of interest in determining whether to sell such securities (subject to restrictions imposed by the portfolio company and/or the TowerBrook or retain such securities for a period consistent with their own financial and investment objectives, which may differ from those of the relevant Partnership). TowerBrook and/or its affiliates generally have discretion over whether to charge Other Fees to a portfolio company and, if so, the rate, timing, method and/or amount of such compensation. In most circumstances, such compensation is not reviewed or approved by an independent third party. The receipt of Other Fees generally will give rise to potential conflicts of interest between the Partnerships, on the one hand, and TowerBrook and/or its affiliates on the other hand.

TowerBrook may offer portfolio companies owned by the Partnerships the option to participate in purchasing, vendor or similar arrangements with TowerBrook, its affiliates and other portfolio companies. Program participants may receive discounts negotiated with various vendors and service providers on a groupwide basis. Participants would voluntarily participate in the program without cost. Certain TowerBrook affiliates may also participate in the program in exchange for an allocable portion of such fees and costs, and receive similar benefits and discounts as the portfolio companies participating therein. No such amounts will result in additional offsets to the management fee. TowerBrook believes the potential for conflicts relating to such arrangements is mitigated by the anticipated cost savings to portfolio companies (which is expected to be to the benefit of the applicable Partnership(s)) that will result if the negotiated discounts rates for goods and services are discounted relative to those widely available in the market. TowerBrook does not receive any direct compensation from vendors, service providers, Partnerships or portfolio companies in exchange for instituting the program.

TowerBrook has incentives to use or to recommend products or services of one portfolio company to another, which may involve fees, commissions, servicing payments or other compensation. Potential conflicts of interest arise in making such recommendations, as TowerBrook has incentives to maintain goodwill between it and its former, existing and prospective portfolio companies, and as a result the products or services recommended may not necessarily be the best or lowest cost option. From time to time TowerBrook, its affiliates and personnel and persons selected by them expect to receive the benefit of “friends and family” and similar discounts from portfolio companies owned by the Partnerships under which such portfolio companies make their goods and/or services available at reduced rates. Where its portfolio companies offer such discounts to customers other than TowerBrook and such persons as part of their standard commercial practices in an effort to expand their respective customer bases, TowerBrook believes that the potential for conflicts of interest relating to such discounts is mitigated. TowerBrook, its affiliates and personnel generally refrain from requesting or negotiating for such discounts in the ordinary course. Discounted prices or better terms offered by a portfolio company to TowerBrook, any other portfolio company or third parties may affect the returns of the portfolio company.



From time to time, TowerBrook may advance funds on behalf of a Partnership and contribute such amounts to the relevant Partnership as a special interim capital contribution for investment, to be redeemed at a later date. A yield amount in connection with such borrowing typically is borne by the relevant Partnership, consistent with the Governing Documents.

In borrowing on behalf of a Partnership, TowerBrook is subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Partnership, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Partnership's preferred return, is expected to have incentives to cause the Partnership to borrow in this manner rather than drawing down capital commitments. Where a preferred return begins to accrue after capital contributions are due (regardless of when the Partnership borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Partnership-level borrowing typically will reduce the amount of preferred return to which the limited partners would otherwise be entitled had the general partner called capital, and thus could result in the relevant general partner receiving carried interest sooner than it would without borrowing. In addition, when the management fee is calculated as a percentage of invested capital, a limited partner may pay management fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit will be significant, and there can be no assurance that the benefits to limited partners will be commensurate with such costs.

## **Disciplinary Information**

There are no legal or disciplinary events that are material to a Client's, prospective client's, investor's or prospective investor's evaluation of TowerBrook's advisory business or the integrity of TowerBrook's management.

## **Other Financial Industry Activities and Affiliations**

TowerBrook Financial, L.P. ("TowerBrook Financial"), an affiliate of TowerBrook, is registered with the SEC as a broker-dealer and is a member of the United States Financial Industry Regulatory Authority. The primary purpose of TowerBrook Financial is to provide private placement services to TowerBrook in connection with certain Partnerships established by TowerBrook from time to time. TowerBrook Financial is a subsidiary of TowerBrook Financial LP, LLC and TowerBrook Financial GP, LLC, which are both wholly-owned subsidiaries of TowerBrook. Certain partners, employees and consultants of TowerBrook are also registered representatives and principals of TowerBrook Financial. As TowerBrook does not trade in specific securities through TowerBrook Financial for its client accounts, there is not anticipated to be any conflict of interest. TowerBrook Financial receives a monthly services fee from TowerBrook (and not the Partnerships), which is calculated on a "cost plus" basis. TowerBrook Financial does not receive commissions or any other remuneration directly related to the solicitation of investors in the Partnerships.

A number of entities affiliated with TowerBrook serve as general partners and direct investment managers to the Partnerships and/or Co-Investment Vehicle Clients. Each direct investment manager has entered into an investment advisory agreement with TowerBrook which provides that TowerBrook will supply investment advisory services to such direct investment manager. The Partnerships, Co-Investment Vehicle Clients and affiliated general partner and investment manager entities existing as of the date of this brochure are identified in the following chart. Each investment manager entity is an investment adviser registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). In addition, each general partner entity is a “related person” of TowerBrook and a special purpose vehicle formed to act as the general partner of certain Partnerships. In reliance on the SEC’s Staff’s No-Action Letter to the American Bar Association dated December 9, 2005, each such general partner is covered by TowerBrook’s registration as an investment adviser with the SEC and deemed to be registered with the SEC. TowerBrook Capital Partners (U.K.) LLP (“TCP UK”), which is authorized and regulated by the United Kingdom Financial Conduct Authority, has entered into an advisory services agreement with TowerBrook to provide advisory services with respect to U.K. and European investments of the Partnerships. TowerBrook Capital Partners (Germany) GmbH has entered into an advisory services agreement with TCP UK to provide advisory services with respect to German investments of the Partnerships.

<b>Affiliated Entity</b>	<b>Relationship to Partnership</b>
<b>FUND II FAMILY</b>	
TowerBrook Investors GP II, L.P.	Serves as general partner to TowerBrook Investors II, L.P., TowerBrook Investors II Executive Fund, L.P., and TowerBrook Investors II AIV, L.P.
TowerBrook Capital Partners Special II, L.P.	Serves as investment manager to TowerBrook Investors II, L.P., TowerBrook Investors II Executive Fund, L.P., and TowerBrook Investors II AIV, L.P.
<b>FUND III FAMILY</b>	
TowerBrook Investors GP III, L.P.	Serves as general partner to TowerBrook Investors III, L.P. and TowerBrook Investors III Executive Fund, L.P.
TowerBrook Investors GP III (Parallel), L.P.	Serves as general partner to TowerBrook Investors III (Parallel), L.P.
TowerBrook Capital Partners Special III, L.P.	Serves as investment manager to TowerBrook Investors III, L.P., TowerBrook Investors III (Parallel), L.P. and TowerBrook Investors III Executive Fund, L.P.
<b>FUND IV FAMILY</b>	
TowerBrook Investors GP IV, L.P.	Serves as general partner to TowerBrook Investors IV (Onshore), L.P. and TowerBrook Investors IV Executive Fund, L.P.

<b>Affiliated Entity</b>	<b>Relationship to Partnership</b>
TowerBrook Investors GP IV (Alberta), L.P.	Serves as general partner to TowerBrook Investors IV (OS), L.P. and TowerBrook Investors IV (892), L.P.
TowerBrook Capital Partners Special IV, L.P.	Serves as investment manager to TowerBrook Investors IV (Onshore), L.P., TowerBrook Investors IV Executive Fund, L.P., TowerBrook Investors IV (OS), L.P., TowerBrook Investors IV (892), L.P., TowerBrook Investors IV (Luxembourg) AIV S.C.S., TI IV TMX Holdings, L.P. and Gamma Co-Invest, L.P.
Taman Dutch GP BV	Serves as general partner of TowerBrook Investors IV (Luxembourg) AIV S.C.S.
<b>FUND V FAMILY</b>	
TowerBrook Investors GP V, L.P.	Serves as general partner to TowerBrook Investors V (Onshore), L.P., TowerBrook Investors V (TE), L.P. and TowerBrook Investors V Executive Fund, L.P.
TowerBrook Investors GP V (Alberta), L.P.	Serves as general partner to TowerBrook Investors V (OS), L.P. and TowerBrook Investors V (892), L.P.
TowerBrook Capital Partners Special V, L.P.	Serves as investment manager to TowerBrook Investors V (Onshore), L.P., TowerBrook Investors V (TE), L.P., TowerBrook Investors V Executive Fund, L.P., TowerBrook Investors V (OS), L.P. and TowerBrook Investors V (892), L.P.
<b>TSO I FAMILY</b>	
TowerBrook TSO GP, L.P.	Serves as general partner to TowerBrook Structured Opportunities Fund (Onshore), L.P. and TowerBrook Structured Opportunities Executive Fund, L.P.
TowerBrook TSO GP (Alberta), L.P.	Serves as general partner to TowerBrook Structured Opportunities Fund (OS), L.P.
TowerBrook TSO Special, L.P.	Serves as investment manager to TowerBrook Structured Opportunities Fund (Onshore), L.P., TowerBrook Structured Opportunities Executive Fund, L.P., TowerBrook Structured Opportunities Fund (OS), L.P., Spiral Cayman, L.P. and TowerBrook Structured Opportunities Fund (ATL-TOR AIV), L.P.
<b>TSO II FAMILY</b>	
TowerBrook TSO GP II, L.P.	Serves as general partner to TowerBrook Structured Opportunities Fund II (Onshore), L.P. and TowerBrook Structured Opportunities Executive Fund II, L.P.

<b>Affiliated Entity</b>	<b>Relationship to Partnership</b>
TowerBrook TSO II GP (Alberta), L.P.	Serves as general partner to TowerBrook Structured Opportunities Fund II (OS), L.P. and TowerBrook Structured Opportunities Fund II (892), L.P.
TowerBrook TSO Special II, L.P.	Serves as investment manager to TowerBrook Structured Opportunities Fund II (Onshore), L.P., TowerBrook Structured Opportunities Executive Fund II, L.P., TowerBrook Structured Opportunities Fund II (OS) and TowerBrook Structured Opportunities Fund II (892), L.P.
<b>CO-INVESTMENT VEHICLE CLIENTS</b>	
TowerBrook Co-Investors (Spiral) GP Limited	Serves as general partner of Spiral Cayman, L.P.
TI IV TMX Holdings GP, LLC	Serves as general partner of TI IV TMX Holdings, L.P.
TowerBrook Structured Opportunities Fund (ATL-TOR AIV) GP, LLLP	Serves as general partner of TowerBrook Structured Opportunities Fund (ATL-TOR AIV), L.P.
Gamma Co-Invest GP, LLC	Serves as general partner of Gamma Co-Invest, L.P.
<b>SUB-ADVISORY ENTITIES</b>	
TowerBrook Capital Partners (U.K.) LLP	Provides advisory services to TowerBrook Capital Partners L.P. with respect to U.K. and European investments.
TowerBrook Capital Partners (Germany) GmbH	Provides advisory services to TowerBrook Capital Partners (U.K.) LLP with respect to investments in Germany.
TowerBrook Capital Partners Spain, S.L.	Provides advisory services to TowerBrook Capital Partners (U.K.) LLP with respect to investments in Spain.

TowerBrook or its affiliates may have a material investment in the Partnerships and, therefore, may be considered to participate indirectly in transactions effected for those Clients. Additional information regarding the foregoing relationships, fees, and any other actual or potential conflicts of interest arising therefrom are disclosed in the respective Partnership's Governing Documents.

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

TowerBrook has adopted a Code of Ethics pursuant to the Advisers Act which expresses the Firm's operating principles of integrity, honesty and fiduciary duties that we owe our Clients. The Code of Ethics sets forth a standard of business conduct expected of all of TowerBrook's partners and employees as well as policies and procedures that each partner and employee must follow to

prevent activities which may lead to or give the appearance of conflicts of interest, insider trading, and other forms of prohibited or unethical business conduct.

TowerBrook maintains records of all discretionary personal securities accounts of its partners and employees in an effort to monitor all such personal investment activity. All such persons are restricted from purchasing or selling securities that are held in Partnership accounts or being considered for purchase or sale in Partnership accounts. TowerBrook's Code of Ethics is available for review and will be provided to any Client, limited partner, or prospective client or limited partner upon request.

TowerBrook's general partner entities and certain TowerBrook personnel invest some of their personal assets in the Partnerships and, therefore, hold indirect interests in the same underlying securities as other limited partners in the Partnerships. As a result, there may be an incentive to allocate investments among the Partnerships in a way that favors TowerBrook and its personnel. To mitigate this risk, TowerBrook has adopted portfolio management controls and procedures that are designed to ensure that all allocations of investment opportunities within the investment objectives of the Partnerships are made in a manner that TowerBrook believes in good faith to be fair and reasonable, over time.

In addition, TowerBrook partners and employees may be permitted to co-invest in securities of a portfolio company in which a Partnership has invested. Any such proposed co-investment by an employee would require prior permission from TowerBrook.

TowerBrook may also arrange for a transaction between certain Clients in which one Client buys a security from, or sells a security to, the account of another Client (a "cross transaction") when TowerBrook deems the transaction to be in the best interest of each participating Client (including for rebalancing as provided for in the Governing Documents for applicable Clients). In doing so, TowerBrook may (i) use an unaffiliated broker-dealer or custodian to execute such cross-transaction and may pay such broker-dealer or custodian to do so or (ii) execute a cross transaction directly without the use of a broker-dealer or custodian, in which case TowerBrook will not receive compensation to effect such transaction. TowerBrook will ensure that the compensation paid to a broker-dealer to execute a cross transaction is reasonable and commensurate with the level of services being provided. Any such compensation or other transaction costs associated with a cross transaction will be divided among the participants based upon the expenses that should reasonably be borne by each party involved in the cross transaction. Any cross transaction must be effected at the current market price or fair value of the security. When effecting cross transactions between Clients, TowerBrook may have conflicting responsibilities with respect to each participating Client. However, it is TowerBrook's policy to effect any cross transaction in an equitable and fair manner for all Clients involved. In certain circumstances a cross transaction may be considered to be a "principal transaction" under the Advisers Act. Specifically, if an adviser and its controlling persons have a greater than 25% equity or equity-like stake in a Client account that is participating in a cross transaction, the transaction may be deemed to be a principal transaction. To the extent that any such cross transaction may be viewed as a principal transaction TowerBrook will conduct such transaction in accordance with the provisions of Section 206(3) of the Advisers Act. In addition, any cross transaction is subject to any Advisory Board consultation or approval that may be required under the Governing Documents of the applicable Partnerships.

In addition, TowerBrook may conduct a number of activities to address, monitor and manage such potential conflicts. Various members of TowerBrook's Legal Department would be involved in oversight, review and approval of cross transactions in a number of ways depending on the context of such cross transactions.

## **Brokerage Practices**

The Partnerships may consider investments in equity and/or debt securities or instruments of indebtedness that are publicly or privately traded. Therefore, the Firm may deal with financial intermediaries such as broker-dealers, and brokerage commissions may be payable in connection with such investments. To the extent that TowerBrook transacts in securities or instruments of indebtedness, the Firm is authorized to determine the broker or dealer to be used for each transaction for the Partnerships and to determine the transaction fee (commission rates and/or spread) paid. In placing orders, TowerBrook seeks the most favorable execution terms reasonably available given the specific circumstances of each trade. TowerBrook considers a variety of factors when determining where to direct brokerage transactions, including: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the expertise to execute difficult trades in securities, including the ability to find liquidity; (iii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery, and frequency of errors), taking into account the size of order and difficulty of execution; (iv) the overall reputation, integrity, and ability to maintain anonymity; (v) the capital strength, creditworthiness, stability and reputation; and (vi) the quality of research ideas and assistance with trading strategy.

Although TowerBrook will seek competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services. As discussed in greater detail under "Client Referrals and Other Compensation" below, TowerBrook Financial may provide certain specialized services in its capacity as a broker-dealer (or other capacity) with respect to portfolio companies of the Partnerships.

TowerBrook does not enter into soft dollar arrangements or receive soft dollar credits from brokers. However, TowerBrook may receive proprietary research from broker-dealers used to execute securities transactions. To the best of TowerBrook's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. TowerBrook does not separately compensate such broker-dealers for the research and does not pay higher transaction costs to receive such services. These bundled services are made available to TowerBrook on an unsolicited basis and without regard to the rates of commissions charged or paid by the Partnerships or the volume of business that the Firm directs to such broker-dealers. Nonetheless, TowerBrook may have an incentive to select a broker based on its interest in receiving the research or other products or services offered by such broker, rather than on the Partnerships' interests in receiving most favorable execution.

TowerBrook may engage other financial intermediaries and counterparties, such as investment banks, to provide services to the Partnerships and/or, as pertinent, their portfolio companies. In selecting such service providers, TowerBrook takes into account a variety of considerations,

including, without limitation, price, quality of services, financial stability and overall reputation and integrity.

TowerBrook follows trade reconciliation and confirmation procedures intended to minimize trade errors. However, on occasion, TowerBrook may experience errors with respect to trades made on behalf of the Partnerships.

## **Review of Accounts**

TowerBrook representatives serve on the transaction committees, investment committees and portfolio committees for the general partners of the Partnerships. These committees are comprised of the Co-CEOs of TowerBrook and at least five Managing Directors of TowerBrook. The investment committees have exclusive decision-making authority with regard to the acquisition and disposition of investments. The transaction committees evaluate all early, mid-stage and late-stage proposals for prospective investments. The portfolio committees monitor the operations and results of portfolio companies and generally meet on a monthly basis. In addition, TowerBrook's Chief Compliance Officer and members of the legal team periodically monitor the Partnerships' portfolios for compliance with investment restrictions and portfolio mandates.

The Partnerships provide quarterly reports to limited partners that provide transaction and investment highlights as well as a detailed review of the operating performance and recent developments in the portfolio companies. The Partnerships also provide limited partners with audited financial statements prepared in accordance with generally accepted accounting principles and K-1's (if applicable) on an annual basis. In addition, the Partnerships provide limited partners with unaudited account statements quarterly.

## **Client Referrals and Other Compensation**

During a fundraising cycle for a Partnership, TowerBrook may compensate TowerBrook Financial and other placement agents who introduce new limited partners that commit capital. The amount paid to unrelated placement agents is structured as a percentage of the capital raised. TowerBrook or its affiliates may charge the Partnerships for such placement fees paid to unrelated placement agents or otherwise cause the Partnerships to pay such fees; however, all such fees due to placement agents by the Partnerships will reduce the management fee otherwise payable by the limited partners by an identical amount. TowerBrook Financial is compensated on a "cost plus" basis by TowerBrook, however, such fee will not be paid, directly or indirectly, by a Partnership, and such fees do not constitute Other Fees, and, therefore, will not offset management fees payable by a Partnership.

As described under "Fees and Compensation" above, TowerBrook or its affiliates may charge or receive from portfolio companies Other Fees. A percentage of such Other Fees paid by portfolio companies that are received by TowerBrook or any of its affiliates will be applied to reduce the management fee (if any) otherwise payable by a Partnership. Other Fees may include compensation due to partners or employees of TowerBrook serving on the boards of directors of portfolio companies; however, Other Fees do not include compensation due to members of TowerBrook's Management Advisory Board, members of TowerBrook's Senior Advisory Board or other consultants, in each case, serving on the boards of directors of portfolio companies of the

Partnerships or performing other functions with respect to the Partnerships or their portfolio companies. Therefore, such fees will not offset management fees payable by a Partnership.

TowerBrook Financial may from time to time participate in underwriting syndicates with respect to portfolio companies or may otherwise be involved in the private placement of debt or equity securities issued by portfolio companies, or otherwise in arranging financing for portfolio companies. Subject to applicable law, TowerBrook Financial may receive underwriting fees, placement commissions or other compensation with respect to such activities, which are not shared with any Partnership (and which are not considered Other Fees), therefore, such compensation does not reduce the management fees otherwise payable by the applicable Partnership. If TowerBrook Financial or its affiliate serves as underwriter with respect to a portfolio company's securities, the applicable Partnership may be subject to a "lock-up" period following the offering under applicable regulations during which time its ability to sell any securities that it continues to hold is restricted. This may prejudice the applicable Partnership's ability to dispose of such securities at an opportune time. TowerBrook Financial has not as of the date of this brochure participated in underwriting syndicates with respect to portfolio companies or otherwise been involved in the private placement of debt or equity securities issued by portfolio companies or otherwise involved in arranging financing for portfolio companies.

## **Custody**

An adviser has custody if it acts in any capacity that gives the adviser legal ownership of, or access to, Client funds or securities. Hence, TowerBrook has custody of Partnership assets because it or one of its affiliates either (i) acts as general partner of a Partnership with the authority to dispose of funds and securities in such Partnership's accounts or (ii) is deemed to have custody because of its ability to withdraw its fees directly from the Partnerships. TowerBrook maintains the majority of Partnership assets at unaffiliated broker/dealers, banks, or ISDA counterparties, all of whom are qualified custodians, as that term is defined under the custody rule under the Advisers Act. Certain privately offered, non-certificated investments such as bank debt and swaps are not maintained at a qualified custodian in accordance with the private securities exemption of the custody rule.

In lieu of providing limited partners with quarterly custodial reports, TowerBrook ensures that the Partnerships are subject to an annual audit by an independent public accountant and the audited financial statements are distributed to each limited partner. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 90 days, or in the case of certain Partnerships, 75 days, of the applicable Partnership's fiscal year end.

## **Investment Discretion**

TowerBrook, with its affiliated general partner and investment manager entities, has complete discretionary authority with regard to the acquisition and disposition of investments without obtaining specific consent from the limited partners. Any limitations on such authority are included in each Partnership's Governing Documents. TowerBrook and/or its affiliates may also enter into side letters with certain limited partners whereby the terms applicable to such limited partner's investment in a Partnership may be altered or varied, including, in some cases, with respect to the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.



## **Voting Client Securities**

Most of the companies in which the Partnerships invest are private companies that typically do not issue proxies. However, if TowerBrook is requested to vote on certain matters, including, without limitation, proposals, amendments, consents, or resolutions (*i.e.*, “proxies”) on behalf of a Partnership, TowerBrook has adopted proxy voting policies and procedures, and shall be responsible for voting proxies on behalf of the Partnerships in a way that it believes will maximize shareholder value. In exercising its voting discretion, TowerBrook, its partners and its employees will attempt to avoid any direct or indirect conflict of interest raised by such voting decision. A number of TowerBrook’s investment professionals serve as directors of the underlying businesses in which the Partnerships invest. In situations where TowerBrook votes the proxy for a company in which a member of the Firm serves on the board of directors, TowerBrook has determined that such board composition does not inherently present a conflict of interest, as the purpose for serving on the board is to maximize the return on a Partnership’s investment and to ensure that a Partnership’s interests are protected.

A copy of TowerBrook’s written proxy voting policies and procedures, as well as specific information about how TowerBrook has voted on a specific matter will be provided to limited partners upon written request to TowerBrook.

## **Financial Information**

TowerBrook has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage Client accounts. TowerBrook does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the brochure.