



PART 2A OF FORM ADV: FIRM BROCHURE

CENTERBRIDGE PARTNERS, L.P.

March 31, 2019

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This brochure (this “Brochure”) provides information about the qualifications and business practices of Centerbridge Partners, L.P. If you have any questions about the contents of this Brochure, please contact Elizabeth Uhl, Chief Compliance Officer, at (212) 672-5000. 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.

Centerbridge Partners, L.P. is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Additional information about Centerbridge Partners, L.P. also is available on the SEC’s website at www.adviserinfo.sec.gov.



ITEM 2

MATERIAL CHANGES

Centerbridge Partners, L.P. is required to identify and discuss any material changes made to its Brochure since its last annual update, dated March 29, 2018. There are no such material changes. We note that, as part of Centerbridge's philosophy of continuous self-scrutiny in an effort to maintain processes that are consistently at what we consider to be best practice levels, we regularly review our compliance program and disclosures and make updates as deemed necessary or advisable. Investors and prospective investors should review this entire Brochure carefully. In this regard, investors and prospective investors may request a marked copy of this Brochure that identifies changes from the prior version on file with the SEC. If Centerbridge Partners, L.P. makes any material changes to this Brochure, this section will be revised to include a summary of such changes.



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ITEM 4 ADVISORY BUSINESS

A. General Description of Advisory Firm.

Centerbridge Partners, L.P., a Delaware limited partnership, commenced operations in 2006 with an office in New York, New York. Jeffrey H. Aronson and Mark T. Gallogly, through their control of Centerbridge Partners Holdings, LLC, the general partner of Centerbridge Partners, L.P., ultimately control Centerbridge.

B. Description of Advisory Services.

1. Advisory Services

Centerbridge, through affiliated investment advisory entities, serves as the management company with discretionary trading authority to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a “Fund” and collectively, the “Funds”). In addition, Centerbridge, through its affiliate, Centerbridge Partners Europe, LLP, a U.K. limited liability partnership that is authorized and regulated by the Financial Conduct Authority of the United Kingdom (the “Sub-Advisor”), serves as sub-advisor with respect to the Funds. The Funds include:

(a) Credit Partners Funds

The “Credit Partners Funds” comprise Centerbridge Credit Partners, L.P., a Delaware limited partnership (the “Domestic Fund”), Centerbridge Credit Partners TE, L.P., a Delaware limited partnership for investment by U.S. tax-exempt investors (the “TE Fund”), and Centerbridge Credit Partners Offshore, Ltd., a Cayman Islands exempted company (the “Offshore Fund”), each of which invests through Centerbridge Credit Partners Master, L.P., a Cayman Islands exempted limited partnership (the “Credit Partners Master Fund”), and through various additional master funds (each, a “Master Fund” and, together with the Credit Partners Master Fund, the “Master Funds”). Centerbridge Credit Partners General Partner, L.P., a Delaware limited partnership, serves as the general partner of the Domestic Fund and the TE Fund. Centerbridge Credit Partners Offshore General Partner, L.P., a Delaware limited partnership, serves as the general partner of the Master Funds. An affiliate of Centerbridge, Centerbridge Credit Advisors, L.L.C., a Delaware limited liability company (the “Credit Advisor”), provides investment advisory services to the Credit Partners Funds.

(b) Special Credit Funds

The “Special Credit Funds” comprise Centerbridge Special Credit Partners, L.P., a Delaware limited partnership (“Special Credit I”), Centerbridge Special Credit Partners II, L.P., a Delaware limited partnership (“Special Credit II”), Centerbridge Special Credit Partners III, L.P., a Delaware limited partnership (“SC III”), and Centerbridge



Special Credit Partners III-Flex, L.P., a Delaware limited partnership¹ (“SC III-Flex,” and together with SC III, “Special Credit III”). Centerbridge Special Credit Partners General Partner, L.P., a Delaware limited partnership, serves as the general partner of Special Credit I. Centerbridge Special Credit Partners General Partner II, L.P., a Delaware limited partnership, serves as the general partner of Special Credit II. Centerbridge Special Credit Partners General Partner III, L.P., a Delaware limited partnership, serves as the general partner of Special Credit III. Centerbridge Special Credit Advisors, L.L.C., a Delaware limited liability company, Centerbridge Special Credit Advisors II, L.L.C., a Delaware limited liability company, and Centerbridge Special Credit Advisors III, L.L.C., a Delaware limited liability company (together, the “Special Credit Advisors”), each an affiliate of Centerbridge, provide investment advisory services to Special Credit I, Special Credit II and Special Credit III, respectively.

(c) Capital Partners Funds

The “Capital Partners Funds” comprise Centerbridge Capital Partners, L.P., a Delaware limited partnership (“CCP I”), Centerbridge Capital Partners II, L.P., a Delaware limited partnership (“CCP II”), and Centerbridge Capital Partners III, L.P., a Delaware limited partnership (“CCP III”), and their related funds, including the following side-by-side (or “SBS”) co-investment vehicles through which Centerbridge professionals co-invest ratably alongside CCP I, CCP II and CCP III: Centerbridge Capital Partners SBS, L.P., Centerbridge Capital Partners SBS II, L.P. and Centerbridge Capital Partners SBS III, L.P. (collectively, the “Capital Partners SBS Co-Invest Vehicles”), respectively. Centerbridge Associates, L.P., a Delaware limited partnership, serves as the general partner of CCP I. Centerbridge Associates II, L.P., a Delaware limited partnership, serves as the general partner of CCP II. Centerbridge Associates III, L.P., a Delaware limited partnership, serves as the general partner of CCP III. Centerbridge Advisors, LLC, a Delaware limited liability company, Centerbridge Advisors II, LLC, a Delaware limited liability company, and Centerbridge Advisors III, LLC, a Delaware limited liability company (together, the “Capital Partners Advisors”), each an affiliate of Centerbridge, provide investment advisory services to CCP I, CCP II and CCP III, respectively.

(d) Real Estate Fund

The “Real Estate Funds” comprise Centerbridge Partners Real Estate Fund, L.P., a Delaware limited partnership (“CPREF”), and its related funds, including the following SBS co-investment vehicles through which Centerbridge professionals co-invest ratably alongside CPREF: Centerbridge Partners Real Estate Fund SBS, L.P. (together with the Capital Partners SBS Co-Invest Vehicles, the “SBS Co-Invest Vehicles”). Centerbridge Partners Real Estate Associates, L.P., a Delaware limited partnership, serves as the general partner of CPREF. An affiliate of Centerbridge, Centerbridge Partners Real Estate

¹ SC III-Flex has not been activated at this time and commitments to it have not been drawn, and accordingly the investment period has not yet commenced.



Advisors, LLC, a Delaware limited liability company (together with the Credit Advisor, the Special Credit Advisors and the Capital Partners Advisors, the “Advisors”), provides investment advisory services to CPREF.

(e) Co-Invest Vehicles

From time to time, Centerbridge offers co-investment opportunities, typically alongside the Capital Partners Funds. It is anticipated that Centerbridge also may offer co-investment opportunities alongside CPREF. In light of the nature of the Credit Funds’ (as defined below) investment programs, the Credit Funds’ investments do not, for the most part, lend themselves to offering investors the opportunity to co-invest alongside the Credit Funds; however, occasional co-investment opportunities arise. In certain circumstances, service providers to the Funds or their affiliates will be offered the opportunity to co-invest. Centerbridge applies its discretion when allocating such opportunities to Centerbridge’s investors (including investors in the Funds), company management, service providers, third-party investors and / or others, taking into account facts and circumstances such as the nature of the transaction, speed of execution required, tax considerations, familiarity with, capability and history of investing in the relevant discipline (e.g., private equity or credit) and industry, ability to provide strategic insights and other factors believed relevant. Centerbridge endeavors to keep itself informed regarding investor interest in co-investment by maintaining records of those investors who have expressed interest in co-investments. Centerbridge does not currently advise a committed limited partner fund co-investment vehicle, nor does Centerbridge guarantee co-investment rights to any limited partner.

However, Centerbridge is not obligated to offer co-investments to all investors who have expressed an interest in pursuing them. Centerbridge has sole discretion as to the amount (if any) of a co-investment opportunity that will be allocated to a particular investor and may allocate co-investment opportunities instead to investors in Funds that do not participate in the relevant investment or third parties. Centerbridge may receive fees and / or allocations from co-investors, which may differ as among co-investors and also may differ from the fees and / or allocations borne by the Fund participating in the relevant investment.

(f) General

References herein to “Centerbridge” include the Advisors, the Sub-Advisor and the respective general partners of the Funds where applicable.

As used herein, the term “client” generally refers to each of the Funds and their related investment vehicles.

This Brochure generally includes information about Centerbridge and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only. In particular, we note that inception dates, ramp-up periods, harvest dates



(if applicable) and other attributes of the Funds will vary by Fund and, therefore, certain elements of the discussion, including Item 8, may be more germane to certain Funds and not others. Accordingly, the discussion applies the term “may” (and similar terms) with respect to circumstances that may apply, which should be read as a reference to circumstances that have applied, apply at the present time or may apply in the future from time to time in relation to one or more of the Funds.

This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Investors in the Funds generally must be both “accredited investors,” as defined in Regulation D promulgated under the Securities Act, and “qualified purchasers,” as defined in the Investment Company Act of 1940, as amended, or, with respect to the Offshore Fund, must otherwise be non-U.S. persons. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of the applicable Fund’s confidential private placement memorandum.

2. Investment Strategies and Types of Investments

Centerbridge’s investment strategy with respect to the Credit Partners Funds and the Special Credit Funds (together, the “Credit Funds”) focuses on non-control distressed investments.

Centerbridge’s investment strategy with respect to the Capital Partners Funds focuses on private equity and distressed-for-control investments.

Centerbridge’s investment strategy with respect to CPREF focuses on real estate-related investments.

Please see Item 8 for a more detailed description of the investment strategies pursued and types of investments made by the Funds.

The descriptions set forth in this Brochure of specific advisory services that Centerbridge offers to clients, and investment strategies pursued and investments made by Centerbridge on behalf of its clients, should not be understood to limit in any way Centerbridge’s investment activities, including offering any advisory services, engaging in any investment strategy and making any investment, including any not described in this Brochure, that Centerbridge considers appropriate, subject to each client’s investment objectives and guidelines. The investment strategies Centerbridge pursues are speculative and entail substantial risks. Investors should be prepared to bear an entire loss of capital. There can be no assurance that the investment objectives of any client will be achieved.



C. Availability of Customized Services for Individual Clients.

Centerbridge's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as described in its offering documents and / or its governing documents. The investment decisions and advisory services are specific to each Fund, and are not customized to any investor. Centerbridge currently does not advise any managed accounts.

D. Assets Under Management.

Centerbridge manages approximately \$27,644.8 million of capital as of December 31, 2018 on a discretionary basis.²

² Amount reflects capital commitments of closed-ended funds and net asset value of open-ended funds, inclusive of subsequent month contributions. Excludes certain commitments that are not fee-bearing unless and until drawn and any co-investments.

Centerbridge currently manages approximately \$19,489.5 million of invested or currently investable capital as of December 31, 2018 on a discretionary basis. Such amount reflects (a) capital commitments of closed-ended funds in their investment period or commitment period, as applicable, or net asset value plus either (i) unfunded commitments (in the case of the Special Credit Funds) or (ii) available capital reserved for Follow-On Investments (in the case of Capital Partners Funds) if the closed-ended fund is in its harvest period and (b) net asset value for the Credit Partners Funds as of December 31, 2018, inclusive of subsequent month contributions. Such amount excludes certain commitments that are not fee-bearing unless and until drawn and any co-investments.

The calculation of Regulatory Assets Under Management of \$22,035.0 million, as expressed in the ADV Part 1 filed on March 31, 2019, applies a different, gross asset value-based methodology that results in a different figure. Other documents may require a different formulation or calculation.



ITEM 5 FEES AND COMPENSATION

A. Advisory Fees and Compensation.

The fees applicable to each Fund are set forth in detail in each Fund's offering documents.³ A brief summary of such fees is provided below.

1. Credit Partners Funds

Management Fee

Generally, the Credit Partners Funds pay Centerbridge a Management Fee quarterly in advance for investment management services for each fiscal quarter equal to 0.4375% (1.75% per annum) of the beginning net asset value of each capital account or each series of shares for such fiscal quarter. The Management Fees are paid by the Credit Partners Funds with respect to the capital under management of investors in such Funds (other than certain friends and family investors and other investors affiliated with Centerbridge as noted in the footnote below).

Incentive Allocation

Generally, at the end of each fiscal year, Centerbridge is entitled to an incentive allocation (the "Incentive Allocation") in an amount equal to 20% of the net capital appreciation (which includes both realized gains and losses and unrealized appreciation and depreciation of securities held in the Credit Partners Funds' portfolios and takes into account gains and losses with respect to realized or deemed realized Special Investments (*i.e.*, side pockets) and other income from Special Investments) allocated to an investor's capital account for such fiscal year (other than the net capital appreciation and net capital depreciation with respect to that portion of a capital account attributable to certain segregated assets, with respect to which Centerbridge is entitled to receive 20% of the profits pursuant to a distribution waterfall described in the offering documents of the

³ Generally, Centerbridge has the authority to waive, reduce or calculate differently any of the fees described herein, and, to date, Centerbridge has waived or reduced the Management Fee payable and Incentive Allocation / Carried Interest allocable with respect to certain friends and family investors invested in the Credit Partners Funds, the Capital Partners Funds and the Real Estate Fund. In addition, Centerbridge has waived the Management Fee payable and Incentive Allocation / Carried Interest allocable with respect to investments made by persons that are partners, members, officers and employees of Centerbridge at the time of such investment (and such waiver generally continues with respect to such investment after a person ceases to be associated with Centerbridge). We further note that, while instances of co-investment are infrequent and Centerbridge does not have any committed third-party co-investment vehicles, co-investors generally do not bear the fees described herein. In certain pre-determined circumstances, third-party limited partners of CPREF have received a reduced Management Fee rate, as described further in Footnote 5 below.



Credit Partners Funds) after deducting the Management Fee attributable to such investor's capital account for such fiscal year, subject to a loss carryforward mechanism.

In the event that a Credit Partners Fund is terminated or an investor withdraws other than at the end of a fiscal year, then, for purposes of determining the Incentive Allocation allocable in relation to such Fund or any Special Investment thereof at such time to Centerbridge, the net capital appreciation or net capital depreciation, as the case may be, will be determined as if such dates were the end of the fiscal year, subject to certain adjustments.

2. Special Credit Funds⁴

Management Fee

The Special Credit Funds pay Centerbridge a Management Fee with respect to the capital under management of the investors in such Funds. With respect to a particular Special Credit Fund, such fees may be paid in advance for a particular period and in arrears for another period, as described below. In the case of the final management-fee period, Centerbridge will refund to the Special Credit Funds the amount paid in advance allocable to the portion of the quarterly period which is subsequent to the end of such last management-fee period.

The Management Fee will equal (i) during the investment period and for so long as management fees do not begin to accrue with respect to a successor fund, 1.50% per annum of, other than with respect to SC III-Flex, the aggregate capital commitments of the investors and, with respect to SC III-Flex, the lesser of (x) capital commitments called and (y) the cost basis of the portfolio investments then held by SC III-Flex, and (ii) thereafter, 1.25% per annum of the cost basis of the portfolio investments then held by the relevant Special Credit Fund.

As more fully set forth in the governing documents of each of Special Credit I and Special Credit II, a formulaic portion of the Management Fee payable is instead invested on behalf of Centerbridge in investments made by such Special Credit Fund, although distributions to Centerbridge with respect to such amounts are limited to the amount of available profits with respect thereto.

⁴ As previously noted, SC III-Flex has not yet begun its investment period; until such time, it will not pay the fees described in this section. In addition, as of January 1, 2019, Centerbridge discontinued charging Management Fees to Special Credit I.



Carried Interest

In addition, Centerbridge is entitled to receive 20% of the profits from the Special Credit Funds pursuant and subject to the operation of a distribution waterfall described in the offering documents of the Special Credit Funds.

3. Capital Partners Funds

Management Fee

The Capital Partners Funds pay Centerbridge a Management Fee quarterly in advance. The Management Fees are paid by the Capital Partners Funds with respect to the capital under management of investors in such Funds (other than certain friends and family investors and other investors affiliated with Centerbridge as noted above). In the case of the final management-fee period, Centerbridge will refund to the Capital Partners Funds the amount allocable to the portion of the quarterly period which is subsequent to the end of such last management-fee period.

The Management Fee paid by CCP I to Centerbridge will equal a blended rate determined as follows: (i) 1.50% per annum of capital contributions with respect to portfolio investments that have not been disposed of (such amounts for all investors, the “Capital Under Management”), and (ii) 1.25% per annum of the amount by which Capital Under Management exceeds \$2 billion.

The Management Fee paid by each of CCP II and CCP III to Centerbridge will equal (i) during the investment period and so long as management fees do not begin to accrue with respect to a successor fund, 1.50% of the aggregate capital commitments of the investors in such Fund, and (ii) thereafter, 1.25% per annum of such Fund’s Capital Under Management.

As more fully set forth in each of the Capital Partners Funds’ governing documents, a formulaic portion of the Management Fee payable is instead invested on behalf of Centerbridge in investments made by such Capital Partners Fund, although distributions to Centerbridge with respect to such amounts are limited to the amount of available profits with respect thereto.

Carried Interest

In addition, Centerbridge is entitled to receive 20% of the profits from the Capital Partners Funds (other than with respect to certain friends and family investors and other investors affiliated with Centerbridge as noted above) pursuant and subject to the operation of a distribution waterfall described in the offering documents of the Capital Partners Funds.



4. CPREF

Management Fee

CPREF pays Centerbridge a Management Fee quarterly in advance. The Management Fees are paid by CPREF with respect to the capital under management of investors in CPREF (other than certain friends and family investors and other investors affiliated with Centerbridge). In the case of the final management-fee period, Centerbridge will refund to CPREF the amount allocable to the portion of the quarterly period which is subsequent to the end of such last management-fee period.

The Management Fee will equal⁵ (i) during the investment period and so long as management fees do not begin to accrue with respect to a successor fund, 1.50% of the aggregate capital commitments of the investors, and (ii) thereafter, 1.25% per annum of CPREF's capital under management.

Carried Interest

In addition, Centerbridge is entitled to receive 20% of the profits from CPREF (other than with respect to certain friends and family investors and other investors affiliated with Centerbridge as noted above) pursuant and subject to the operation of a distribution waterfall described in the offering documents of CPREF.

B. Additional Fees and Expenses.

The following sets forth various examples of the types of expenses that generally will be borne by a Fund or Funds, subject to the terms of such Fund's governing documents: Each Fund will bear its own expenses, including, without limitation, investment-related expenses whether relating to investments that are consummated or unconsummated (*e.g.*, brokerage commissions, due diligence costs, investment banking fees, sourcing or finder's fees (which includes at times a management fee component and / or a performance-based component), interest and / or fees on margin accounts, credit facilities and other indebtedness, borrowing charges on securities sold short, custodial fees, clearing and settlement charges, hedging costs, interest expense and other investment-related expenses (*e.g.*, meetings, entertainment, food, travel (including commercial and, in certain limited instances, privately arranged air travel) and lodging expenses)); research-

⁵ The Management Fee rate for a Limited Partner admitted to CPREF during the initial closing is decreased by 0.25% during the investment period. In addition, the Management Fee rate for a Limited Partner that is, as of the date of such Limited Partner's commitment to CPREF, a limited partner in another Centerbridge fund then-investing (*i.e.*, CCP III, SC III and / or a Credit Partners Fund), as determined by Centerbridge, is decreased by 0.25% during the investment period. These two decreases are cumulative to the extent they are both applicable to a single Limited Partner. In addition, Limited Partners with aggregate commitments exceeding a specified size threshold are charged a Management Fee rate of 1.00% per annum for the term of CPREF.



related expenses (including, without limitation, news and quotation equipment and services); legal expenses; professional fees (including, without limitation, expenses of consultants (including, but not limited to, consulting fees for, and other amounts payable to, senior or special advisors, certain other advisors, operating partners and other similar professionals incurred by a Fund for the benefit of such Fund or such Fund's investments or portfolio companies), valuation firms and other experts); the costs of organizing and maintaining any non-recourse financing alternative investment subsidiaries, financing subsidiaries, trading subsidiaries or any other entity used to acquire, hold or dispose of any investment or otherwise facilitate a Fund's investment activities, including operating expenses, such as rent, allocable personnel costs and the costs, fees and expenses of developing, structuring, operating and winding up entities formed for investment-related purposes (*e.g.*, in non-U.S. jurisdictions); the costs and expenses incurred in connection with borrowing arrangements and other indebtedness of such Fund and its subsidiaries, including, without limitation, the costs of establishing the borrowing arrangements and such other indebtedness; costs relating to swaps (and similar arrangements) entered into by such Fund; auditing and tax compliance expenses; accounting expenses; expenses incurred in connection with complying with provisions in agreements with investors (including "most favored nation" provisions); market data costs; costs of any third-party administrators and, in the case of Special Credit II and Special Credit III, in-house administration costs (as to which Centerbridge notes that the combination of third-party administration and in-house administration is reflective of the parallel control environment adopted by Centerbridge) including personnel (*e.g.*, the allocable cash compensation cost of those involved in accounting, trading operations, tax compliance and reporting, investor services and fund-related IT development) and related overhead; fees and expenses of a Fund's advisory committee or other governing body (including any legal expenses incurred thereby); expenses relating to the organization and conduct of investors' meetings (including travel, lodging and meal expenses); fees, costs and expenses of representatives of a Fund in local jurisdictions necessary or advisable for regulatory, tax or other purposes; costs of printing and mailing reports and notices; organizational expenses, including, without limitation, out-of-pocket expenses incurred in connection with the relevant Fund's legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law and regulation (*e.g.*, a Fund's beneficial ownership filings); insurance expenses, including, without limitation, a portion of the premiums for liability and other forms of insurance covering Centerbridge and its members, partners, directors, officers, employees and agents; Management Fees; board of directors' fees; indemnification and / or litigation expenses; corporate licensing fees and other professional fees; bank service fees; withholding and transfer fees; trademarks; entity-level taxes or other taxes, fees or other governmental charges levied against a Fund; other expenses related to the purchase, monitoring, sale, settlement, custody or transmittal of such Fund's assets (directly or through financing alternative investment subsidiaries and / or trading subsidiaries); loan administration costs; and extraordinary expenses and other similar expenses related to such Fund. Certain expenses incurred by Centerbridge or its representatives are charged directly to portfolio companies in which the Funds have invested and accordingly would be indirectly borne by the Funds. While Centerbridge will, except as indicated in a Fund's governing documents, be responsible for its own rent, utilities and salaries of its personnel, the costs and expenses



of its activities in connection with, on behalf of, or otherwise related to, a Fund will be borne by such Fund (and indirectly by its investors).

From time to time, Centerbridge and / or multiple funds (or portfolio companies) managed by Centerbridge receive products or services from third parties, the costs and expenses of which are allocable (in whole or in part) between or among Centerbridge and / or such funds (or portfolio companies).

The service providers, counterparties or their affiliates (including any administrators, lenders, brokers, attorneys, consultants and investment or commercial banking firms) and certain other advisors and agents of the Funds, Centerbridge or any of their affiliates may be investors in the Funds and / or sources of investment opportunities and co-investors or counterparties therein and also may provide goods or services to or have business, personal, political, financial or other relationships with Centerbridge, its portfolio companies and their affiliates and certain other advisors and agents.

Certain employees of Centerbridge may have family members or relatives employed by certain advisors and other service providers. These and other relationships may influence, or have the appearance of influencing, Centerbridge in deciding whether to select such a service provider or have other relationships with Centerbridge. Among the ways Centerbridge seeks to mitigate such potential conflicts is to require periodic disclosure of such relationships and conduct ongoing monitoring, where possible in each case.

When engaging service providers on behalf of itself and the Funds and as relationships with such service providers continue, Centerbridge applies business selection standards that are similar in nature to the “best execution” principles applicable to brokerage relationships, taking into account the nature of services sought and capabilities of such service provider in relation thereto, and also other characteristics of the service provider under consideration, such as the following: reputation, ethics and regulatory record; business standards; corporate governance, compliance and controls; technological capabilities and standards; references and relevant expertise; continuity considerations and historical experience with such service provider; and the actual or expected quality and timeliness of the services provided relative to the difficulty of the requested services and fees charged or proposed to be charged, with consideration to their competitiveness relative to other service providers, if any, that Centerbridge considers to be comparable. It should be noted that relevant comparisons may not be available for a number of reasons, including, without limitation, as a result of a lack of substantial market of providers or users of such services or confidential and / or bespoke nature of such services.

From time to time, multiple service providers with overlapping capabilities may be engaged in order to provide what Centerbridge considers to be the appropriate level of attention to a particular need. Various approaches may apply to the services performed for a given entity or entities (depending on applicable facts or circumstances) and to the pricing methodologies for such services, affecting the actual cost of such services,



including, but not limited to, hourly rates, fixed fees, performance-based fees, contingency fees and other arrangements. The same service provider may act for the Firm and its affiliates, and also for the Funds, on various matters, with various approaches to fees that are a function of the specific mandate. From time to time, discounts may apply (including those that are task- or transaction-based, or that reflect a “broken deal” or otherwise unfinished mandate). Centerbridge does not condone seeking discounts from service providers for services for Centerbridge in exchange for mandates for the Funds or portfolio companies, nor does Centerbridge condone seeking discounts in a manner that would involve less favorable treatment for the Funds relative to Centerbridge. While rare, in circumstances that involve the provision of goods or services by a service provider affiliated with Centerbridge or a particular Fund or portfolio company to another person affiliated with Centerbridge, a particular Fund or another portfolio company, or services performed for multiple Funds or portfolio companies by a single, unaffiliated service provider, various additional considerations often apply, resulting in conflicts analysis and other measures intended to reduce, monitor and mitigate conflicts, and disclosures and other measures as are required by the governing documents of the Funds and the requirements of the U.S. Investment Advisers Act of 1940, as amended (“Advisers Act”). Please also refer to Item 11.

As noted in Item 6, in the case of Special Credit II and Special Credit III, in-house administration costs also are allocable to such funds.

From time to time, Centerbridge, the Funds or portfolio companies may receive products or services from third parties, the costs and expenses of which are allocable (in whole or in part) between or among Centerbridge, the Funds and / or the portfolio companies. Centerbridge allocates expenses among parties in the manner prescribed by the applicable governing documents for such funds, and in cases where costs and expenses are properly allocable between or among multiple parties, the allocation would be done in a manner that Centerbridge considers to be fair and equitable, taking into account factors such as the actual or estimated relative benefits to each applicable party of the expense-generating item (which typically would include consideration of the funds’ relative position sizes in an expense-generating investment). A conflict of interest could arise in Centerbridge’s determination of whether certain costs or expenses that are incurred in connection with the operation of a Fund meet the definition of partnership operational expenses for which such Fund is responsible, or whether such expenses should be borne by Centerbridge. The Funds will be reliant on the determinations of Centerbridge in this regard. From time to time, it is possible that subsequent review of allocations could result in an identification of expenses that should have been allocated in a different manner, in which case measures would be undertaken to correct such circumstance, which might include a reversal of the original expense allocations, if possible, or such other equitable adjustment believed by Centerbridge to be the most appropriate corrective measure. There can be no assurance that allocation errors will not arise or that corrective measures will be possible in all circumstances.



Within a Fund, while Centerbridge has the authority to make special allocations, expenses relating to a particular investment made by the Fund would generally be borne by investors participating therein, while other expenses, unrelated to a specific investment actually made by the Fund, would generally be borne by all investors on a *pro rata* basis. Accordingly, broken-deal expenses borne by a Fund, unrelated to an actual investment already held by such Fund, would generally be allocated to all investors in such Fund at the time such expense was incurred. For example, in the case of the Credit Partners Funds, expenses associated with transactions that are not consummated (including with respect to any transaction that potentially might have been determined to be a Special Investment had it been consummated) are allocated to the general portfolios of such Funds.

In the event break-up or topping fees are paid to Centerbridge in connection with a transaction that is not ultimately consummated, co-investment vehicles that invest alongside the Capital Partners Funds, CPREF or other Funds generally will not be allocated any share of such break-up or topping fees; similarly, non-committed co-investors or co-investment vehicles generally do not bear broken-deal expenses for unconsummated transactions in which they would have participated if the relevant transaction had been consummated (the SBS Co-Invest Vehicles are committed co-investment vehicles for Centerbridge personnel and participate in all investments made by the applicable Capital Partners Fund and / or CPREF, as applicable, and as such would bear their *pro rata* portion of any such expenses).

Centerbridge endeavors to accrue for all estimated fees and / or expenses in accordance with U.S. GAAP; however, receipt of actual invoices from vendors or service providers for fees and / or expenses often lags the period in which services were performed for the Funds and actual amounts may differ from estimates such that an investor bears a different portion of such fee and / or expense than would have been the case if the fee and / or expense were accrued contemporaneously with the invoice.

C. Other Fees; Impact on Management Fee.

Centerbridge or its affiliates have on occasion received and expect in the future on occasion to receive compensation in connection with financial transactions structured by Centerbridge or its affiliates (which does not include fees received by portfolio companies) in which the Funds invest, which compensation reduces all or a portion of the Management Fees paid by the Funds. In the event Centerbridge does not charge a Management Fee to a Fund or other person, Centerbridge will be entitled to retain the portion of such compensation allocable to such Fund or other person, except as otherwise provided in the applicable Fund's governing documents. Compensation that results in a reduction in the Management Fee includes, for example, break-up and topping fees, monitoring and directors' fees, organization fees, set-up fees, consulting fees, management fees, closing and transaction fees and other similar fees. The Funds' governing documents do not require an offset in the case of consultants who provide services to portfolio companies or, as a general matter, where an employee of Centerbridge serves in a bona fide management capacity at a portfolio company or, in the case of the



Real Estate Fund, fees for property management services. The extent of the offset (whether full or partial), the timing of offsets and the types of compensation resulting in such an offset, is specified in the governing documents of the applicable Fund. Centerbridge endeavors to apply offsets in the same accounting period in which such offset amount was received; however, it is not uncommon that such offset occurs in an accounting period subsequent to the period in which such fee was paid or earned.

Centerbridge and its personnel can be expected to receive certain intangible and / or other benefits and / or perquisites arising or resulting from its or their activities on behalf of the Funds which will not be subject to Management Fee offset or otherwise shared with the Funds. For example, credit cards used to incur Fund expenses, hotel chains or other merchants may provide for “points,” or other “rewards” and airline travel may result in “miles” or credit in loyalty / status programs, and in each case such benefits and / or amounts will, whether or not *de minimis* or difficult to value, inure exclusively to Centerbridge and / or such personnel (and not the Funds, investors in the Funds or portfolio companies) even though the cost of the underlying service is borne by the Funds and / or portfolio companies. Centerbridge endeavors to deploy points, miles or similar rewards accrued by it, where possible, in a manner that facilitates its ability to execute on Centerbridge’s business overall, including its responsibilities to the Funds, which includes defraying expenses that are not in and of themselves Fund expenses.

Centerbridge engages and retains senior advisors and other similar consulting professionals who are not employees or affiliates of Centerbridge and who may, from time to time, receive payments from, or allocations with respect to, portfolio companies (as well as from Centerbridge or one or more Funds), or otherwise co-invest in a particular portfolio company or have an interest in a Fund. Any such payments or allocations to such consultants will not be deemed paid to or received by Centerbridge and such amounts will not be subject to the offset provisions described above, even if they have the effect of reducing any retainers or minimum amounts otherwise payable by Centerbridge. The nature of the relationship with each of the senior advisors and / or other similar consulting professionals and the amount of time devoted or required to be devoted by them varies considerably. In certain cases, they provide Centerbridge with industry-specific insights, assist in transaction due diligence, or make introductions to and provide reference checks on management teams. In other cases, they may take on more extensive roles and serve as executives or directors on the boards of portfolio companies or contribute to the origination of new investment opportunities. In certain instances, Centerbridge may have formal arrangements with these senior advisors and other consultants and / or other professionals, and in other cases the relationships may be more informal. They may either be compensated (including pursuant to retainers and expense reimbursement) from Centerbridge, a Fund and / or portfolio companies or otherwise uncompensated unless and until an engagement with a portfolio company develops. Any such compensation can take the form of a management fee and / or profits allocation (whether paid directly to such individuals and / or to an affiliated entity controlled by such individuals), which may be calculated as a percentage of assets under management and / or a waterfall similar to a carried interest, respectively. In certain cases, the nature of the services performed by such



persons may warrant their presence from time to time or on some periodic basis at Centerbridge's offices and involvement in meetings at or with Centerbridge, and may benefit from the ability to utilize certain aspects of Centerbridge's technology and the ability to present themselves as service providers to Centerbridge and / or its portfolio companies. Such persons may assist Centerbridge in a range of activities consistent with their skills and experience and may serve as directors for Centerbridge's portfolio companies, activities that could comprise a significant portion of such persons' overall business activity. Certain similar features can apply to other service provider arrangements. Centerbridge makes determinations to apply certain of its policies to certain of such persons for legal and regulatory purposes. The foregoing relationships are third-party service arrangements with persons who are not considered employees of Centerbridge or its portfolio companies, although elements of such arrangements may have some overlap with characteristics applicable to employees. The terms of these consulting arrangements do not require the services of such consultants for the duration of a specific Fund or investment.

Similarly, certain strategic co-investors who in certain instances are also investors of one or more Funds, in their capacity as a strategic co-investor, would be entitled to certain information or have other rights, including the right to receive fees (*e.g.*, if such strategic co-investor serves as a member of the board of directors of the relevant portfolio company), not generally provided to investors in the Funds or other co-investors (who may or may not be investors of the Funds). It is expected that any such fees paid to a strategic co-investor generally would not be allocated to the Fund or Centerbridge and would not offset any management fees.

Additionally, under the terms of the partnership agreements of certain Funds, it is contemplated that Centerbridge personnel, who may be members of Centerbridge's portfolio operations group, may provide services to the portfolio companies of such Fund, and any payments made by such portfolio companies to Centerbridge for reimbursement of the internal compensation costs for time spent on such portfolio companies will not result in an offset to the Management Fees payable by limited partners in such Funds. As a result, Centerbridge may be incentivized to cause members of the portfolio operations group to spend more time on the portfolio companies of the Funds that provide for reimbursement in such manner. On the other hand, there can be no assurance that members of the portfolio operations group will be able to provide their services to portfolio companies and / or that any individuals within the portfolio operations group will remain employed by Centerbridge through the term of any Fund.



ITEM 6

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Centerbridge currently accepts performance-based compensation from every client (other than co-investments made in parallel with one or more Funds, including (i) employee co-investment vehicles and (ii) investment-specific co-investments), and as described in Item 5, the percentage amounts upon which such compensation is calculated, the timing of the calculation of such compensation and the use of unrealized gains in such calculation differ among clients. In addition, the allocable expenses borne by each of the Funds are as provided by the governing documents of such Funds, which vary by Fund (including, for example, in relation to in-house administration personnel costs, which, in the case of Special Credit II and Special Credit III, are allocable to only such Funds). As a result of such factors, Centerbridge has a potential incentive to allocate limited investment opportunities to, or make other determinations that take into account, the clients from whom the greatest performance-based compensation could be earned or to make riskier or more speculative investments. In addition, certain Centerbridge personnel participate in Centerbridge's performance-based compensation with respect to one or more Funds (and / or the percentage interest held by a particular personnel member may be greater as a function of a particular Fund or strategy) and accordingly have a potential incentive to make valuation and allocation decisions based on such participation. Such conflicts also could affect the manner in which Centerbridge determines the responsibilities of its personnel performing administrative functions. Centerbridge's Conflicts of Interest Policy and its Valuation Policy, which are available to investors and prospective investors as described in Item 8, address these and other conflicts of interest, including topics discussed in this Item 6, and in Items 10 and 11.



ITEM 7
TYPES OF CLIENTS

Centerbridge provides investment advice to pooled investment vehicles, such as the Funds, as described above.



ITEM 8

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Centerbridge has excerpted information from the confidential private placement memoranda for the Funds and the reader is strongly encouraged to read the entire confidential private placement memorandum of the applicable Fund or Funds, a copy of which, in the case of a specific Fund or Funds being offered, has been provided with this Brochure.

A. Methods of Analysis and Investment Strategies.

The descriptions set forth in this Brochure of specific advisory services that Centerbridge offers to clients, and investment strategies pursued and investments made by Centerbridge on behalf of its clients, should not be understood to limit in any way Centerbridge's investment activities, including offering any advisory services, engaging in any investment strategy and making any investment, including any not described in this Brochure, that Centerbridge considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies Centerbridge pursues are speculative and entail substantial risks. Investors should be prepared to bear an entire loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

1. Credit Funds

The Credit Funds employ a two-pronged analytical approach to distressed investing which combines elements of traditional value investing (assessing the long-term intrinsic value of an investment in relation to its market price and focusing on those situations where value and price materially diverge) together with event and legal analysis (such as analysis of out-of-court restructuring transactions and reorganizations under Chapter 11 of the U.S. Bankruptcy Code and the bankruptcy or insolvency laws of other jurisdictions). Through such analysis, Centerbridge seeks to consistently assess the risks of each investment and the Credit Funds' portfolios as a whole – in particular, the risk of a permanent loss of capital as opposed to mark-to-market price fluctuations – with a view toward generating superior risk-adjusted returns. The investment strategy revolves around a disciplined credit research process and is based on the belief that a thorough understanding of a company and its industry is essential to generating positive absolute returns. Centerbridge expects to apply its substantial experience in analyzing and assessing a company's valuation, capital structure, financial performance and underlying industry dynamics in order to capitalize on market imbalances, event-driven situations and other mispriced opportunities. Such investments might include issuers who are the subject of corporate reorganizations, restructurings, liquidity crises, mergers, spin-offs, leveraged buyouts or credit rating changes or other situations when the market may be mispricing an asset's intrinsic value.

The Credit Funds seek to minimize downside risk and protect principal by performing intensive credit research and actively monitoring the risk of each investment.



In general, with respect to investments in restructuring transactions, the Credit Funds focus on senior or secured debt instruments issued by North American and European domiciled companies (with a focus on the U.S.) in light of the downside protection inherent in such instruments and their superior legal rights in a Chapter 11 or similar statutory reorganization contexts. The Credit Funds also invest in areas outside North America, in Europe, in particular. In pursuit of their investment objective, the Credit Partners Funds have authority to use leverage and the Special Credit Funds have limited authority to do so on a non-recourse, asset-level basis. Among the ways the Credit Funds seek to manage potential downside risk is the use of hedging techniques, such as interest rate, currency or other forms of hedging through options, forwards, derivative contracts (including credit default swaps with one or more reference assets) or other instruments.

2. Capital Partners Funds

The Capital Partners Funds seek to opportunistically make primarily (i) private equity investments using Centerbridge's experience in a targeted range of industry verticals and (ii) distressed investments with the primary purpose of obtaining influence over or control of financially troubled companies. Centerbridge's investment team has extensive experience investing domestically and abroad, and Centerbridge focuses the Capital Partners Funds' investment activities principally in North America and Europe but from time to time pursues opportunities in other geographies. Centerbridge's ability to bridge private equity and distressed investment strategies provides the Capital Partners Funds with considerable flexibility to adapt to different market conditions. Centerbridge believes that this complementary approach has several competitive advantages, including: (i) a flexible investment approach; (ii) a reduced need to "time" the market, as the strategies generally are countercyclical; (iii) expanded sources of deal flow; (iv) enhanced industry relationships and insights; and (v) broadened due diligence, investment execution and value creation skill sets. Centerbridge's restructuring experience informs a general preference for conservative leverage, particularly in the case of businesses emerging from bankruptcy proceedings.

Private Equity Transaction Structures. In private equity transactions, Centerbridge seeks to employ a variety of structures (including leveraged buyouts, recapitalizations, turnarounds, corporate buildups and growth opportunities) as well as forms (including common stock, preferred equity or debt of portfolio companies). In these transactions, Centerbridge seeks to invest opportunistically, employing rigorous analysis coupled with a value orientation across a broad range of targeted industry verticals, and approaches each investment with a defined thesis and a plan to add value to the business.

In addition to controlling positions, Centerbridge seeks corporate partnerships where companies are in need of capital and are looking for sponsorship from a sophisticated equity owner. Centerbridge aims to identify opportunities where companies can effectively utilize capital to finance value added expansion initiatives, including mergers and acquisitions and deleveraging opportunities. Centerbridge is flexible in its



approach to corporate partnerships and makes minority investments with appropriate governance protection.

Distressed Transaction Structures. In distressed for influence or control transaction structures, Centerbridge invests through various distressed or defaulted debt instruments, including loans, publicly and privately traded bonds, including high yield bonds and “fallen angels,” trade claims, direct capital investments and other privately or publicly held instruments and claims. Specifically, it seeks to position the Capital Partners Funds to acquire material stakes in debt instruments or claims, including control or “blocking” positions in certain classes of debt, in an effort to acquire control of, or an influential equity stake in, the targeted business. This may result in the Capital Partners Funds receiving, in exchange for their holdings, cash, new debt or equity securities or a significant equity stake in, or outright control of, a reorganized company. In effectuating restructuring transactions, the Capital Partners Funds sometimes serve on official or unofficial creditors’ committees to implement their strategy or act unilaterally in certain circumstances. In addition, the Capital Partners Funds act occasionally as a lender to distressed companies through syndicated or bilateral credit facilities, including “rescue financings” and debtor-in-possession loans extended in the context of a Chapter 11 reorganization or equivalent protections under the laws of other jurisdictions.

In implementing its distressed for influence or control strategy for the Capital Partners Funds, Centerbridge uses its core distressed trading capabilities – resources and abilities that Centerbridge believes very few private equity investors possess. When the market presents the opportunity, Centerbridge often acquires substantial debt positions with the goal of leading a restructuring transaction whereby it will ultimately be able to gain control of, or acquire an influential equity stake in, the restructured company. These situations may result in a reorganization as originally anticipated, or, depending on certain factors, including sufficiently improved business performance or receptive capital markets that allow for refinancing, a restructuring may not transpire or may be sponsored at a valuation above that which Centerbridge believes is attractive. In these scenarios, Centerbridge may seek to exit its position, often at a profit, and recycle that capital into more attractive private equity or distressed opportunities.

3. CPREF

CPREF continues Centerbridge’s historical approach to real estate investing by seeking investments throughout the capital structure where Centerbridge identifies and believes it has the opportunity to create or capture value across three types of real estate transactions: Corporate Platforms, Loans and Securities and Direct Assets. CPREF employs Centerbridge’s value-oriented approach with an emphasis on downside protection and invest when it believes the market price of the company, instrument or asset is meaningfully below the intrinsic value of its underlying real estate.

Corporate Platforms. Centerbridge invests in Corporate Platforms where it can own or control a high-quality real estate company at what it believes to be a



meaningful discount to the intrinsic value of such company's assets or where Centerbridge believes its basis compares favorably to its expectations for the company's future earnings prospects. Centerbridge invests in Corporate Platforms when it sees the opportunity to improve operations and / or management (bringing to bear the skills of the Centerbridge's portfolio operations team), benefit from the existing management team's deep experience, accretively invest additional capital into capex or add-on acquisitions, improve the company's capital structure (*e.g.*, amount, cost, duration and / or covenants of financing) and / or expand the company's market position in a fragmented asset class.

Centerbridge is flexible in its approach to taking ownership or control of Corporate Platforms, as there are multiple paths to making what may become a Corporate Platform investment. While an investment in the equity of a solvent company is a common way to do this, an investment in the debt of a financially distressed company could also result in a control / ownership position if that debt ultimately converts to equity.

Loans and Securities. Centerbridge invests in Loans and Securities, including corporate credit (*e.g.*, secured, unsecured, term loans and revolvers), preferred / common equities, derivatives, hybrid securities and commercial mortgage-backed securities, when it can acquire a position at a meaningful discount to its intrinsic value and / or where it believes that it can create or capture value in a special situation by influencing or controlling a workout or reorganization by leveraging Centerbridge's deep experience in restructuring.

Direct Assets. Centerbridge makes Direct Asset investments when it believes that it can invest in a property or portfolio of properties in a market with highly favorable supply / demand dynamics at a meaningful discount to its intrinsic value and replacement cost and may collaborate with local operating partners to seek to drive value creation. Centerbridge seeks to acquire transitional assets within high barrier-to-entry markets when it sees an opportunity either to reposition assets to optimize performance and value or where the investment presents attractive optionality with multiple potential ways to achieve the investment's potential. Centerbridge seeks to make Direct Asset investments where it believes that the complexity of the asset's operations, capital structure or ownership structure masks the real estate's true value. The real estate team seeks to improve a property, oftentimes in partnership with highly experienced local operating partners, through targeted capital expenditures or by implementing operational improvements.

B. Material, Significant or Unusual Risks Relating to Investment Strategies.

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in one or more of the Funds. These risk factors include only those risks Centerbridge believes to be material, significant or unusual and that relate to particular significant investment strategies or methods of analysis employed by Centerbridge. In addition to those risks relating to the Funds' strategies and investments that are specifically discussed in this Item 8, Centerbridge has included a non-exhaustive



discussion of other risks that Centerbridge believes may affect such strategies and investments. Centerbridge also makes additional risk- and conflict-related disclosures in the Confidential Private Placement Memoranda of the Funds, and makes various other documents available to investors and prospective investors that bear on various risks and conflicts associated with an investment in the Funds, including its Code of Ethics, Proxy Voting Policy, Conflicts of Interest Policy (which includes a discussion of allocations) and Valuation Policy, as noted elsewhere in this Brochure.

Broad Investment Mandate. An investor in a Fund must rely upon Centerbridge's ability to identify, structure and implement investments consistent with such Fund's overall investment objectives and policies at such times as it determines. There are few material limitations on the instruments, markets or countries in which the Funds may invest or the specific investment strategies that may be employed on behalf of the Funds. While a Fund's primary investment objective may focus on (i) control and control-oriented investments, (ii) non-control and non-control-oriented, or (iii) real estate-related investments, each Fund is permitted to make control, control-oriented, non-control and non-control-oriented investments, including real estate-related investments. Additionally, the Funds will be permitted to invest (and may actually invest) in any number of companies operating in a wide range of industries or activities. Investors generally have no assurance as to the degree of diversification of the investments, either by issuer, strategy, asset type, security, geographic region, sector or location in the capital structures of the issuers in which the Funds invest; this applies even within the context of the broad real estate-related investment program of CPREF. There is no requirement that a Fund maintain a specific balance between private equity and distressed and structured transaction investments at any point in time and there are limited formal diversification and other portfolio construction requirements to which the Funds are subject, as set forth in each Fund's governing documents.

Portfolio Concentration. The number of investments in which a Fund is invested is, at times, limited, including, for example during ramp-up or harvest periods. Investors in a Fund generally have no assurance as to the degree of diversification of such Fund's investments, either by issuer, strategy, asset type, security, geographic region, sector or location in the capital structures of the issuers in which a Fund invests. To the extent a Fund concentrates investments in a particular issuer, strategy, asset type, security, location in the capital structure, geographic region or sector, its investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect thereto. As a consequence, the aggregate return of such Fund would be adversely affected by the unfavorable performance of one or a small number of investments. At points in time, each Fund's portfolio will be concentrated – whether by issuer, strategy, asset type, geographic region, sector, location in the capital structures of the issuers in which it invests or other measures. For example, during the initial phase of a Fund's capital commitment period, such Fund may acquire portfolio positions in quantities based on its anticipated Fund assets under management in the future. Consequently, the Fund may hold more concentrated positions than it otherwise would if and when the Fund reaches its target level of assets under management and the Fund's returns may be



adversely affected by the unfavorable performance of one or a small number of such Fund's investments. Concentration also may exist at other times during or after such Fund's capital commitment period, including as such Fund ramps up and later as the harvest period progresses. There are no assurances that all of the Funds' investments will perform well or even return capital. Therefore, if certain investments of a Fund perform unfavorably, for such Fund to achieve above-average returns, one or a few of its investments must perform very well. There are no assurances that this will be the case.

Competition for Investments. The activity of identifying, completing and realizing on attractive private equity, distressed, real estate and other similar investments is highly competitive and involves a high degree of uncertainty. The Funds expect to encounter competition from other entities having similar investment objectives and others pursuing the same or similar opportunities. Potential competitors include other investment partnerships and corporations, business development companies, strategic industry acquirers, real estate investment vehicles, as well as individuals, publicly traded real estate investment trusts as defined within the meaning of section 7704 of the Internal Revenue Code of 1986, as amended ("REITs"), financial institutions (such as mortgage banks), sovereign wealth funds, private investment funds and other institutional investors investing directly or through affiliates. Further, over the past several years, an ever-increasing number of private equity, distressed debt, real estate investment funds and publicly traded REITs have been formed (and many such existing funds have grown in size). Additional funds with similar investment objectives can be expected to be formed in the future by other unrelated parties. Additionally, competition for investment opportunities from other investment vehicles has increased on a global scale. Private equity and other funds, whether located in Europe, Asia or other emerging market regions, are making global competition increasingly intense. While Centerbridge has a London office, there can be no assurance that such office will provide for a local footprint that equals the resources available to funds that are headquartered in such non-U.S. jurisdictions. There can be no assurance that changes in the competitive dynamic outside the U.S. will not occur, or that they will not adversely affect or otherwise necessitate changes to Centerbridge's operations outside the U.S. Some of these competitors may have more relevant experience, greater financial and other resources and more personnel than Centerbridge and the Funds. It is possible that competition for appropriate investment opportunities could increase, thus reducing the number of opportunities available to the Funds and adversely affecting the terms upon which investments can be made. The Funds will, from time to time, incur bid, due diligence or other costs (including deposits which may not be refundable) on investments which are not consummated or are otherwise not successful. As a result, a Fund will not, in such situations, recover from such investments all of its costs, which would adversely affect returns. There can be no assurance that a Fund will be able to locate, complete or exit investments satisfying its investment criteria or that such investments will satisfy such Fund's rate-of-return objectives. Likewise, there can be no assurance that a Fund will be able to realize upon the values of its investments or that a Fund will be able to invest its committed capital. To the extent that the Funds encounter competition for investments, returns to investors are likely to decrease.



Investments in Highly Leveraged Companies. The Funds' investments have included and are expected to include companies whose capital structures have significant leverage either before or during a Fund's investment. Instruments issued by such companies may have limited covenants (*e.g.*, "covenant lite" instruments), and the lack of robust covenants can increase the risk associated with an investment in such companies. While investments in leveraged companies offer the opportunity for capital appreciation and Centerbridge approaches leverage in a manner it believes to be prudent, such investments also involve a higher degree of risk. A Fund's investments may involve varying degrees of leverage, which could magnify the impact of circumstances such as unfavorable market or economic conditions, operating problems and other changes that affect the relevant company or its industry, resulting in a more pronounced effect of such circumstances on the profitability or prospects of such companies. In using leverage, these companies may be subject to terms and conditions that include restrictive financial and operating covenants, which may impair their ability to finance or otherwise pursue their future operations or otherwise satisfy additional capital needs. Moreover, rising interest rates will, unless such rates are fixed pursuant to the terms of any such indebtedness, significantly increase such companies' interest expense, causing losses and / or the inability to service debt levels. If a company cannot generate adequate cash flow to meet its debt obligations, the investing Funds may suffer a partial or total loss of capital invested in the company.

Credit Risk. One of the fundamental risks associated with the Funds' investments is credit risk, which is the risk that an issuer or borrower will be unable to make principal and interest payments on its outstanding debt obligations when due or otherwise defaults on its obligations to a Fund and / or that the guarantors or other sources of credit support for such persons do not satisfy their obligations. A Fund's return to investors would be adversely impacted if an issuer of debt securities or a borrower under a loan in which the Fund invests becomes unable to make such payments when due. Although the Funds at times make investments that Centerbridge believes are secured by specific collateral the value of which may initially exceed the principal amount of such investments or a Fund's fair value of such investments, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, the Funds could experience delays or limitations with respect to their ability to enforce rights against and realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment may be released without the consent of the Funds or the Funds' expected rights to such collateral could, under certain circumstances, be voided or disregarded. The Funds' investments in secured debt may be unperfected for a variety of reasons, including the failure to make required filings by lenders and, as a result, a Fund may not have priority over other creditors as anticipated. Furthermore, a Fund's right to payment and its security interest, if any, may be subordinated to the payment rights and security interests of the senior lender. Certain of these investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In addition, certain



instruments may provide for in-kind payments, which have a similar effect of deferring current cash payments. In both cases, a company's ability to repay the principal of an investment may be dependent upon a liquidity event or the long-term success of the company, the likelihood of which is uncertain. With respect to a Fund's investments in any number of credit products, if the borrower or issuer breaches any of the covenants or restrictions under the indenture governing notes or the credit agreement that governs loans of such issuer or borrower, it could result in a default under the applicable indebtedness as well as the indebtedness held by the Fund. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. This could result in an impairment or loss of a Fund's investment or result in a pre-payment (in whole or in part) of a Fund's investment. As it relates to all of the foregoing risks and related considerations discussed above, it should also be noted that the Funds also may invest in leveraged loans, high-yield securities, marketable and non-marketable common and preferred equity securities and other unsecured investments, each of which involves a higher degree of risk than senior secured loans.

Loans and Participations. The Funds' investment programs include investments in significant amounts of loans and / or participations. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv) collateral posting obligations that may arise in connection with investments in revolving credit facilities or delayed draw term loans, which give rise to the risk of loss with respect to posted collateral; and (v) the risk that ownership through assignment is not feasible and a Fund may be required to hold its interest via a participation, which gives rise to counterparty credit risk and limitations on the ability of a Fund to directly enforce certain rights (*e.g.*, voting rights). In analyzing each loan or participation, Centerbridge compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Funds. Bank loans are frequently traded on the basis of standardized documentation which is used in order to facilitate trading and market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue or that the same documentation will be used in the future. The settlement of trading in bank loans often requires the involvement of third parties, such as administrative or syndication agents, and there presently is no central clearinghouse or authority which monitors or facilitates the trading or settlement of all bank loan trades. Often, settlement may be delayed based on the actions of any third party or counterparty, and adverse price movements may occur in the time between trade and settlement, which could result in adverse consequences for the Funds.

A Fund can acquire interests in loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment

typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest and not with the borrower. In purchasing participations, the relevant Fund typically will not have the right to vote on matters requiring a vote of holders of the underlying debt and may have no right to enforce compliance by the borrower with the terms of the loan agreement, or any rights of set-off against the borrower, and such Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, if a Fund were to hold a participation, it would assume the credit risk of both the borrower and the institution selling the participation to such Fund. In certain circumstances, investing in the form of participation may be the most advantageous or only route for a Fund to make or hold any such investment, including in light of limitations relating to local laws or the willingness of administrative agents or borrowers to allow a Fund to become a direct lender.

Where a Fund acquires a participation interest in a loan, the form of agreement documenting the acquisition can vary based on the contract law governing the debt. Where the contract is New York law governed, the agreement is also generally New York law governed and intended to be structured as a “true participation,” providing the Fund with a beneficial ownership right in the proceeds payable in relation to the bank debt. This structure can limit a Fund’s counterparty credit risk exposure against the institution selling the participation, and if the seller files for bankruptcy during the life of the agreement, the court may ring-fence proceeds related to the bank debt for the benefit of the Fund. Where the contract is based under English law (or the law of another European jurisdiction), the agreement documenting the participation in many instances will be English or local law governed and structured as a derivative agreement between a Fund and the institution selling the debt. This structure generally carries a higher risk for a Fund because the derivative agreement grants no beneficial ownership interest in the proceeds paid to the selling institution, providing the Fund with only an unsecured claim against the selling institution in the event of its bankruptcy during the life of the agreement.

While the United States Commodity Futures Trading Commission (the “CFTC”) and SEC have finalized rules excluding many purchases of participation interests from the definition of “swap” or “security-based swap,” there is a risk that certain derivative agreements documenting such purchases could still satisfy either definition. A transaction could satisfy either definition (or both) if structured as an exchange of payments based on the value of interest or another rate, instrument of indebtedness, or other financial or economic interest, transferring the financial risk without also conveying a current or future direct or indirect ownership interest in an asset. If found to be a security-based swap, this will be considered a “security” for purposes of the Securities Act, and the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). If found to be a swap, it would be considered a “commodity interest” for purposes of the U.S. Commodity Exchange Act of 1936, as amended (the “Commodity Exchange Act”) and, if there are



components of both a “swap” and a “security-based swap,” it could be considered a “mixed swap.” The implications of a derivative contract being a “security-based swap,” “swap” or “mixed swap” may result in increased regulatory requirements by the SEC, CFTC or both and could mean increased costs, liabilities and compliance risks on behalf of a Fund.

Loan Origination. The Funds can acquire and / or originate loans and / or other debt instruments (or pools thereof) with the intention of syndicating to third parties a portion or potentially all of its investment following the initial signing or consummation thereof. If a Fund is unable to sell, assign or successfully close transactions for participations in the loans that it acquires or originates, that Fund will be forced to hold its excess interest in such loans for an indeterminate period of time. This could result in a Fund’s investments being over-concentrated in certain borrowers.

Debtor-in-Possession Loans. From time to time, the Funds will invest in or extend loans to entities that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code or equivalent protections under the laws of other jurisdictions. These debtor-in-possession (“DIP”) loans are most often revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor’s capital structure and because their terms have been approved by a federal bankruptcy court order, it is possible that the debtor’s reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender’s collateral might be insufficient to repay in full the DIP loan.

Second Lien Loans. The Funds invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy, which can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.

For reasons not necessarily attributable to any of the risks set forth herein (for example, supply / demand imbalances or other market forces), the prices of the debt instruments and other securities in which the Funds invest may decline substantially. It may not be possible to predict, or to hedge against, such “spread widening” risk. Additionally, a perceived discount in pricing may still not reflect the true value of the assets



underlying debt instruments in which a Fund invests, and therefore further deteriorations in value with respect thereto may occur following such Fund's investment therein. In fact, after mid-2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not experience future contractions.

Mezzanine Debt. The Funds can invest in Mezzanine debt. Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of a Fund to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of the Funds or similar event, the Funds' debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

Risks Associated with Non-Performing Loans. It is anticipated that certain loans or pools of non-performing loans purchased by the Funds, in addition to being non-performing, may be in default. Furthermore, the obligor or relevant guarantor also may be in bankruptcy or liquidation. Although Centerbridge frequently deals with large, individual non-performing loans, Centerbridge has limited experience with acquiring and servicing portfolios of relatively small- to medium-sized non-performing loans. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans. By their nature, these investments will involve a high degree of risk. Commercial and industrial loans in workout and / or restructuring modes or under the U.S. Bankruptcy Code and the bankruptcy or insolvency laws of other jurisdictions are subject to additional potential liabilities, which may exceed the value of a Fund's original investment. For example, borrowers often resist foreclosure by asserting numerous claims, counterclaims and defenses against the holder of real estate loans, including lender liability claims and defenses, in an effort to delay or prevent foreclosure, and may have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Funds and distributions by the Funds to the participating investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Even if a restructuring were successfully accomplished, a risk exists that, upon maturity of the applicable loan, replacement "takeout" financing will not be available. It is possible that Centerbridge may find it necessary or desirable to foreclose on collateral securing one or more loans purchased by a Fund.



In the case of any real estate loans acquired by the Funds that are non-performing at the time of their acquisition and / or become non-performing following their acquisition for a wide variety of reasons, such non-performing real estate loans may require a substantial amount of workout negotiations and / or restructuring, which can entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such loan. In some states or other jurisdictions, real estate foreclosure actions can take up to several years or more to conclude. In addition to being lengthy and expensive, foreclosure and bankruptcy proceedings or legislation related thereto may create a negative public image of the collateral property and disrupt or limit ongoing leasing and management of the underlying real property.

In addition, to the extent underlying default rates with respect to the debt securities or instruments in which a Fund invests occur or otherwise increase, the performance of the investments may be adversely affected and the risk of loss and foreclosure would be expected to increase. The rate of defaults and losses on real estate-related debt instruments will be affected by a number of factors, including global, regional and / or local economic conditions in the area where the underlying properties are located, the commercial real estate market in general, the borrower's equity and the financial circumstances of the borrower as well as the general conditions described herein. A decline in the global or U.S. real estate markets (or any particular sub-market thereof) may result in higher delinquencies, defaults and / or foreclosures as borrowers may not be able to repay or refinance their outstanding debt obligations when due for a variety of reasons, which may adversely affect the performance of the investments.

Investments in Bridge Financings. From time to time, one or more Funds lend in connection with investments on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans would typically be convertible into a more permanent, long-term security; however, for reasons not always in a Fund's control, such long-term securities issuance or other refinancing or syndication may not occur and such bridge loans and interim investments may remain outstanding. In such event, the interest rate or the terms of such interim investments may not adequately reflect the risks associated with the position taken by a Fund.

Bankruptcy Claims. The Funds invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest, and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. Within and outside the U.S., the markets in bankruptcy claims differ to some extent from the market conventions and regulatory framework applicable to conventional debt trading. Because bankruptcy claims are frequently unsecured, holders of such claims often have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

Defaulted Securities or Instruments. The Funds invest in the securities or instruments of entities involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject a Fund to litigation risks or prevent a Fund from disposing of securities or instruments. As more fully discussed herein, in a bankruptcy or other proceeding, a Fund as a creditor may be unable to enforce or experience significant delays and expense when enforcing its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. The process of seeking to enforce claims or rights, including over any applicable collateral, generally entails incurrence of significant expenses, both monetary and otherwise. For example, it is not uncommon in such situations to engage third-party advisors such as legal counsel and / or forensic accountants. There may be a requirement to indemnify third parties, such as any trustee, or provide rights of contribution or other forms of expense reimbursement. In seeking to enforce its rights, a Fund may need to make certain public disclosures of its positions or other information relating to its investment and other activity, which may result in adverse consequences to such Fund or may encourage such Fund to seek alternative enforcement mechanisms to avoid or minimize any such adverse consequences. These considerations may be particularly pronounced in non-U.S. jurisdictions, where special challenges (such as a more broad right to disregard security interests under notions of equitable considerations) may be present.

Risks Associated with Bankruptcy Cases. Bankruptcy or insolvency proceedings are adversarial, lengthy, complex, involve multiple and diverse constituents seeking to maximize their recovery from a debtor with limited assets (which often results in some classes of stakeholders receiving little or no recovery), and involve the exercise of equitable authority on the part of the bankruptcy court or other competent authority. Many of the events in or affecting bankruptcies or insolvencies are beyond the control of the creditors and other stakeholders. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court or other competent authority would not approve actions that would be contrary to the interests of the Funds. Furthermore, there are instances under applicable law where creditors and equity holders lose their ranking and priority.

Generally, the duration of a bankruptcy case can only be roughly estimated and such estimates may later prove inaccurate. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and a Fund; it is subject to unpredictable and lengthy delays, and, during the process, the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. In the case of a Fund's debt investments, the debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental value. Such investments can result in a total loss of principal.



U.S. bankruptcy law permits the classification of “substantially similar” claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a Fund’s influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other changes with respect to, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Furthermore, creditors and equity holders, in exceptional circumstances, may lose their ranking and priority as such when they take over management and functional operating control of a debtor if they are found to have exercised “domination and control” in a manner that adversely affected the debtors.

When a company seeks relief under the U.S. Bankruptcy Code (or has a petition filed against it), an automatic stay prevents all entities, including creditors, from foreclosing or taking other actions to enforce claims, perfect liens or reach collateral securing such claims. Creditors who have claims against the company prior to the date of the bankruptcy filing must petition the court to permit them to take any action to protect or enforce their claims or their rights in any collateral. Such creditors may be prohibited from doing so if the court concludes that the value of the property in which the creditor has an interest will be “adequately protected” during the proceedings. If the bankruptcy court’s assessment of adequate protection is inaccurate, a creditor’s collateral may be wasted without the creditor being afforded the opportunity to preserve it. Thus, even if a Fund holds a secured claim, such Fund may be prevented from collecting the liquidation value of the collateral securing its debt, unless relief from the automatic stay is granted by the court. Bankruptcy proceedings are inherently litigious, time consuming, highly complex and driven extensively by facts and circumstances, which can result in challenges in predicting outcomes. The equitable power of bankruptcy judges also can result in uncertainty as to the ultimate resolution of claims.

Security interests held by creditors are closely scrutinized and frequently challenged in bankruptcy proceedings and may be invalidated for a variety of reasons. For example, security interests may be set aside because, as a technical matter, they have not been perfected properly under the Uniform Commercial Code or other applicable law. If a security interest is invalidated, the secured creditor loses the value of the collateral and because loss of the secured status causes the claim to be treated as an unsecured claim, the holder of such claim will almost certainly experience a significant loss of its investment. There can be no assurance that the security interests will not be challenged vigorously and found defective in some respect, or that the relevant Fund will be able to prevail against the challenge.

Moreover, debt may be disallowed or subordinated to the claims of other creditors if the creditor is found guilty of certain inequitable conduct resulting in harm to other parties with respect to the affairs of a company filing for protection from creditors



under the U.S. Bankruptcy Code. Creditors' claims may be treated as equity if they are deemed to be contributions to capital, or if a creditor attempts to control the outcome of the business affairs of a company prior to its filing under the U.S. Bankruptcy Code. Serving on an official or unofficial creditors' committee, for example, increases the possibility that the relevant Fund will be deemed an "insider" or a "fiduciary" of the company it has so assisted and may increase the possibility that the Bankruptcy Court would invoke the doctrine of "equitable subordination" with respect to any claim or equity interest held by such Fund in such company and subordinate any such claim or equity interest in whole or in part to other claims or equity interests in such company. Claims of equitable subordination also may arise outside of the context of a Fund's committee activities. If a creditor is found to have interfered with the company's affairs to the detriment of other creditors or shareholders, the creditor may be held liable for damages to injured parties. While each Fund will attempt to avoid taking the types of action that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the relevant Fund will be able to successfully defend against them. In addition, if representation of a creditors' committee of a company causes a Fund or Centerbridge to be deemed an affiliate of the company, the securities of such company held by such Fund may become restricted securities, which are not freely tradable.

While the challenges to liens and debt described above normally occur in a bankruptcy proceeding, the conditions or conduct that would lead to an attack in a bankruptcy proceeding could in certain circumstances result in actions brought by other creditors of the debtor, shareholders of the debtor or even the debtor itself in other state or federal proceedings. As is the case in a bankruptcy proceeding, there can be no assurance that such claims will not be asserted or that the Funds will be able to defend against them successfully. To the extent a Fund assumes an active role in any legal proceeding involving the debtor, such Fund could become prevented from disposing of securities or instruments issued by the debtor if such Fund possesses material, non-public information concerning the debtor.

In addition, companies located in non-U.S. jurisdictions may be involved in restructurings, bankruptcy proceedings and / or reorganizations that are not subject to laws and regulations that are similar to the U.S. Bankruptcy Code and the rights of creditors afforded in U.S. jurisdictions. To the extent such non-U.S. laws and regulations do not provide a Fund with equivalent rights and privileges necessary to promote and protect its interest in any such proceeding, such Fund's investments in any such company may be adversely affected. For example, bankruptcy law and process in a non-U.S. jurisdiction may differ substantially from that in the U.S., resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Companies Emerging From Bankruptcy May be Unable to Discharge Certain Indebtedness or Obligations. Companies in which a Fund invests may have been the subject of bankruptcy proceedings prior to such Fund's investment or during the period that such Fund is invested in such companies. When a company files for Chapter 11 relief,



most of its debts and obligations likely would be dischargeable under section 1141(d) of the U.S. Bankruptcy Code. The ability of a company to obtain a discharge of its debts and obligations would depend on a number of factors. First, obtaining a Chapter 11 discharge requires confirmation of a plan of reorganization providing for the continuation of the debtor's business. Were a company to cease to do business pursuant to its plan, or to otherwise liquidate under Chapter 7 or Chapter 11, then it would not be eligible for a discharge. Second, while confirmation of a corporate debtor's plan generally discharges it from all of its debts that arose prior to confirmation (except to the extent that the plan or the order confirming the plan provides for payment of those debts) there are certain debts or obligations of a corporate debtor that cannot be discharged. These include (i) taxes owed by the debtor for which the debtor filed fraudulent tax returns, (ii) certain environmental liabilities and (iii) debts owed to a domestic governmental unit for fraudulent activities in connection with obtaining money, property, services or an extension, renewal or refinancing of credit, or owed as a result of an action filed under Subchapter III of chapter 37 of title 31 or any similar state statute. Claims under Subchapter III of chapter 37 of title 31 include claims made under the False Claims Act. The False Claims Act, a federal law that imposes liability on persons and companies who defraud the federal government, includes a "*qui tam*" provision that allows people (so-called "whistleblowers" or "relators") who are not affiliated with the government to file actions on the government's behalf.

Any claims against a company that were not discharged in its bankruptcy case would remain obligations of the company after confirmation of its plan of reorganization which could adversely affect the future performance of the relevant Fund's investment in such company and the performance of such Fund.

Jurisdictional Risks Affecting the Rights of Creditors and Other Stakeholders. Centerbridge intends to invest the Funds' assets principally in securities and other financial instruments of North American (with a focus on the U.S.) and European issuers and assets located in these regions, although Centerbridge has from time to time invested and may in the future invest the Funds' assets in securities and other financial instruments of other issuers domiciled, or assets located, elsewhere. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. To the extent such non-U.S. laws and regulations do not provide the relevant Fund with equivalent rights and privileges necessary to promote and protect its interest in any such proceeding, such Fund's investments in any such company are more likely to be adversely affected. The law and process in such jurisdictions may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. While each Fund generally favors jurisdictions where it believes the rule of law is clear, well-developed and respected, there can be no assurance that the outcome of bankruptcy or insolvency proceedings, particularly in jurisdictions outside the U.S., will result in a favorable outcome with respect to that Fund's investment. In addition, as more and more companies conduct operations internationally, multi-jurisdictional bankruptcy or insolvency



proceedings are increasing in prevalence and the foregoing factors may result in unique challenges that impact the potential recovery and timing thereof.

Equitable Remedies. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer; (ii) engages in other inequitable conduct to the detriment of such other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called “equitable subordination”). A Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case. Such purchase may be disallowed if disallowance is permitted under applicable law. Each Fund will seek to conduct its activities in a manner that would not form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the often contentious nature of bankruptcy and insolvency proceedings, a Fund may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Certain Implications Arising from Service on Creditors’ Committees or Other Service in Relation to a Fund’s Investments. Centerbridge, on behalf of each Fund, from time to time elects to serve on creditors’ or coordinating committees, official or unofficial, equity holders’ committees or other groups to ensure preservation or enhancement of each Fund’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 Centerbridge concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to one or more Funds, it may be necessary to resign from that committee or group if such conflict cannot be appropriately resolved, and the Funds may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if a Fund 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.

General Real Estate Risks. Real estate investments generally will be subject to the risks incident to the ownership and operation of real estate and real-estate-related assets and / or risks incident to the making of non-recourse mortgage loans secured by real estate, including risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); seizure under eminent domain; the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental and zoning laws and



regulations; various uninsured or uninsurable risks; natural disasters; and the ability of the Funds or third-party borrowers to manage the real properties. A Fund may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property. In addition, an investment in real estate may subject the investors to taxation and tax return filings with respect to such investment in the jurisdiction in which such real estate is located.

Changes in general economic conditions will affect the performance of real estate investments and / or the value of the underlying real estate relating to the Funds' investments and may include economic and / or market fluctuations, changes in environmental and zoning laws, casualty or condemnation losses, regulatory limitations on rents, decreases in property values, changes in the appeal of properties to tenants, changes in supply and demand, fluctuations in real estate fundamentals, the financial resources of issuers / borrowers, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations, changes in real property tax rates and / or tax credits, changes in operating expenses, changes in interest rates, changes in foreign exchange rates, changes in the availability of debt financing and / or mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy and / or adverse changes in real estate values generally and other factors that are beyond Centerbridge's control. Consumer demand for certain industries in which the Funds may invest (such as hospitality) is particularly sensitive to downturns in the economy and the corresponding impact on discretionary spending on leisure activities. Changes in discretionary consumer spending or consumer preferences brought about by factors such as perceived or actual general economic conditions, effects of decline in consumer confidence in the economy, the impact of high energy or food costs, the increased cost of travel, the potential for decreases in perceived or actual disposable consumer income and wealth or other political, cultural or economic fears may reduce consumer demand for the amenities such industries and investments offer, thus imposing practical limits on pricing and negatively impacting the financial condition of the Funds.

A Fund's investments in a real estate asset may be structured on a passive basis, giving a third-party operating partner and / or property manager a large degree of authority and responsibility for daily management of the assets and, therefore, will in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. In addition, that Fund will be unable to exercise sole decision-making authority and will be subject to the risk that a joint venturer or partner will act negligently or in a manner contrary to the Fund's best interest. There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid; holding periods accordingly are difficult to predict, particularly as business plans may be revised to adapt to changing economic, business and financial conditions.



Real estate investments are not as liquid as other types of investments and this lack of liquidity has the potential to limit a Fund's ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. A Fund would need to comply with certain legal, tax and other requirements prior to liquidating such investments.

The insurance coverage applicable to real estate investments contains policy specifications and insured limits customarily carried for similar properties, business activities and markets. There are certain losses, including losses from floods and losses from earthquakes, acts of war, acts of terrorism or riots, that are generally not insured against or that are generally not fully insured against because it is not deemed to be economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to a real estate investment, a Fund could experience a significant loss and could potentially remain obligated under any recourse debt associated with the property.

The Funds also may have potential limited recourse against prior owners with respect to unknown liabilities, which could be substantial. The Funds will attempt to uncover any such risks as part of their due diligence activities, but cannot give any assurance that such conditions do not exist or may not arise in the future. Under various federal, state, and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate is generally liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. The Funds will attempt to assess such risks as part of their due diligence activities, but cannot give any assurance that such conditions do not exist or may not arise in the future. The presence of such substances on a Fund's real estate investments could adversely affect its ability to sell such investments or to borrow using such investments as collateral.

Real Property. For Funds that make investments in real property, such Funds' investments are subject to various risks which may correlate with (either causing or being caused by) fluctuations in occupancy, rental rates, operating income and expenses, or which may render the sale or financing of its properties difficult or unattractive. For example, following the termination or expiration of a tenant's lease, there may be a period of time before a Fund will begin receiving rental payments under a replacement lease. During that period, such Fund will continue to bear fixed expenses such as interest, real estate taxes, maintenance and other operating expenses. In addition, declining economic conditions may impair such Fund's ability to attract replacement tenants and achieve rental rates equal to or greater than the rents paid under previous leases. Increased competition for tenants may require such Fund to make capital improvements to properties which otherwise would not have been planned. In some locations, state and local regulations may



restrict such Fund from raising rental rates to a level that they consider to be “market” for a substantially similar property. A Fund will attempt to access any such known regulations as part of its due diligence; however, if such regulations change or increase it may adversely impact such Fund. Any unbudgeted capital improvements that a Fund undertakes may divert cash that otherwise would be available to such Fund. Ultimately, to the extent that a Fund is unable to renew leases or re-let space as leases expire, decreased cash flow from tenants will result, which could adversely impact such Fund’s operating results.

A Fund may be required to expend funds to correct defects or to make improvements before an investment in a property can be sold. No assurance can be given that such Fund will have funds available to correct those defects or to make those improvements. In acquiring a property, such Fund may agree to lock-out provisions that materially restrict it from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed on that property. These factors and others that could impede the Fund’s ability to respond to adverse changes in the performance of properties could significantly affect its financial condition and operating results.

In some instances, the principal asset of the lessee of a Fund property may be only the tenant’s improvements thereon, or the liability of the lessee may be limited to its interest in such improvements. In those cases, the Fund will be required to rely on the lessee’s equity interest in the improvements for its security. In the event of a default by a lessee or other premature termination of a lease, the Fund may experience delays in enforcing its rights as a lessor, may incur substantial costs in protecting its investment and / or may experience an impairment of value. In addition, adverse changes in the operation of any property, or the financial condition of any tenant, could have an adverse effect on the Fund’s ability to collect rent payments. A tenant may experience, from time to time, a downturn in its business which may weaken its financial condition and result in its failure to make rental payments when due. At any time, a tenant may seek the protection of applicable bankruptcy or insolvency laws, which could result in the rejection and termination of such tenant’s lease or other adverse consequences and thereby cause a reduction in the available cash of such Fund. No assurance can be given that tenants will not file for bankruptcy protection in the future or, if they do, that their leases will continue in effect.

Real Estate Debt Investments. Real estate debt investments present additional risks not necessarily present in other types of investments. In the case of certain real estate debt investments, a Fund’s investment strategy may be based, in part, upon the premise that real estate loans, debt instruments and / or participation interests related thereto that are otherwise performing are from time to time available for purchase by a Fund at “discounted” rates or at “undervalued” prices. Purchasing debt instruments and / or other interests at what may appear to be “undervalued” or “discounted” levels is no guarantee that these investments will generate attractive risk-adjusted returns to a Fund or will not be subject to further reductions in value. No assurance can be given that real estate loans, debt instruments and / or participation interests can be acquired at favorable prices,



that such loans or participation interests will not present risk of default or that the market for such interests will continue to improve since this depends, in part, upon events and factors outside the control of Centerbridge. In addition, there can be no assurance that the market conditions for investing in real estate-related debt instruments may not deteriorate further, which could have an adverse effect on the performance of these investments. While the Funds perform due diligence in connection with each of their investments, there may be an increased risk that the documentation relating to an investment in real estate loans may contain a material misstatement, omission or misrepresentation, which may adversely affect the performance of such investment.

In the case of any real estate loans acquired by the Funds that are non-performing at the time of their acquisition and / or become non-performing following their acquisition for a wide variety of reasons, such non-performing real estate loans may require a substantial amount of workout negotiations and / or restructuring, which can entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement “takeout” financing will not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate loans and also carry risks of illiquidity and lack of control. It is possible that Centerbridge will find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by the Funds. The foreclosure process varies jurisdiction by jurisdiction and can be lengthy and expensive. Borrowers in real estate projects often resist foreclosure actions, which often prolongs and complicates an already difficult and time-consuming process. In some states or other jurisdictions, real estate foreclosure actions can take up to several years or more to conclude. During the foreclosure proceedings, a borrower may have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Any deterioration of real estate fundamentals generally, and in the U.S., in particular, could negatively impact the performance of the Funds by making it more difficult for real estate assets to satisfy their debt payment obligations, increasing the default risk applicable to real estate assets, and / or making it more difficult for the Funds to generate attractive risk-adjusted returns. Changes in general economic conditions will affect the creditworthiness of real estate assets and / or the value of the underlying real estate collateral relating to the investments. The value of securities of companies which service the real estate business sector also may be affected by such risks.

Any declines in the performance of the relevant economy (whether within or outside the U.S.) or in the real estate debt markets could have a material adverse effect on the Funds’ business, financial condition and results from operations. Market conditions relating to real estate debt investments have evolved since the financial crisis, which has resulted in a modification to certain loan structures and / or market terms. For example, it



is difficult for real estate debt investors in certain circumstances to receive full transparency with respect to underlying investments because transactions are often effectuated on an indirect basis through pools or conduit vehicles rather than directly with the borrower. Any such changes in loan structures and / or market terms may make it relatively more difficult for the Funds to monitor and evaluate their investments.

Residential Real Estate Investments. For Funds that invest in residential development projects and financing opportunities relating to certain residential real estate assets or portfolios thereof, the performance of such investments may become increasingly susceptible to adverse changes in prevailing economic and employment conditions in the U.S. and the other jurisdictions where such properties are located. Centerbridge's ability to invest in residential real estate-related opportunities (including providing financing for potential owners and operators of residential real estate assets or portfolios thereof) may depend upon its ability to strategically partner with established and sophisticated operating partners and third parties. Any downturn in the relevant economy (whether within or outside the U.S.) may adversely affect the financial condition of residential owners and tenants, making it more difficult for them to meet their periodic repayment obligations relating to certain residential real properties, which could adversely impact the Funds' investment performance. In addition, there can be no assurance that the Funds will be able to effectively partner with suitable operating partners and third parties in connection with their residential real estate-related investment activities, which may impact the Funds' ability to effectively identify and consummate such investments.

Ground Lease Investments. For Funds that invest in real properties that are subject to ground leases, as lessees under a ground lease, such Funds may be exposed to the possibility of losing the property upon termination, or an earlier breach by such Funds of the ground lease, which could have an adverse impact on the such Funds' investment performance. Furthermore, ground leases generally provide for certain provisions that limit the ability to sell certain properties subject to the lease. In order to assign or transfer rights and obligations under certain ground leases, a Fund generally will need to obtain consent of the landlord of such property, which, in turn, could adversely impact the price realized from any such sale.

Land/New Development; Risk of Fraud. For Funds that acquire direct or indirect interests in undeveloped land or underdeveloped real property, such investments oftentimes may be non-income producing during the development and marketing phase. To the extent that a Fund invests in such assets, it will be subject to the risks normally associated with such assets and development activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost and timely completion of construction (including risks beyond the control of the Fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on such Fund and on the amount of funds generated



by such investment that are available to the Fund. Properties under development or properties acquired for development may receive little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, market conditions may change after the initial investment and during the course of development that make such development less attractive than at the time it was commenced.

In addition, investments in new development activities could be more susceptible to irregular accounting or other fraudulent practices. In the event of fraud by any company in which the Funds invest, the Funds may suffer a partial or total loss of capital invested in that company.

Construction Lending Risks. For Funds that provide debt financing to facilitate the construction or development of real estate-related assets, such financing may take the form of real estate loans, construction loans or other real estate-related debt securities or interests. Such investments are subject to risks relating to real estate-related debt investments generally as well as the risks associated with the financing and construction of real assets and changes in general economic and market conditions affecting the creditworthiness of prospective borrowers. The availability of takeout financing and / or repayment, as applicable (the absence of which would diminish a Fund's return), is based upon the related construction or development being completed to specifications, future market conditions and the performance of all related parties.

Investments Held in REITs. The Funds may invest a portion of their assets in one or more entities intending to qualify as a REIT under the IRC (each, a "Centerbridge REIT"). However, no assurance can be given that any such Centerbridge REIT will qualify or remain qualified as a REIT. Failure of a Centerbridge REIT in any taxable year to qualify as a REIT would render such Centerbridge REIT subject to tax on its taxable income at regular corporate rates, and a Shareholder's distributive share of distributions made by a Centerbridge REIT to the Funds in any non-qualifying years would not be deductible by such Centerbridge REIT. If an entity's status as a REIT is terminated, the entity generally will not be eligible to elect REIT status again prior to the fifth taxable year following the year in which it fails to qualify under the IRC as a REIT. The requirements for qualification as a REIT are extremely complex, and a Centerbridge REIT's compliance with such requirements may depend on factors that are outside of its control or upon the resolution of legal issues for which guidance is lacking. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT. Any such change could adversely affect a Centerbridge REIT's ability to qualify as a REIT or the U.S. federal income tax consequences of such qualification. Even if a Centerbridge REIT qualifies as a REIT, such Centerbridge REIT may be subject to federal income tax in certain circumstances.

A Centerbridge REIT may engage in transactions with one or more taxable REIT subsidiaries. If amounts paid for services by a Centerbridge REIT to a taxable REIT



subsidiary are determined to be not at arm's-length, the difference between the amount paid and the fair value of the transaction will be subject to a 100% tax.

Developments in the Structured Credit Markets and Their Broader Impact. Declines in the market value of asset-backed securities (“ABS”) and mortgage-backed securities (“MBS”), especially securities backed by subprime mortgages, were associated with significant market events resulting in the financial crisis of the late 2000s and the subsequent regulatory and market responses to the financial crisis. Increasing credit and valuation problems in the subprime mortgage market generated extreme volatility and illiquidity in the markets for securities directly or indirectly exposed to subprime mortgage loans. This volatility and illiquidity extended to the global credit and equity markets generally, and, in particular, to the high-yield bond and loan markets, exacerbated by, among other things, uncertainty regarding the extent of problems in the mortgage industry and the degree of exposure of financial institutions and others, decreased risk tolerance by investors and significantly tightened availability of credit. Except for agency residential mortgage-backed securities (“RMBS”), and despite modest increases in non-agency RMBS issuance, the market for RMBS has not significantly recovered (relative to the pre-financial crisis market) from these conditions and it is difficult to predict if or when the non-agency RMBS market will recover from such conditions. If the structured credit markets continue to face uncertainty or to deteriorate, then the Funds may not be presented with sufficient investment opportunities in ABS and MBS, which may prevent the Funds from successfully executing investment strategies in such instruments. Moreover, further uncertainty or deterioration in the structured credit markets could result in further declines in the market values of or increased uncertainty with respect to investments made or considered by the Funds, which could require the Funds to dispose of investments at a loss while such adverse market conditions prevail.

Ratings of Instruments May Not Accurately Reflect Risks. Rating agencies rate debt securities based upon their assessment of the likelihood of the receipt of principal and interest payments. Rating agencies do not consider the risks of fluctuations in market value or other factors that may influence the value of debt securities. Therefore, the credit rating assigned to a particular instrument may not fully reflect the true risks of an investment in such instrument. Credit rating agencies may change their methods of evaluating credit risk and determining ratings. These changes may occur quickly and often. While the Funds may give some consideration to ratings, ratings may not be indicative of the actual credit risk of the Funds’ investments in rated instruments, including ABS and MBS.

Illiquid Investments. The Funds’ investments include securities, bank debt, claims (whether debt claims, trade claims, litigation-related or other claims), litigation strategies and various types of assets, the return or recovery prospect of which involves uncertainty, and also are subject to legal and other restrictions on transfer or for which no liquid market exists. These instruments may be illiquid at the time an investment is made or may become and potentially stay illiquid during the pendency of an investment. The market prices, if any, for such investments tend to be volatile and / or may not be readily



ascertainable, and a Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter (“OTC”) markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. An investment in one or more of the Funds is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

Uncertain Exit Strategies. Due to the illiquid nature of many of the positions which a Fund is expected to acquire, as well as the uncertainties of the reorganization and active management process or litigation related to investments made by a Fund, Centerbridge is unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

For control investments, it is anticipated that there will be a significant period of time before the relevant Fund will have completed its investments in portfolio companies. Many of such investments could take at least three to five years from the date of initial investment to reach a state of maturity when realization of the investment can be achieved.

Although investments by a Fund occasionally generate some current income, private investment transaction structures typically will not provide for liquidity of such Fund’s investment prior to that time. For example, during and in the years following the financial crisis that began in 2008, there was limited funding capacity in the capital markets as a result of the global financial crisis and, as a result, there was lower demand for private equity investments as fewer buyers were able to raise financing on attractive terms to purchase the investments, thereby making private equity investments more illiquid than they had been previously. It is unlikely there will be a public market for the securities or instruments held by a Fund at the time of their acquisition. In the case of privately negotiated transactions that involve equity or equity-linked investments in companies, the Funds generally will not be able to sell their securities or instruments publicly unless the issuer has gone public and such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases a Fund will be prohibited by contract or other limitation from selling certain securities or instruments for a period of time (*e.g.*, due to limitations on sale arising from contractual lockups, obligations to receive consent to transfer or assign interests, or rights of first offer), and as a result may not be permitted to sell an investment at a time it might otherwise desire to do so. Further, disposition of such investments may require a lengthy time period or result in distributions in kind to investors. Thus, the range of disposal strategies available



to the Funds would be further limited. In light of the foregoing, it is likely that no significant return from the disposition of a Fund's investments will occur for a substantial period of time.

A Fund may invest in investments which cannot be advantageously disposed of prior to the date that such Fund will be dissolved, either by expiration of such Fund's term or otherwise. Although Centerbridge expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution, it may be necessary or advisable for such Fund to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

Various industries in which Centerbridge has experience and in which a Fund may invest are heavily regulated. A discussion of the risks associated with certain regulated industries follows; changes to a Fund's investments due to such risks may directly or indirectly affect such Fund's performance. The industries discussed below do not represent an exclusive list of the industries in which a Fund may invest.

Energy. The energy sector is affected by changes in supply and demand, geo-political dynamics and other factors. In addition, the energy sector is highly regulated and companies operating in the industry are subject to significant regulation of nearly every aspect of their operations by federal, state and local governmental agencies. Examples of governmental regulations which impact companies operating in the energy sector include, without limitation, regulation of the construction, maintenance and operation of facilities, environmental regulation, worker safety regulation, labor regulation, trade regulation and the regulation of the prices charged for products and services. Compliance with these regulations is enforced by numerous governmental agencies and authorities through administrative, civil and criminal penalties. Stricter laws or regulations or stricter enforcement policies with respect to existing regulations would likely increase the costs of regulatory compliance and could have an adverse effect on the financial performance of companies operating in the energy sector.

Companies operating in the energy sector are subject to many dangers inherent in the production, exploration, management, transportation, processing and distribution of natural gas, natural gas liquids, crude oil, refined petroleum and petroleum products and other hydrocarbons. These dangers include leaks, fires, explosions, damage to facilities and equipment resulting from natural disasters, inadvertent damage to facilities and equipment and terrorist acts. These dangers give rise to risks of substantial losses as a result of the following: loss or destruction of commodity reserves; damage to or destruction of property, facilities and equipment; pollution and environmental damage; and personal injury or loss of life. Any occurrence of such catastrophic events could bring about a limitation, suspension or discontinuation of the operations of companies operating in the energy sector. Companies operating in the energy sector may not be fully insured against all risks inherent in their business operations and, therefore, accidents and catastrophic events could adversely affect such companies' financial conditions and ability to pay distributions to shareholders.

Healthcare. Healthcare-related companies are generally subject to greater governmental regulation than other companies at both the state and federal levels. Changes in governmental policies may have a material effect on the demand for, or costs of, certain products and services. A healthcare-related company must receive government approval before introducing new drugs and medical devices or procedures. This process may delay the introduction of these products and services to the marketplace, resulting in increased development costs, delayed cost-recovery and loss of competitive advantage to the extent that rival companies have developed competing products or procedures, adversely affecting the company's revenues and profitability. Certain healthcare-related companies depend on the exclusive rights or patents for the products they develop and distribute. Patents have a limited duration and, upon expiration, other companies may market substantially similar "generic" products which cost less to develop and may cause the original developer of the product to lose market share or reduce the price charged for the product, resulting in lower profits for the original developer. Finally, because the products and services of healthcare-related companies affect the health and well-being of many individuals, these companies are especially susceptible to product liability lawsuits. The share price of a healthcare-related company can drop dramatically not only as a reaction to an adverse judicial ruling, but also from the adverse publicity accompanying threatened litigation.

Communications. Communications companies are undergoing changes, mainly due to evolving levels of governmental regulation or deregulation as well as the development of communication technologies. Competitive pressures within the communications industry are intense and the securities or instruments of communications companies may be subject to significant price volatility. In addition, because the communications industry is subject to significant changes in technology, the companies that the Funds invest in will face competition from technologies being developed or to be developed in the future by other entities, which may make such companies' products and services obsolete.

Technology. Technology companies face similar risks as companies within the communications sector. Moreover, the technology industry is challenged by various factors, including rapidly changing market conditions and / or participants, new competing products, services and / or improvements in existing products. The companies in this industry in which a Fund makes an investment will compete in this volatile environment. There is no assurance that products or services sold by these companies will not be rendered obsolete or adversely affected by competing products and services or that these companies will not be adversely affected by other challenges. Instability, fluctuation or an overall decline within the technology industry may not be offset by increases in other industries not so affected.

Shipping. The shipping industry is affected by global trade in general and, more particularly, trade in commodities. Low economic growth and volatility in commodity pricing (*e.g.*, iron ore) have contributed to lower shipping rates, and there can be no assurance that weakness in the shipping sector will not continue for a protracted period, or that the industry will not experience volatility in future periods. Companies in

the shipping industry are subject to, among others, the following risks, in each case, which may not be insurable: (i) extensive and changing safety, environmental protection and other international, national, state and local governmental laws, regulations, treaties and conventions, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which a shipping company's vessels operate, as well as the countries of such vessels' registration, compliance with which may require ship modifications and changes in operating procedure; (ii) risks associated with non-U.S. investments and force majeure risks (for example, international sanctions, embargoes, restrictions, nationalizations, and wars or acts of piracy or terrorist attacks and severe weather and natural disasters); (iii) labor-related risks; (iv) adverse changes in maintenance and other fixed costs and / or capital expenditure requirements; and (v) counterparty risks, including risks of adverse changes affecting chartering agreements from which a shipping company derives income. Additionally, Section 27 of the U.S. Merchant Marine Act of 1920, requires that vessels transporting cargo between U.S. ports must, among other requirements, be owned and operated by U.S.-organized companies that are controlled and 75% owned by U.S. citizens, which may substantially limit the potential pool of purchasers of a shipping vessel.

Other Regulated Industries. In addition to the foregoing, other industries are heavily regulated. The Funds' investments include investments in companies operating in industries that are subject to greater amounts of regulation than other industries generally. These more highly regulated industries include energy, healthcare (including senior living / nursing homes), real estate-related and other financial services (including banking, investing and mortgage servicing), insurance, transportation (*e.g.*, aviation), construction and also businesses that serve primarily customers that are governmental entities, including the defense industry. Certain investments (*e.g.*, those involving hospitality, hotels and leisure) also can involve regulated activities (*e.g.*, gaming and liquor). Investments in companies that are subject to greater amounts of governmental regulation pose additional risks relative to investments in other companies generally, including, but not limited to, risks relating to approval of a change in ownership, and the acquisition and maintenance of applicable licenses. Changes in applicable laws or regulations, or in the interpretations of these laws and regulations, could result in increased compliance costs or the need for additional capital expenditures and / or regulatory capital requirements in the case of banks or similarly regulated entities. If a company fails to comply with these requirements, it could also be subject to civil or criminal liability and the imposition of fines. A company also could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such company. Governments have considerable discretion in implementing regulations that could impact a company's business and governments may be influenced by political considerations and may make decisions that adversely affect a company's business. Additionally, certain companies may have a unionized work force or employees who are covered by a collective bargaining agreement, which could subject any such company's activities and labor relations matters to complex laws and regulations relating thereto. Moreover, a company's operations and profitability could suffer if it experiences labor

relations problems. Upon the expiration of any such company's collective bargaining agreements, it may be unable to negotiate new collective bargaining agreements on terms favorable to it, and its business operations at one or more of its facilities may be interrupted as a result of labor disputes or difficulties and delays in the process of renegotiating its collective bargaining agreements. A work stoppage at one or more of any such company's facilities could have a material adverse effect on its business, results of operations and financial condition. Additionally, any such problems may bring scrutiny and attention to a Fund itself, which could adversely affect that Fund's ability to implement its investment objectives.

Investments in Less-Established Companies. The Funds' investments include securities or instruments of less-established companies. Investments in such early-stage companies may involve greater risks than generally are associated with investments in more-established companies. Such companies may not have securities that trade publicly and may not have easy access to the capital markets or other traditional funding sources. Interests in such companies may be subject to transfer limitations and other restrictions. To the extent there is any market for the securities or instruments held by a Fund, such securities or instruments may be subject to more abrupt and erratic market price movements than those of larger, more-established companies. Less-established companies tend to have lower capitalizations and fewer resources and, therefore, often are more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. Start-up enterprises may not have significant or any operating revenues, and any such investment should be considered highly speculative and may result in the loss of a Fund's entire investment therein. The foregoing factors often increase the difficulty of valuing such investments. In addition, there can be no assurance that any losses on such investments will be offset by gains (if any) realized on a Fund's other investments. In addition, less mature companies could be more susceptible to irregular accounting or other fraudulent practices and in the event of fraud by any company in which a Fund invests, such Fund may suffer a partial or total loss of capital invested in that company.

Additional Capital Requirements of Fund Investments. Certain of the companies in which the Funds invest, especially those in a development or "platform" phase, may require additional financing to satisfy their working capital requirements or acquisition strategies. The amount of such additional financing needed will depend upon the maturity and objectives of the particular company. Each such round of financing (whether from the Funds or other investors), is typically intended to provide a company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, a company may have to raise additional capital at a price unfavorable to the existing investors, including the Funds. The availability of capital is generally a function of capital market conditions that are beyond the control of the Funds or any company. In addition, it may be necessary or desirable for a Fund to make additional debt and equity investments or exercise warrants, options or convertible securities that were acquired in the initial investment in such company in order to preserve that Fund's proportionate ownership when a subsequent financing is planned, or to protect that Fund's investment



when the performance of such company does not meet expectations. If a Fund does not participate in any such additional financing rounds or offerings, that Fund's interest in the company would likely be diluted or become functionally subordinated. There can be no assurance that Centerbridge or the companies themselves will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

Investment in Other Ventures. The Funds may pursue certain of their strategies by investing in ventures such as syndicates or "club" deals in which the underlying investments selected by Centerbridge are not controlled by Centerbridge or its affiliates. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a third-party partner or co-venturer may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of the Fund making such investment, or may be in a position to take action contrary to such Fund's investment objectives. In addition, a Fund may, in certain circumstances, be liable for the actions of certain third parties, including co-investors. Investments made with third parties in joint ventures or other entities also may involve a special profits allocation and / or other fees, compensation or other amounts payable to such third-party partners or co-venturers. As a result, the Funds will have to bear the expenses, management fees and performance-based compensation associated with such investments. The combination of the Management Fee and incentive allocation and / or carried interest with the expenses, fees and performance-based compensation relating to such investments may result in higher compensation and expenses than are associated with comparable investment entities. Centerbridge may seek minority shareholder rights to protect a Fund's interests to the extent possible. However, there can be no assurance that such minority shareholder rights will be available or that such rights will provide sufficient protection of a Fund's interests.

Reliance on Companies' Management Teams. The day-to-day operations of each company in which the Funds invest will be the responsibility of such company's management team. Although Centerbridge will be responsible for monitoring the performance of each investment, there can be no assurance that the existing management team, or any successor, will operate the company in accordance with each Fund's plans. The success of each company depends in substantial part upon the skill, expertise and cooperation of the applicable company's management team. Additionally, companies will need to attract, retain and develop executives and members of their management teams. The market for executive talent is, notwithstanding general unemployment levels or developments within a particular industry, extremely competitive. There can be no assurance that companies will be able to attract, develop, integrate and retain suitable members of its management team and, as a result, the Funds may be adversely affected thereby.

In the case of certain types of businesses / operating companies, including corporate platforms, it may be beneficial to involve a local sourcer, operating partner and / or other resource. The Funds can be expected to enter into an arrangement with one or



more individuals (who may have experience or capability in sourcing and / or managing investments) to undertake a build-up strategy to acquire and develop assets and business in a particular sector or involving a particular strategy. The counterpart individuals may be compensated with a salary and / or equity incentive plan. Such compensation may take the form of a management fee and / or profits allocation (whether paid directly to such individuals and / or to an affiliated entity controlled by such individuals), which may be calculated as a percentage of assets under management and / or a waterfall similar to a carried interest, respectively. These professionals, which in certain circumstances include existing or past service providers to Centerbridge or companies in which the Funds invest, can be expected to undertake analysis and evaluation of potential investment and acquisition opportunities for such platform company. In such circumstances, the Funds would initially invest capital to fund all or a portion of the overhead (including rent, salary or retainers for the counterpart individuals and / or their affiliated entity) and sourcing costs for initial investments by the platform and may provide ongoing contributions, for example, to fund investments and working capital. Although Centerbridge generally is responsible under the Funds' governing agreements for certain overhead expenses and investment analysis associated with sourcing and managing investments, as well as compensation costs of investment professionals, the Funds (and indirectly investors, and not solely Centerbridge) will bear the cost of overhead and the sourcing and analysis of investments, as well as compensation for the related counterparties, for any such arrangements, including platform companies (even if former Centerbridge personnel are part of the management team of such platform companies).

Risks in Managing Companies and Effecting Operating Improvements.

In some cases, the success of the Funds' investment strategy will depend, in part, on the ability of the Funds to restructure and effect improvements in the operations of a company in which a Fund invests. The activity of identifying and implementing operating improvements at companies entails a high degree of uncertainty. There can be no assurance that the Funds will be able to successfully identify and implement such improvements. Additionally, to the extent the Funds acquire a controlling or control-oriented interest in a company, the Funds are exposed to risks inherent in owning or operating a business. The exercise of control over a company through a control position, or the service of an officer or employee of Centerbridge and its affiliates as a director of a company, could (i) expose the assets of the Funds to claims by such company, its security holders and creditors or (ii) impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored. If these liabilities were to occur, the Funds, directly, and the Funds' investors indirectly, could suffer losses.

Companies in certain industries in which the Funds invest, for example, in the healthcare and hospitality sectors, will be subject to additional pressures to continuously upgrade their facilities through ongoing renovations and capital improvements in order to stay competitive. There is no assurance that a company's management team will undertake such capital improvements or that cash flow and reserves



from operations will be adequate to meet costs of such improvements. In these circumstances, the Funds may be required to provide additional funding and may be adversely affected thereby. In addition, owned properties that become unprofitable may not be easily converted to other uses.

Contingent Liabilities. From time to time, the Funds may incur contingent liabilities in connection with an investment. For example, a Fund may enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to that Fund. From time to time, the Fund also may be asked to guarantee the liabilities of its affiliates. In addition, in connection with the disposition or financing of an investment, a Fund may be required to make representations about the business, financial affairs and other aspects (such as property, tax, insurance and litigation) of the company typical of those made in connection with the sale of any business and may be responsible for the content of disclosure documents under applicable securities laws. It also may be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosures ultimately prove to be inaccurate. In the event that the amount of such contingent liabilities exceeds the reserves and other assets of the relevant Fund, subject to the terms of such Fund's governing documents, the investors may be required to return to such Fund all or a portion of amounts distributed to them to fund such Fund's indemnification obligations.

Environmental Liabilities. The Funds may be exposed to substantial risk of loss from environmental claims arising from their investments involving undisclosed or unknown environmental, health or occupational safety matters, or problems with inadequate reserves, insurance or insurance proceeds for such matters that have been previously identified. Under various federal, state, and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate is generally liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Such laws may impose joint and several liability, which can result in a party being obligated to pay for greater than its share, or even all, of the liability involved. Such liability also may be imposed without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefor as to any property are generally not limited under such laws and could exceed the value of the property and / or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on a Fund's return from such investment. Environmental claims with respect to a specific investment may exceed the value of such investment, and under certain circumstances, subject the other assets of the relevant Fund to such liabilities. In addition, even in cases where a Fund is indemnified by the seller with respect to an investment against liabilities arising out of violations of environmental laws and regulations, there can be no assurance as to the financial viability of the seller to satisfy such indemnities or the ability of such Fund to achieve enforcement of such indemnities.



Appraisals. Deficiencies in appraisal quality in the loan origination or investment process may adversely impact the performance of the investments. During the loan underwriting process, appraisals may be obtained on the collateral underlying each prospective loan. The quality of these appraisals may vary widely in accuracy and consistency. The appraiser may feel pressure to provide an appraisal in the amount necessary to enable the originator to make the loan, whether or not the value of the property justifies such an appraised value. If inaccurate or inflated appraisals result in an increase in the severity of losses on the loans, the Funds could incur losses that materially and adversely affect their financial condition.

Financial Projections Related to the Funds' Investments. Centerbridge generally will make investment decisions and establish the capital structure of companies, and / or the terms of financing for a company, on the basis of financial projections, including projections specific for such companies. There can be no assurance that financial or economic models used to determine investment decisions will be correct, accurate or appropriately reflect subsequent developments or all the other factors that could cause actual results to differ from such models or projections. Projected operating results will often be based on management judgments. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse impact on the reliability of such projections. Moreover, a Fund's investments, particularly investments in loans or other forms of indebtedness, may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer or borrower repaying the principal on an obligation held by that Fund earlier than expected (which could result in the Fund's investment return from such investment being less than that anticipated by the Fund when it made the investment). As a consequence, the Fund's ability to achieve its investment objective may be affected.

Risks Relating to Due Diligence of and Conduct at Companies. Before making an investment in a company, Centerbridge typically will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each asset or company. Due diligence generally entails evaluation of important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties often are involved in the due diligence process to varying degrees depending on the type of investment. Such involvement of third-party advisors or consultants may present a number of risks primarily relating to Centerbridge's reduced control of the functions that are outsourced. In addition, if Centerbridge is unable to timely engage third-party providers, its ability to evaluate and acquire more complex targets could be adversely affected. When conducting due diligence and making an assessment regarding an investment, Centerbridge will rely on the resources available to it, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that Centerbridge carries out with respect to any investment opportunity may



not reveal or highlight all relevant facts that are necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in an investment in a company being successful. In circumstances where Centerbridge accesses non-public confidential information, there is the possibility that trading restrictions can result that would affect the Funds' ability to transact. Additionally, among the other risks inherent in investments, particularly so in companies experiencing financial distress, is the fact that it frequently is difficult to obtain information as to the true condition of such issuers. There can be no assurance that attempts to provide downside protection with respect to assets or companies in which a Fund invests will achieve their desired effect and potential investors should regard an investment in a Fund as being speculative and having a high degree of risk.

In addition, at times, a Fund's transaction opportunities will require rapid execution, and investment analyses and decisions by Centerbridge may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to Centerbridge at the time of making an investment decision may be limited, and it may not have access to detailed information regarding the investment. Therefore, no assurance can be given that Centerbridge will have knowledge of all circumstances that may adversely affect an investment. In addition, Centerbridge from time to time involves independent consultants in connection with its evaluation and / or diligence of certain proposed investments. No assurance can be given as to the accuracy or completeness of the information provided by such independent consultants and the Funds may incur liability as a result of such consultants' actions.

There can be no assurance that a Fund will be able to detect or prevent irregular accounting, employee misconduct or other fraudulent practices (including, without limitation, violations of applicable anti-bribery laws, including the U.S. Foreign Corrupt Practices Act (the "FCPA") and the U.K. Bribery Act) during the due diligence phase or during its efforts to monitor the investments on an ongoing basis. In the event of fraud by any company or any of its affiliates, the relevant Fund may suffer a partial or total loss of capital invested in that company. An additional concern, particularly in the case of investments in loans, is the possibility of material misrepresentation or omission on the part of the company or the seller. Such inaccuracy or incompleteness may adversely affect the value of the relevant Fund's securities and / or instruments in such company and / or the valuation of the collateral underlying the loans or adversely affect the ability of such Fund to perfect or effectuate a lien on the collateral securing the loan. The relevant Fund will rely upon the accuracy and completeness of representations made by companies and / or their former owners in the due diligence process to the extent reasonable when it makes its investments, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Indemnification; Absence of Recourse. The governing documents of each Fund provide for indemnification by the applicable Fund of Centerbridge, certain service



providers and their respective affiliates, and their respective officers, directors, agents, stockholders, members and partners for liabilities incurred in connection with the affairs of such Fund. Additionally, such parties may be entitled to exculpation by the Funds. Such liabilities (including, without limitation, in connection with trade errors borne by the applicable Fund) may be material and have an adverse effect on the returns to the investors in the applicable Fund. For example, in their capacity as directors of portfolio companies, the partners or affiliates of Centerbridge may be subject to derivative or other similar claims brought by shareholders of such companies. The indemnification obligation of the applicable Fund would be payable from the assets of such Fund. If the assets of the applicable Fund are insufficient, Centerbridge could recall distributions previously made to the investors in such Fund (subject to certain limitations). Furthermore, investors in a Fund may have a more limited right of action in certain cases than they would in the absence of such limitations. It should be noted that Centerbridge causes the Funds to purchase insurance for the Funds, Centerbridge and their employees, agents and representatives. In addition, Centerbridge could cause a Fund to advance the costs and expenses of an indemnitee pending outcome of the particular matter (including determination as to whether or not the person was entitled to indemnification or engaged in conduct that negated such person's entitlement to indemnification). As a result, there may be periods where a Fund is advancing expenses to an individual or entity with whom such Fund is not aligned or is otherwise an adverse party in a dispute.

Section 16 Restrictions and Participation on Boards of Directors and Other Committees. It is anticipated that the Funds may, in certain circumstances, and when and if applicable, have the opportunity to place their representatives on the boards of directors and / or other committees of certain companies in which the Funds have invested. It is also anticipated that the Funds will invest in affiliate companies in which Centerbridge and / or other investors in their Funds will have representatives on the boards of such companies. While such representation may enable the Funds to enhance the sale value of their debt investments in a company, such involvement (and / or an equity stake by the Funds, Centerbridge and / or other investors in the Funds in such company) could also prevent the Funds from freely disposing of their debt investments and may subject the Funds to additional liability or result in re-characterization of the Funds' debt investments as equity. In addition, the Funds' acquisition of more than 10% of the equity securities of certain companies (either alone or as part of a group) or the service by officers or employees of Centerbridge and its affiliates as directors may subject the Funds to liability for "short-swing profits" or have other implications under Section 16(b) of the Exchange Act. Under Section 16(b), holders of more than 10% of any class of equity securities of a company registered under Section 12 of the Exchange Act and certain officers and directors of such an issuer are prohibited from any purchase and sale, or any sale and purchase, of any equity or derivative security of such issuer within any period of less than six months. If the Funds engage in a transaction that results in short-swing profits, the Funds would be required to return the amount of such profit to the issuer, which could adversely affect the overall return on investment realized by the Funds. Measures to avoid short-swing liability could limit the ability of the Funds to buy or sell securities of target companies. In addition, in



such circumstances, the Funds will be prohibited from entering into a short position in such company's securities, and therefore may be limited in their ability to hedge such securities.

A Fund would expect to seek from a company and, where applicable, its affiliates, customary rights of indemnification and / or contribution related to such Fund's significant involvement with and / or ownership position in such portfolio company. It is possible that, for a variety of reasons, indemnification or contribution from a portfolio company is not available (whether because the portfolio company is insolvent, because the claims for indemnification or contribution are disallowed or there is a delay in payment or other reimbursement associated therewith). In addition, any "D&O" or other similar insurance may be unavailable or insufficient to cover the losses to Centerbridge and / or the relevant Fund. In such case, such Fund and its investors, rather than the portfolio company and its affiliates, would bear the costs and expenses of such indemnification and obligations. The relevant Fund will indemnify Centerbridge, and its members, partners, shareholders, directors, officers, employees and, if specifically agreed by Centerbridge, its agents, for claims arising from such board and / or committee representation and / or service. The relevant Fund will attempt to balance the advantages and disadvantages of such representation and / or service when deciding whether and how to exercise its rights with respect to such companies, but the exercise of such rights could produce adverse consequences in particular situations.

Litigation. In connection with ordinary course investing activities, Centerbridge, the Funds and their respective affiliates as well as portfolio companies of the Funds are and may become involved in litigation either as a plaintiff or a defendant. Moreover, in light of Centerbridge's distressed investment activities, Centerbridge, the Funds and their respective affiliates as well as portfolio companies of the Funds are and may become parties in interest (for example, as creditors) in bankruptcy proceedings. Given the inherently adverse nature of the bankruptcy claims process, claimants having diverse interests to Centerbridge, its affiliates and portfolio companies have sought and will seek to advance wide-ranging arguments intended to enhance their recovery prospects.

The acquisition, ownership and disposition of real properties carries certain specific litigation risks. Litigation may be commenced with respect to a property or asset acquired by a Fund in relation to activities that took place prior to such Fund's acquisition of such property or asset. In addition, at the time of disposition of an individual property or asset, a potential buyer may claim that it should have been afforded the opportunity to purchase the asset, or alternatively that such potential buyer should be awarded due diligence expenses incurred or statutory damages for misrepresentation relating to disclosure made, if such buyer is passed over in favor of another as part of a Fund's efforts to maximize sale proceeds. Similarly, successful buyers may later sue the relevant Fund(s) under various damage theories, including those sounding in tort, for losses associated with latent defects or other problems not uncovered in due diligence.

There can be no assurance that any such litigation, once begun, would be resolved in favor of a Fund. Any such litigation could be prolonged and expensive. In



addition, it is by no means unusual for participants in reorganizations to use the threat of, as well as actual, litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by a Fund and would reduce net assets or could require investors to return to the Fund distributed capital and earnings.

Currency Risks. The Funds' investments that are denominated in a currency other than U.S. dollars are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Centerbridge will sometimes try to hedge these risks by investing directly in foreign currencies, buying and selling forward foreign currency exchange contracts and buying and selling options on foreign currencies, but there can be no assurance such strategies will be effective. The occurrence of a fundamental change with respect to the currency in which one or more investments, or hedging transactions thereof, is denominated could adversely impact a Fund's performance. There can be no assurance that such an event, which is outside the control of the Funds and could arise due to factors such as political instability, sovereign distress or extreme inflation, will not occur.

Leverage and Financing Risk. To date, Centerbridge has made modest use of leverage in the Funds, principally in the form of non-recourse asset-level financing. Centerbridge has not, to date, utilized margin lending from prime brokers, nor has leverage been a significant driver of investment returns for the Funds. The Funds do, however, have the authority to utilize leverage, and Funds will utilize leverage to finance certain investments in a manner they believe prudent, and a discussion of potential uses of leverage, and associated risks, follows.

The use of leverage involves a high degree of financial risk and will increase the exposure of the investments to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investments.

The Funds sometimes do employ leverage, including where Centerbridge believes that the use of leverage may enable the Fund to achieve a higher rate of return. Accordingly, in such circumstances a Fund may provide credit support in order to borrow additional funds for investment purposes. A Fund also may leverage its investment return with options, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which a Fund may have outstanding at any time may be substantial in relation to its capital. Although borrowings by the Funds have the potential to enhance overall returns that exceed the Funds' cost of funds, they will further diminish returns (or increase losses on capital) to the extent overall returns are less than the Funds' cost of funds. Borrowing money to take positions provides the Funds with the advantages of leverage, but exposes them to greater market risks and higher current expenses.



Certain of the Funds use subscription-based credit facilities which (along with other forms of leverage) can generate a higher reported IRR for the Funds' investors than if a facility had not been utilized and instead the Fund's investors' capital had been contributed at the inception of an investment and may present conflicts of interest as a result of certain factors, including, where applicable, the interest rate on such borrowings typically being less than the rate of the preferred return and that such preferred return does not accrue on such borrowings, and will accrue when capital contributions and / or investments are made as described in the Funds' governing documents. As a result, use of such long-term leverage arrangements with respect to investments may reduce or eliminate the preferred return received by the Funds' investors and accelerate or increase distributions of carried interest to Centerbridge, providing Centerbridge with an economic incentive to use long-term borrowings. Subject to the limitations in each of the Fund's governing documents, the use of a subscription-based credit facility by the Funds is within Centerbridge's discretion, and the permitted duration for such borrowings and other terms varies by Fund as a function of a Fund's governing documents and other facts and circumstances.

While leverage presents opportunities for increasing a Fund's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by a Fund would be magnified to the extent the Fund is leveraged. The cumulative effect of the use of leverage by a Fund in a market that moves adversely to the Fund's investments could result in a substantial loss to the Fund which would be greater than if the Fund was not leveraged.

The Funds may have differentiated permissions, objectives, costs and benefits with respect to leverage, including by virtue of where such Funds may be in their respective investment horizons and their respective liquidity profiles, such that their use of leverage at the fund level and at the investment level can and likely will vary, including in relation to investments in which multiple Funds are invested. Accordingly, for purposes of investments intended to have been made at the same time and on the same terms, Centerbridge looks to the underlying instrument in which an investment is made (for example, the price thereof) as the most practicable manner in which to make such determination, and not any leverage that a particular Fund may have applied with respect to such investment at any level. It is possible that one Fund may seek to use leverage for an investment as to which other Funds, as applicable, do not seek to do so (due to legal restrictions on same or otherwise).

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



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

Interest Rate Risk. The value of the fixed rate securities in which the Funds may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities would be likely to decline. In addition, to the extent that the receivables or loans underlying specific securities are pre-payable without penalty or premium, the value of such securities would likely be negatively affected by increasing pre-payments, which generally occur when interest rates decline.

Hedging Transactions. The Funds utilize financial instruments on occasion, both for investment purposes and for risk management purposes: (i) to protect against possible changes in the market value of a Fund’s investment portfolio resulting from fluctuations in the securities markets and changes in interest rates, foreign currency and prices of reference instruments; (ii) to protect a Fund’s unrealized gains in the value of the Fund’s investment portfolio; (iii) to limit losses; (iv) to facilitate the sale of any such investments; (v) to enhance or preserve returns, spreads or gains on any investment in a Fund’s portfolio; (vi) to hedge the interest rate or currency exchange rate on any of a Fund’s liabilities or assets; (vii) to protect against any increase in the price of any securities or instruments a Fund anticipates purchasing at a later date; or (viii) for any other reason that Centerbridge deems appropriate.

The success of each Fund’s hedging strategy will depend, in part, upon Centerbridge’s ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments being hedged. Since the characteristics of many instruments change as markets change or time passes, the success of each Fund’s hedging strategy will also be subject to Centerbridge’s ability to continually recalculate, adjust and execute hedges in an efficient and timely manner. While each Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for each Fund than if it had not engaged in such hedging transactions. For a variety of reasons, Centerbridge may not seek to establish a direct or exact correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Funds from achieving the intended hedge or expose the Funds to risk of loss. Centerbridge



may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of each Fund's portfolio holdings.

Short-Selling. Short-selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short-selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which a Fund engages in short sales will depend upon Centerbridge's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a Fund of buying those securities to cover the short position. There can be no assurance that a Fund will be able to maintain the ability to borrow securities sold short. In such cases, a Fund can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Various governmental entities, both in the U.S. and outside of the U.S., have placed limitations and conditions on the ability to enter into or utilize short sales and other similar transactions or instruments. There can be no assurance that there will not be any further regulation or similar governmental initiatives regarding short sales in the future.

Capital Structure Arbitrage. In certain circumstances, the execution of a distressed investing strategy will depend on the ability of Centerbridge to identify and successfully execute on the relationships between movements in different securities and instruments within an issuer's capital structure (*e.g.*, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identifying and successfully executing on these opportunities involve uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer's securities were to fail to materialize as expected by Centerbridge, the Funds could incur a loss.

Highly Volatile Markets. The prices of financial instruments in which the Funds invest can, at times, be highly volatile. Price movements of forward and other derivative contracts in which a Fund's assets are sometimes invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The Funds are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses.

U.K. Exit from the European Union. The United Kingdom has notified the European Council of its intention to withdraw from the European Union (the “EU”). The ongoing withdrawal process could cause an extended period of uncertainty and market volatility, not just in the United Kingdom but throughout the EU, the European Economic Area and globally. In particular, given the size and importance of the United Kingdom’s economy, uncertainty or unpredictability about its legal, political and economic relationship with Europe has been an ongoing source of instability, create significant currency fluctuations, and / or otherwise adversely affect international markets, arrangements for trading or other existing cross-border co-operation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise) even beyond the date of the U.K.’s ultimate withdrawal from the EU. As the situation continues to evolve, it is not possible to ascertain the precise impact these events may have on Centerbridge, the Funds or investments from an economic, financial or regulatory perspective but any such impact could have material consequences for the Funds.

Risks Associated with the European Union. The long-term financial stability of the Eurozone remains uncertain and difficult to predict. The possibility of a sovereign default, although more remote now than in the years immediately following the crisis, remains a risk in countries where gross government debt, as a percentage of gross domestic product, remains relatively high by comparison to other countries in the EU. A particularly high level of government debt may be unsustainable for a country that has, and continues to endure, vulnerabilities such as weak fundamentals, weak economic growth and / or high unemployment and that has yet to implement or benefit from long-term economic reforms. A default on sovereign debt, although a remote risk, could have a material impact on economic conditions and market activity in the Eurozone and elsewhere in the EU. For example, default by a participating member state could contribute to the collapse of the Eurozone as it is constituted today, or possibly result in the defaulting member state ceasing to use the Euro as its national currency, or even provide a stimulus for one or more member states to withdraw from EU membership—any of which could have an adverse impact on the Funds. Moreover, any structural instability of the Eurozone could have negative implications for the European financial industry and the global economy as a whole because of counterparty risks, exposures and other “systemic” risks. A potential effect would be an immediate reduction of liquidity for particular investments in economically connected countries, thereby impairing the value of such investments. Uncertain economic conditions generally affects markets adversely. Volatility in the global credit markets may make it more difficult for issuers and borrowers to obtain favorable financing or refinancing arrangements that may be needed to execute the Funds’ investment strategy. Uncertainty in the Eurozone could have an adverse effect on the Funds by affecting the performance of their investments (whether made in a country that is at greater risk of default or in a country that is economically connected) and their ability to fulfill their investment objectives.

The stability of certain European financial markets has deteriorated and speculation as to the possibility of additional defaults by sovereign states in Europe in respect of their obligations has increased. Given current market conditions of relatively

weak growth in many EU member states (which are expected to continue in the near to medium term), there is a risk that default of certain participating member states of the European Union may lead to the collapse of the Eurozone as it is constituted today or that certain member states of the EU may cease to use the Euro as their national currency. Moreover, financial and economic developments in one EU member state may impact economic and financial conditions among other EU member states. Any such development could have an adverse effect on the Funds, the performance of the investments and the Funds' ability to effectively achieve its investment objectives. Any deterioration in the economic environment caused directly or indirectly by such a default may have a direct effect on the creditworthiness of borrowers and / or issuers, thereby impacting the value of the investments generally and adversely affecting the Funds' ability to generate attractive risk-adjusted investment returns.

Force Majeure Risk. Companies or assets may be affected by force majeure events (*i.e.*, events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of infectious disease, pandemic or any other serious public health concern, war, terrorism and labor strikes). Some force majeure events may adversely affect the ability of a party (including a company or a counterparty to a Fund or a company) to perform its obligations until it is able to remedy the force majeure event. In addition, the cost to a company or a Fund of repairing or replacing damaged assets resulting from such force majeure event could be considerable. Certain force majeure events (such as war or an outbreak of infectious disease) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries in which the Funds may invest specifically. Additionally, a major governmental intervention into industry, including the nationalization of an industry or the assertion of control over one or more companies or assets, could result in a loss to the Funds, including if their respective investments in any such company or asset are canceled, unwound or acquired (which could be without what the applicable Fund considers to be adequate compensation). Any of the foregoing may therefore adversely affect the performance of a Fund and its investments.

General Private Equity Risks. One or more of the Funds from time to time will invest in private equity investments, particularly those that relate to companies undergoing debt restructurings and recapitalized companies, which involve a high degree of business and financial risk. Such companies may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies also may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses.

Although Centerbridge generally seeks protective provisions, including, possibly, board representation, in connection with certain of its private equity investments,



to the extent each Fund takes minority positions in companies in which it invests, Centerbridge may not be in a position to exercise control over the management of such companies, and in such cases it would have a limited ability to protect its position in such companies. Additionally, there can be no assurance that any such minority shareholder rights will be available or that such rights will provide sufficient protection of the Fund's interests.

Investments in private equity of highly leveraged companies involve a high degree of risk. Some of the Funds' investments in companies involve leverage, either before or during the applicable Fund's investment, which, in turn, will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, a Fund would likely suffer a partial or total loss of capital invested in the company, which, depending on the size of that Fund's investments, could adversely affect the return on the capital of the Fund.

Set forth below are some of the factors that could be a consideration in Centerbridge's determination to participate in or its ability to successfully execute a particular investment type or strategy, or otherwise may relate to and cause the other risks described herein to be exacerbated. The below discussion does not represent an exclusive list of such factors.

Counterparty Default. The Funds expect to establish relationships to obtain financing, derivative intermediation, prime brokerage and fund administration services that facilitate the operation of the Funds and permit the Funds to trade in any variety of markets or asset classes over time. However, there can be no assurance that the Funds will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Funds' reporting capabilities and trading activities, create losses, preclude the Funds from engaging in certain transactions or prevent the Funds from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Funds' business due to the Funds' reliance on such counterparties.

Some of the markets in which the Funds effect transactions are not "exchange-based," including OTC derivative markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of exchange-based markets are subject. In the OTC markets, a Fund enters into a contract directly with dealer counterparties which may expose such Fund to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement also may result from disputes over the terms of the contract (whether or not bona fide). In addition, the Funds may have a concentrated risk in



a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the Funds had entered into contracts with multiple counterparties. Certain OTC derivative contracts require that the Funds post collateral. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties. Generally, a Fund will not be restricted from dealing with any particular counterparties. Centerbridge’s evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and “foolproof” evaluation of the financial capabilities of each Fund’s counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds. If there is a default by a counterparty, the relevant Fund under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the relevant Fund being less than if such Fund had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and / or the subject of insolvency proceedings. In such case, the recovery of the relevant Fund’s financial instruments from such counterparty or the payment of claims therefor may be significantly delayed and such Fund may recover substantially less than the full value of the financial instruments entrusted to such counterparty. For example, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair value; if the relevant Fund’s claim is unsecured, such Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. Derivatives legislation pending in certain jurisdictions and expected forthcoming proposed rules, may (if such laws and rules become effective) impact the laws that apply to an insolvency proceeding and may impact whether a Fund may terminate its agreement with an insolvent counterparty. In addition, there are laws in effect in a number of jurisdictions that already affects early termination rights with respect to direct counterparties.

Collateral that a Fund posts to its counterparties that is not segregated with a third-party custodian may not have the benefit of customer-protected “segregation” of such funds. In the event that a counterparty were to become insolvent, the relevant Fund would become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

In addition, the Funds have counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in foreign jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to each Fund’s assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that are involved, it is impossible to generalize about the effect of such an insolvency on each Fund and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering a Fund’s financial



instruments from or the payment of claims therefor by such counterparty and a loss to that Fund, which could be material.

Systems and Operational Risks. Execution of the Funds' strategies is dependent in part on certain systems. The Funds depend on Centerbridge to develop and implement appropriate systems for each Fund's activities. The Funds rely on a daily basis on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain financial instruments, to monitor their respective portfolios and capital, and to generate risk management and other reports that are critical to oversight of a Fund's activities. Certain of the Funds' and Centerbridge's activities will be dependent upon systems operated by third parties, including prime brokers, the applicable Fund's administrator, counterparties and other service providers, and Centerbridge will likely not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by Centerbridge, prime brokers, the applicable Fund's administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in a Fund's operations may cause such Fund to suffer, among other things, financial loss, the disruption of its businesses, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Funds and the investments therein.

Cybersecurity Breaches and Identity Theft. Centerbridge's information and technology systems and those of companies in which the Funds invest are, just as with other companies, vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although Centerbridge has implemented, and portfolio companies likely will have implemented, various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for Centerbridge, a Fund and / or a company in which such Fund has an investment to make a significant investment to fix or replace them. Investments of the Funds have involved and may in the future involve companies that have experienced cyber events and that, given the rise of cybersecurity incidents, may become involved in future cyber events. Cybersecurity events also could affect other Centerbridge entities. The failure of these systems and / or of disaster recovery plans for any reason could cause significant interruptions in Centerbridge's, a Fund's and / or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information. Such a failure could result in reputational harm to Centerbridge, the affected Funds and / or the affected portfolio company, subject any such entity and its affiliates to legal claims and otherwise affect its business and financial performance.



Centerbridge's service providers are subject to the same electronic information security threats as Centerbridge. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Funds and personally identifiable information of the Funds' investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of Centerbridge's or the Funds' proprietary information may cause Centerbridge or the Funds to suffer, among other things, financial loss, the disruption of business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Funds and the investments therein.

Financial Market Fluctuations. The prices of financial instruments in which the Funds may invest can be highly volatile. Price movements of derivative contracts in which the Funds' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The Funds are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses. In addition, general fluctuations in the market prices of securities or instruments may affect the value of the investments held by the Funds. Instability in the securities markets also may increase the risks inherent in the Funds' investments. The ability of the entities held by a Fund to refinance debt securities or loans may depend on their ability to sell new securities or incur additional borrowings in the public high-yield debt market or otherwise.

General Economic and Market Conditions. The success of the Funds' investment activities will be affected by general economic and market conditions in the relevant economy (whether within or outside the U.S.), such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in applicable laws and regulations (including laws relating to taxation of the Funds' investments), trade barriers, currency exchange controls, continued technology disruption, tax reform or other significant policy changes, as well as national and international political, environmental and socioeconomic circumstances (including wars, terrorist acts or security operations) in respect of the countries in which a Fund may invest. These factors may affect the level and volatility of prices and the liquidity of the Funds' investments. Volatility or illiquidity could impair the Funds' profitability or result in losses in the event the Funds are unable to maintain their positions through such periods. Moreover, a sustained downturn in the U.S. or global economy (or any particular segment thereof) could adversely affect the Funds' profitability or impede the ability of the companies in which the Funds invest to perform. In addition, rapid changes in inflation could have a material adverse effect on the performance of the Funds. Any of the foregoing events could result in substantial or total losses to the Funds in respect of certain investments, which losses will likely be exacerbated by the presence of leverage applied by the Funds or companies. The factors that could cause an investment to decline in value or otherwise perform poorly can affect the fair value of the Funds' investments, possibly adversely. The investment performance



of one or more of a Fund's investments may not be uncorrelated or unrelated to the investment performance of such Fund's other investments generally. In the event of a broad market downturn or developments within one or more portions of the global economy, a large portion of a Fund's investments may together be adversely affected. Investors should not expect that any particular investment or a Fund's portfolio as a whole will be isolated from the potential negative effects of market events or general economic trends. The Funds may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets – the larger the positions, the greater the potential for loss. The financial condition of a company, the Funds or Centerbridge may be adversely affected by a significant general economic downturn and a company, the Funds or Centerbridge may be subject to legal, regulatory, reputational and other unforeseen risks that could have a material adverse effect on its business and operations and thereby could impact the Funds.

Real Estate Market Conditions. A Fund's strategy in some real estate investments will be based, in part, upon the premise that real estate businesses and assets will be available for purchase by such Fund at prices which Centerbridge considers favorable. Further, a Fund's strategy relies, in part, upon market conditions existing during the term of the Fund. No assurance can be given that real estate businesses and assets can be acquired at favorable prices or that the market for such assets will recover, continue to improve or not deteriorate, as the case may be, since this will depend, in part, upon events and factors outside the control of Centerbridge. Actual or perceived trends in real estate markets do not guarantee, predict or forecast future events, which may differ significantly from those implied by such trends. In addition, current trends in the real estate market and broader market generally have been toward disrupting a traditional approach to an industry with technological innovation, and multiple young companies have been successful where this trend toward disruption in markets and market practices has been critical to their success. In this period of rapid technological and commercial innovation, new businesses and approaches may be created that will compete with the Fund and / or its investments or alter the market practices a Fund's strategy has been designed to function within and depend on for investment return. Any of these new approaches could damage a Fund's investments, significantly disrupt the market in which it operates and subject it to increased competition, which could materially and adversely affect its business, financial condition and results of investments.

Legal, Regulatory and Tax Risks. The outcome of the recent U.S. presidential and other elections creates uncertainty with respect to legal, tax and regulatory regimes in which the Funds and their portfolio entities will operate. Any significant changes in, among other things, economic policy (including with respect to interest rates and foreign trade), the regulation of the asset management industry, tax law, immigration policy and / or government entitlement programs could have a material adverse impact on the Funds. As further described herein, legal, regulatory and tax changes could occur during the term of the Funds that may adversely affect the Funds. For example, from time to time, the markets for private equity, real estate opportunistic and real estate debt transactions have been adversely affected by a decrease in the availability of senior and



subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. The Funds may invest in companies that operate in a highly regulated environment and are subject to extensive legal and regulatory restrictions and limitations and to supervision, examination and enforcement by regulatory authorities. New and existing regulations and burdens of regulatory compliance may directly impact the business and results of the operations of, or otherwise have a material adverse effect on, companies that are subject to regulation. Failure to comply with any of these laws, rules and regulations, some of which are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, including civil penalties and fines, which may have material adverse effects. Additionally, foreign investment in securities of companies in certain of the countries in which the Funds may invest is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment above certain ownership levels or in certain sectors of the country's economy and increase the costs and expenses of the Funds. While regulation of non-U.S. investment has liberalized in recent years throughout much of the world, there can be no assurance that more restrictive regulations will not be adopted in the future. Some countries require governmental approval for the repatriation of investment income, capital or the proceeds of sales by foreign investors and foreign currency. The Funds could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital interests and dividends paid on securities or instruments held by the Funds, and income on such securities or instruments or gains from the disposition of such securities or instruments may be subject to withholding taxes or other taxes imposed by certain countries where the Funds invest or in other jurisdictions.

In addition, in connection with ordinary course investing activities, Centerbridge, the Funds and their respective affiliates as well as the Funds' portfolio companies are and may become involved in litigation either as a plaintiff or a defendant. Moreover, in light of Centerbridge's distressed investment activities, Centerbridge, the Funds and their respective affiliates as well as the Funds' portfolio companies are and may become parties in interest (for example, as creditors) in bankruptcy proceedings. Given the inherently adverse nature of the bankruptcy claims process, claimants having diverse interests to Centerbridge, its affiliates and the Funds' portfolio companies have sought and will seek to advance wide-ranging arguments intended to enhance their recovery prospects.

Owner-Operator Risks Under ERISA or Other Laws. Under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Internal Revenue Code of 1986, as amended (the "Code"), all members of a group of commonly controlled trades or businesses may be jointly and severally liable for each other's obligations to any defined benefit pension plans maintained by an entity in the controlled group or to which such entity is obligated to contribute. These obligations may include the obligation to make required pension contributions, the obligation to fund any deficit amount upon pension plan termination and the obligation to pay withdrawal liability owed to a multi-employer (union) plan to which such entity makes contributions if the entity withdraws from an underfunded multi-employer pension plan. A 2013 U.S. Federal



Appeals court decision found that certain supervisory and portfolio management activities of a private equity fund could cause a fund to be considered a trade or business for these purposes, and thus, liable for withdrawal liability owed by a Fund's portfolio company to an underfunded multi-employer plan which covered the employees of the portfolio company. Accordingly, if a Fund invested in a control-type investment and if such Fund were found to be engaged in a "trade or business" for ERISA purposes, such Fund and the various entities in which such Fund had a control-type investment could be held liable for the defined benefit pension obligations of one or more of such investments.

In addition, other circumstances could arise pursuant to which a finding of owner-operator status could result in a Fund becoming responsible for liabilities of a company in which such Fund invests. There have been instances of courts and / or regulatory authorities holding funds responsible for actions of companies owned by such funds in circumstances where the fund was determined to have influence over the underlying company (*e.g.*, through voting rights and / or board representation), an example being imposition by the European Commission of an antitrust fine on a fund that owned a European company that was determined to have participated in a cartel. The risk of owner-operator liability may be of lesser significance to certain of the Funds; however, it remains among those risks to which the Funds are subject.

OFAC, AML and FCPA Considerations. Economic sanctions and anti-money laundering ("AML") laws in the United States and other jurisdictions may prohibit Centerbridge and the Funds from transacting with or in certain countries, as well as with certain individuals and companies. In the United States, the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces laws, regulations and Executive Orders establishing U.S. economic and trade sanctions. Such sanctions prohibit, among other things, transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals. These entities and individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanctions and embargo programs. The lists of OFAC prohibited countries, territories, persons and entities, including the List of Specially Designated Nationals and Blocked Persons, as such list may be amended from time to time, can be found on the OFAC website at www.treas.gov/ofac. In addition, certain programs administered by OFAC prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on the lists maintained by OFAC. These types of sanctions may restrict the Funds' investment activities.

In some countries, there is a greater acceptance than in the United States of government involvement in commercial activities and of corruption. Under the FCPA, it is unlawful for U.S. persons and, in certain circumstances, foreign persons to pay or offer bribes, directly or indirectly, to a foreign official in order to obtain, retain or direct business. In recent years, the U.S. Department of Justice and the SEC have devoted greater resources to enforcement of the FCPA. In addition, with the enactment in 2010 of the U.K. Bribery Act, the United Kingdom has recently significantly expanded the reach of its anti-bribery laws. Centerbridge is committed to complying with the FCPA and other anti-corruption



laws, anti-bribery laws and regulations, as well as anti-boycott regulations, to which it is subject.

Centerbridge undertakes various due diligence measures and applies certain procedures (together with the applicable Fund's administrator, where applicable) designed to determine whether entering into a relationship with an investor or prospective counterparty or investment would give rise to OFAC, AML or corruption-related risks and to prevent such risks. As a result of such measures, Centerbridge may determine that Centerbridge or a Fund should forgo certain relationships and associated opportunities that Centerbridge believes may present such risks. In addition, the possibility exists that Centerbridge's or the Funds' ongoing relationships may be affected by activity that has potential implications under OFAC sanctions lists (which can be subject to rapid change, including as a result of geopolitical circumstances), AML laws or anti-corruption and anti-bribery laws, which could necessitate discontinuing an existing relationship or activity, or the imposition of other legally required or advisable measures. In spite of Centerbridge's efforts to comply with the FCPA, the U.K. Bribery Act and other applicable laws, individuals purporting to act on behalf of Centerbridge or affiliates of portfolio companies, particularly in cases where the Funds do not control such portfolio company, could engage in activities that could have legal implications under such laws, including allegations of violations of such laws, whether before or after the Funds make an investment. Any allegation or determination that the Funds or Centerbridge has liability arising from a violation of the FCPA or other applicable anti-corruption laws or anti-bribery laws could subject the Funds or Centerbridge to, among other things, civil and criminal proceedings and penalties, fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect Centerbridge's business prospects and / or financial position, as well as the Funds' ability to achieve their investment objective and / or conduct their operations.

Compliance with the Commodity Exchange Act. In managing the Funds, Centerbridge intends to rely on an exemption from registration with the CFTC as a CPO under the Commodity Exchange Act that is available because the Funds' transactions in regulated instruments (including commodity futures, security futures, options thereon and certain derivatives) are below the applicable *de minimis* threshold above which registration applies. Reliance on the *de minimis* exemption operates as a limit on the extent to which the Funds can utilize derivatives and other regulated instruments to execute its investment program. Should the Funds' future investment activity exceed the threshold for eligibility for the *de minimis* exemption, registration with the CFTC would be necessary, subjecting Centerbridge and / or the Funds to certain additional costs and expenses and regulatory and administrative burdens. Furthermore, any determination by Centerbridge to cease or to limit investing in interests which may be treated as "commodity interests" in order to comply with the regulations of the CFTC may have a material adverse effect on the Funds' ability to implement their investment objectives and to hedge risks associated with their operations.



C. Risks Associated with Particular Types of Investments.

Distressed Investments and Other Instruments. Each Fund's investment program includes making distressed investments, including, for example, investments in defaulted, out-of-favor or distressed loans and securities, and other assets (which could include hard assets such as aircraft, ships, timber, real property, etc., and intangible assets such as litigation claims and intellectual property claims or rights). Certain of a Fund's investments will 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. A Fund also will 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 and losses 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 investments may be premised on a turnaround strategy. If turnarounds are not achieved, these companies could experience failures or substantial declines in value, and a Fund may not be able to divest itself of such unprofitable investments in a timely fashion or at all. Additionally, turnarounds may not be achieved within the contemplated investment horizons. Investments in companies operating in workout or bankruptcy modes also present additional legal risks, including fraudulent conveyance, voidable preference and equitable subordination risks.

Each Fund can be expected to invest in instruments and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These instruments and obligations are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently can be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' equity or debt instruments are considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to a Fund's investment in any instrument, and a significant portion of the obligations and securities in which a Fund invests may be considered less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Centerbridge will correctly evaluate the value of the assets underlying a Fund's investments or the prospects for a successful reorganization or similar action.



In addition, companies in which a Fund invests could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment or the onset, continuation or worsening of the economic and financial market downturn and dislocation. As a result, assets or companies that a Fund expected to be stable or improve may operate, or expect to operate, at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress. In addition, exogenous factors such as fluctuations of the equity markets also could result in warrants and other equity securities or instruments owned by a Fund becoming worthless. Even high-quality companies in which a Fund invests could still present a high degree of business and credit risk. During an economic downturn or recession, securities or instruments of financially troubled or operationally troubled issuers are more likely to go into default than securities or instruments of other issuers. Securities or instruments of financially troubled issuers and operationally troubled issuers often are less liquid and more volatile than securities or instruments of companies not experiencing financial difficulties. The market prices of such securities or instruments are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. In addition, it is anticipated that many of a Fund's investments may not be widely traded and that a Fund's investment in such securities or instruments may be substantial relative to the market for such securities or instruments. As a result, a Fund may experience delays and incur losses and other costs in connection with the exit from, or sale of, its investments.

The possibility exists that Centerbridge would determine to commence bankruptcy or similar proceedings, or that involuntary proceedings could be commenced, involving a portfolio company in which a Fund is invested. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, such Fund may lose its entire investment, may be required to accept cash or securities with a value less than such Fund's original investment and / or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the relevant Fund's investments may not compensate such Fund adequately for the risks assumed.

The Funds make investments in restructurings which could involve entities that are experiencing or are expected to experience financial difficulties which may never be overcome. The return on investment sought or targeted by the Funds in any investment in a restructuring depends upon the restructuring progressing in a particular manner or resulting in a particular outcome (including regarding the conversion or repayment of the relevant Fund's investments). There can be no assurance that any such outcome, development or result will occur or be successful and, as a result, the premise underlying such Fund's investment may never come to fruition and in such case such Fund's returns would be adversely affected. Additionally, investments in restructurings could, in certain circumstances, subject the Funds to certain additional potential liabilities, which may exceed the value of a Fund's original investment therein.



In restructurings, whether constituting liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the restructuring either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security or instrument the value of which may be less than the purchase price to the relevant Fund of the security with respect to which such distribution was made.

The Funds may not be “hedged” against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed restructuring is consummated.

Preferred Equity. The Funds also sometimes invest in preferred equity interests which generally rank junior to all existing and future indebtedness, including commercial mezzanine and mortgage loans. In the event of a bankruptcy, liquidation, reorganization or other winding-up with respect to an issuer in which the Funds hold a preferred equity interest, the Funds will bear a risk of lost principal, as such interests are not generally secured.

Equity Securities. Each Fund’s portfolio includes exposure to equities or equity-linked instruments, including securities convertible or exercisable into equities and equity derivatives. Such instruments (or their underlying reference asset) may be listed or publicly traded, trade in the OTC market or have a limited or no active secondary market. Such equity investments may be acquired in conjunction with or concurrently with debt investments, received through the equitization of the relevant Fund’s debt investments in reorganizations or similar processes, in privately negotiated transactions or acquired in the open market. In addition, a Fund may receive securities or instruments issued by publicly held companies including by virtue of such Fund’s exit strategies (*e.g.*, an initial public offering).

At times, a Fund’s equity investments may be substantial as a percentage of such Fund’s overall investments or the total outstanding shares of the relevant company. Activist investors may seek certain changes at the company, such as selling assets or subsidiaries, increasing dividends or share buy-backs, changing management and / or executives, a change in business practices and / or other matters, in each case which may have an adverse effect on the company or the Fund’s investment therein. In certain cases, a Fund’s equity investments can be substantial as a percentage of such Fund’s overall investments or the total outstanding shares of the relevant company. In the event of a bankruptcy or insolvency of the company, investments in equity generally lack the downside protection afforded to creditors. Listed equities or equities with an active secondary market, or instruments linked to such equities, are subject to the risk of fluctuations in market value, which may be substantial and sudden, in response to numerous factors (including, without limitation, the business, operations, financial condition and prospects of the company, competition, market sentiment and market conditions, industry conditions, regulatory conditions and the general political and



economic environment), increased obligations to disclose information regarding such companies, limitations on the ability of the relevant Fund to dispose of such securities or instruments at certain times, increased likelihood of shareholder opposition or litigation against such companies' board members and increased costs associated with each of the aforementioned risks. Equity interests in private companies are subject to additional risks that include, without limitation, limited liquidity and resale limitations under contracts governing such securities or instruments and / or under applicable securities laws, limited availability of financial and other information (for example, unlisted companies are not required to make information publicly available) and a lack of observable pricing for purposes of determining the fair value of such investments. In both cases, in the event of a bankruptcy or insolvency of the company, investments in equity generally lack the downside protection afforded to creditors. The holders of an equity position, which generally represents the most junior position in an issuer's capital structure, will be entitled to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied.

High-Yield Securities. The Funds' investments include high-yield securities. Such securities are generally not exchange-traded and, as a result, these securities trade in the OTC marketplace, which is less transparent than the exchange-traded marketplace. In addition, the Funds invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Entities that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Convertible Securities. From time to time, the Funds will execute their strategies through an investment in a convertible security or other similar convertible or equity-linked instrument as a means of limiting downside risk and providing the opportunity to capture upside potential. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have



higher yields than common stocks, but lower yields than comparable non-convertible securities; (ii) are potentially less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics; and (iii) provide the potential for capital appreciation if the underlying value of the issuer increases.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by a Fund is called for redemption, that Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on that Fund’s ability to achieve its investment objective.

Non-U.S. Investments Generally. The Funds expect to invest a portion of their aggregate capital commitments outside of the U.S., focusing in Europe, but also including other countries in North America, Australia, Latin America and other jurisdictions, with a preference for those jurisdictions with a clear, well-developed and respected legal framework. Non-U.S. securities, instruments or real estate-related investments involve certain risk factors not typically associated with investing in U.S. securities, instruments or real estate-related investments, including risks relating to the following: (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various foreign currencies in which a Fund’s foreign investments are denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) exposure to fluctuations in interest rates payable with respect to the instruments in which a Fund invests; (iii) differences in conventions relating to documentation, settlement, corporate actions, stakeholder rights and other matters; (iv) differences between the U.S. and foreign securities markets or real estate markets, including potential price volatility in and relative liquidity of some foreign

securities markets, the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (v) differences in the legal, compliance and regulatory environment; (vi) certain economic, social and political risks, including potential exchange control regulations and restrictions on foreign investment and repatriation of capital, political hostility to investments by foreign or private equity investors, the risks of political, economic or social instability, including the risk of sovereign defaults, regulatory change, and the possibility of expropriation or confiscatory taxation or the imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds; (vii) the possible imposition of foreign taxes on income, gains and gross sale or other proceeds relating to such securities or instruments; (viii) differing and potentially less well-developed or well-tested corporate laws regarding the rights of creditors and other stakeholders (including the rights of secured parties), fiduciary duties and the protection of investors; and (ix) less publicly available information. Additionally, political and social instability in the countries in which the Funds invest could adversely affect the Funds' investments in such countries. Such instability could result from, among other things, popular unrest associated with demands for improved political, economic and social conditions, or popular unrest in opposition to government policies that facilitate direct foreign investment. Governments of certain of these countries have exercised and continue to exercise substantial influence over many aspects of the private sector. The Funds generally do not intend to obtain political risk insurance. Accordingly, government actions in the future could have a significant effect on economic conditions in such countries, which could affect private sector companies and the return from investments. Exchange control regulations, expropriation, confiscatory taxation, nationalization, restrictions on repatriation of capital, renunciation of foreign debt, political, economic or social instability, or other economic or political developments could adversely affect the assets of the Funds held in a particular country.

Prior government approval for foreign investments may be required under certain circumstances in certain markets in Europe and other non-U.S. jurisdictions, and the process of obtaining these approvals may require a significant expenditure of time and resources. Furthermore, investments in assets in certain markets in Europe and other non-U.S. jurisdictions may require significant government approvals under corporate, securities, exchange control, foreign investment and other similar laws and may require financing and structuring alternatives that differ significantly from those customarily used in more well-developed countries. In addition, in certain countries, such laws and regulations have been subject to frequent and unforeseen change, potentially exposing the Funds to restrictions, taxes and other obligations that were not anticipated at the time an investment was initially made.

A Fund may be less influential than other market participants in jurisdictions where it does not have a significant presence.

The Funds are subject to additional risks, which include possible adverse political and economic developments, possible seizure or nationalization of foreign



deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the securities may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. While Centerbridge will take these factors into consideration in making investment decisions for the Funds, no assurance can be given that the Funds will be able to fully avoid these risks.

Additionally, in emerging and developing markets, there is often less government supervision and regulation of business and industry practices, stock exchanges, real estate markets and other OTC markets, brokers, dealers, counterparties and issuers than in other, more established markets. Any regulatory supervision which is in place may be subject to manipulation or control. Some emerging and developing market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain cases, the laws and regulations governing investments in securities or financial instruments or real estate companies or assets or related instruments may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. The Funds also may encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. Due to the foregoing risks and complications, the costs associated with investments located in emerging markets generally are higher than for investments located in developed countries.

In addition, economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could adversely affect global economic conditions and world markets and, in turn, could adversely affect a Fund's performance.

Existing and new laws and regulations in non-U.S. jurisdictions in which a Fund invests may affect that Fund's investments in such jurisdictions in a manner that differs adversely from the results that would occur under U.S. laws and regulations applied to similar facts. The implementation or interpretation of such laws and regulations as they relate to a Fund's activities are largely outside that Fund's control. For example, a Fund's investments in the debt of entities located in certain non-U.S. jurisdictions may be adversely affected as a result of the ownership or control of an equity stake in such entities by Centerbridge and / or its affiliates. As one illustration, in certain circumstances, a Fund could be subject to German "equity substitution rules" (similar to equitable subordination in the U.S.) if an entity in which that Fund holds a debt investment and in which Centerbridge and / or its affiliates holds an equity investment were to become insolvent. In such case, among other things, (i) a Fund may not be able to enforce its rights with respect



to collateral, if any, (ii) the debt held by that Fund may be subordinated and (iii) the receiver may be entitled to reclaim amounts paid to that Fund within one year of the filing for commencement of insolvency proceedings or thereafter. The laws of other non-U.S. jurisdictions in which a Fund seeks to invest may have rules similar to Germany's "equity substitution" rules discussed above or other unique rules (Spain, for example, has adopted an equitable subordination rule), and the consequences to that Fund with respect to such rules may be more or less severe.

Loan origination to borrowers domiciled or established in the European Economic Area (the "EEA") is subject to a patchwork of local laws. Some member states do not allow funds to originate loans; other member states apply restrictions or conditions such as requiring a fund to comply with the Alternative Investment Fund Managers Directive ("AIFMD"), or require registration. Since the Funds currently do not intend to voluntarily comply with the parts of the AIFMD not binding on them, they may be precluded from participating in certain investments.

Moreover, while Centerbridge intends to exercise caution in relation to the foregoing risks where known, there can be no assurance that these and other risks of investing in non-U.S. markets will not adversely affect the assets of a Fund that are held in certain countries and that Fund's performance.

Commodities and Derivative Investments. Generally, derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt or equity instruments, interest rates, currencies or currency exchange rates, commodities, related indexes and other assets. The Funds sometimes use various derivative instruments for hedging purposes, including, but not limited to, options contracts, futures contracts, forward contracts, options on futures contracts, indexed securities, credit default swaps, interest rate swaps and other swap agreements primarily for hedging and risk management purposes. The Funds have, and in the future can be expected to, from time to time, use derivative instruments for investment purposes and / or to approximate or achieve the economic equivalent of an otherwise permitted investment (as if such Fund directly invested in the securities, loans or claims of the subject company) or if such instruments are related to an otherwise permitted investment. A Fund's use of derivative instruments involves investment risks and transaction costs to which such Fund would not be subject absent the use of these instruments and, accordingly, may result in losses greater than if they had not been used. The use of derivative instruments has risks including, among others, leverage risk, volatility risk, duration-mismatch risk, correlation risk and counterparty risk. For example, when used for hedging or synthetic investment purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged or tracked may prevent a Fund from achieving the intended hedging effect or expose a Fund to the risk of loss.

Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets a Fund may not be able to close

out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits on exchanges or OTC markets on which a Fund may conduct its transactions in derivative instruments may prevent prompt liquidation of positions, subjecting such Fund to the potential of greater losses. Derivative instruments that are purchased or sold by a Fund may include instruments that are purchased or sold OTC as bilateral transactions and not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange-traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions. In addition, significant disparities may exist between “bid” and “asked” prices for derivative instruments that are not traded on an exchange. Additionally, when a company defaults or files for protection from creditors (*e.g.*, U.S. Chapter 11 proceedings), the use of derivative instruments presents special risks associated with the potential imbalance between the derivatives market and the underlying securities market. In such a situation, physical certificates representing such securities may be required to be delivered to settle trades and the potential shortage of such actual certificates relative to the number of derivative instruments may cause the price of the actual certificated debt securities to rise, which may adversely affect the holder of such derivative instruments. In addition, any such OTC derivatives are also subject to types and levels of investor protections or governmental regulation that may differ from exchange-traded instruments. Derivative instruments traded OTC also are subject to the risk of non-performance by the relevant counterparty. In general, the risk of nonperformance by the counterparty on such an instrument may be greater and the ease with which a Fund can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. The stability and liquidity of derivative investments depend in large part on the creditworthiness of the parties to the transactions. If there is a default by the counterparty to such a transaction, the relevant Fund will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in a loss to the relevant Fund. Furthermore, there is a risk that any of such counterparties could become insolvent.

It should be noted that in purchasing derivative instruments, the relevant Fund typically will not have the right to vote on matters requiring a vote of holders of the underlying investment. Moreover, derivative instruments, and the terms relating to the purchase, sale or financing thereof, are also typically governed by complex legal agreements. As a result, there is a higher risk of dispute over interpretation or enforceability of the agreements. It should also be noted that the regulation of derivatives is evolving and subject to further rule-making in the United States and in other jurisdictions and is expected to increase, which could impact the Funds’ ability to transact in such instruments and the liquidity of such instruments. Regulatory requirements with respect to derivatives, including eligibility of counterparties, reporting, position limits, exchange of margin, financial responsibility or segregation of customer funds and positions are subject to further development or implementation and could impact how a Fund and its counterparties must manage transactions, including hedging transactions.



The prices of commodities contracts and derivative instruments, including options, are highly volatile. Payments made pursuant to swap agreements also may be highly volatile. Price movements of commodities, options contracts, reference assets and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the reference asset underlying them. In addition, a Fund's assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

Centerbridge may cause a Fund to take advantage of investment opportunities with respect to derivative instruments that are neither presently contemplated nor currently available, but which may be developed in the future, to the extent such opportunities are both consistent with such Fund's investment objectives and legally permissible. Any such investments may expose the relevant Fund to unique and presently indeterminate risks, the impact of which may not be capable of determination until such instruments are developed and / or Centerbridge determines to make such an investment.

Option Contracts. The Funds sometimes buy or sell (write) both call options and put options, and when a Fund writes options, it may do so on a "covered" or an "uncovered" basis, subject to applicable legal requirements. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. A Fund's option transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which a Fund has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions the Funds may enter into, the principal risks involved in options trading can be described as follows: When a Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of that Fund's investment in the option (including commissions). A Fund could mitigate those losses by selling short, or buying puts on, the securities for which it holds call options, or by taking a long position (*e.g.*, by buying the securities or buying calls on them) in securities for which it holds put options.

When a Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, the Fund would forgo the opportunity for profit on the underlying security should the market price of the security



rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Fund might suffer as a result of owning the security.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Funds due to unusual trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which Centerbridge would otherwise recommend, to the possible detriment of the Funds. Market illiquidity or disruption could result in major losses to the Funds.

Swaps. Swaps and certain options and other customized instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

Credit Default Swaps. The Funds sometimes invest in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value; or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination.

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. Credit default swaps can be used to implement Centerbridge’s view that a particular credit, or group of credits, will experience credit decline or improvement. In the case of expected credit improvement, a Fund may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of that Fund to make payments upon



the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. A Fund may “purchase” credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of Centerbridge, there is a high likelihood of credit deterioration.

The credit default swap market in high-yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views. In this regard, Centerbridge also may enter into credit default swap transactions, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Credit default swaps have been an area of regulatory focus and litigation both inside and outside the U.S. Rulemaking efforts and other proceedings have, to a large extent, centered on the potential use of such instruments for speculative purposes, the impact on companies and markets associated with the entry into credit default swaps in relation to which the buyer of protection does not own the underlying reference asset or assets, credit default swaps relating to sovereign debt and also the use of centralized clearing facilities for credit default swaps. Many jurisdictions have enacted permanent or temporary bans of certain credit default swaps. In addition, under Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd Frank Act”), for example, swaps, including credit default swaps, are now regulated by the CFTC and the SEC. It is difficult to predict the outcome of these regulatory and legislative efforts and their impact on the use of credit default swaps and the resulting impact on the marketplace if credit default swaps become unavailable as an investing or hedging technique.

ABS and MBS – General. The investment characteristics of ABS and MBS differ from traditional debt securities. Among the major differences are that returns are contingent on a pool of non-recourse assets instead of the operations of an operating company, interest and principal payments are made more frequently, usually monthly, and principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

ABS and MBS Subordinated Securities. Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying assets. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the risks and attributes typically associated with equity investments without certain of the benefits.



Commercial MBS. Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and / or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and / or specific industry segments; the solvency of the related tenants; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; terrorist threats and attacks and social unrest and civil disturbances. Most commercial mortgage loans underlying MBS are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and / or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

ABS. Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures. The Funds may invest either directly or indirectly, through CDOs (as defined below), in these and other types of ABS that may be developed in the future.

ABS present certain risks that are not presented by MBS. Primarily, ABS securities are often backed by unsecured receivables. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the



underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than mortgage loans. As with MBS, ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement. Structural and legal risks of ABS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), a court having jurisdiction over the proceeding could determine that, because of the degree to which cash flows on the assets of the issuing vehicle may have been commingled with cash flows on the originator's other assets (or similar reasons), (i) the assets of the issuing vehicle could be treated as never having been truly sold by the originator to the issuing vehicle and could be substantively consolidated with those of the originator, or (ii) the transfer of such assets to the issuer could be voided as a fraudulent transfer. The time and expense related to a challenge of such determinations also could result in losses and / or delayed cash flows.

RMBS. Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the related mortgaged property is located, the terms of the loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Structural features of RMBS may contribute to the impact of increased delinquencies and defaults and lower recoveries on the underlying mortgage pool. In particular, there may be a decline in the interest rate payable under those RMBS structured to limit interest payable to investors based on a weighted average coupon cap. Mortgage loans bearing interest at a higher rate will have a greater tendency to default than those



with lower mortgage rates. Such defaults will reduce the weighted average coupon of the underlying mortgage loans and accordingly the interest rate payable to investors in the related RMBS, including the Funds.

From late 2006 to 2012, delinquencies, defaults and foreclosures on residential mortgage loans increased and, although there have been indications that the real estate market in the United States stabilized in 2012, there can be no assurance that delinquencies, defaults and foreclosures will not continue to increase in the future. The increases were not limited to “subprime” mortgage loans, which are made to borrowers with impaired credit. Also affected were “Alt A” mortgage loans, which are made to borrowers often with limited documentation, and “prime” mortgage loans, which are made to borrowers with better credit who frequently provide full documentation. In addition to higher delinquency, default and foreclosure rates, loss severities on all types of residential mortgage loans increased due to declines in residential real estate values, resulting in reduced home equity. Nationwide home price appreciation rates were generally negative from 2007 to 2012, and despite recent indications of stability it is possible that they will be negative in the future. Higher loan-to-value ratios generally result in lower recoveries on foreclosure and an increase in loss severities above those that would have been realized had property values remained the same or continued to appreciate.

Another factor that most likely contributed to higher delinquency rates since late 2006 was an increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate to the rate computed in accordance with the applicable index and margin. Mortgage loans that provide for the payment of interest, but not principal, for a certain period also may result in higher delinquency rates when, following the interest-only period, the monthly payment with respect to each of these mortgage loans is increased in order to amortize the principal balance of the mortgage loan over the remaining term and to pay interest at the applicable mortgage interest rate. Market conditions from 2006 to 2012 impaired the ability of some borrowers to refinance or sell their residential properties, which also contributed to higher delinquency and default rates. In response to increased delinquencies and losses with respect to mortgage loans, many mortgage loan originators implemented more restrictive underwriting criteria for mortgage loans, resulting in reduced availability of refinancing alternatives for borrowers. The risk of reduced refinancing options will be exacerbated if prevailing mortgage interest rates increase from current levels. Home price depreciation experienced to date, and any further price depreciation, also may leave borrowers with insufficient equity in their homes to enable them to refinance. Borrowers who intend to sell their homes on or before the maturity of their mortgage loans often find that they cannot sell their property for an amount equal to or greater than the unpaid principal balance of their mortgage loans. While some mortgage loan originators and servicers have created or otherwise are participating in modification programs in order to assist borrowers with refinancing or otherwise meeting their payment obligations, not all borrowers will qualify for or will take advantage of these opportunities.



In response to these circumstances, federal, state and local authorities have enacted and continue to propose new legislation, rules and regulations relating to the origination, servicing and treatment of mortgage loans in default or in bankruptcy. These initiatives could result in delayed or reduced collections from mortgagors, limitations on the foreclosure process and generally increased servicing costs. Certain of these initiatives could also permit the servicer to take actions, such as with respect to the modification of mortgage loans, which might adversely affect the related RMBS, without any remedy or compensation to the holders of the RMBS.

In 2008, the Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) were placed into conservatorship by the Federal Housing Finance Agency (“FHFA”) due to the declining value of Fannie Mae and Freddie Mac securities and concerns that such companies did not have sufficient capital to offset losses resulting from the mortgage crisis. Historically, RMBS issued by Fannie Mae were guaranteed as to timely payment of principal and interest by Fannie Mae, and RMBS issued by Freddie Mac were guaranteed as to timely payment of interest and ultimate collection of principal by Freddie Mac. However, the agency RMBS guaranteed by Fannie Mae and Freddie Mac were not backed by the full faith and credit of the United States. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae and Freddie Mac and of any stockholder, officer or director of Fannie Mae and Freddie Mac with respect to Fannie Mae and Freddie Mac and the assets of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are continuing to operate as going concerns and each remains liable for its obligations, including guarantee obligations, associated with its RMBS. The FHFA has indicated that the conservatorship of each enterprise will end when the director of FHFA determines that FHFA’s plan to restore the enterprise to a safe and solvent condition has been completed. If FHFA, as conservator or receiver, were to transfer any such guaranty obligation to another party, holders of Fannie Mae or Freddie Mac MBS securities would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party. No assurance can be given that the United States government will continue to support Fannie Mae and Freddie Mac. In addition, the future for both Fannie Mae and Freddie Mac remains uncertain. Congress has recently considered proposals to reduce the United States government’s role in the mortgage market of both Fannie Mae and Freddie Mac, including proposals as to whether Fannie Mae and Freddie Mac should be nationalized, privatized, restructured or eliminated altogether. Should the federal government adopt any such proposal, the value of the RMBS issued by Fannie Mae and Freddie Mac would be impacted. Fannie Mae and Freddie Mac are also the subject of continuing legal actions and investigations, which may have an adverse effect on these entities. In addition, under the Federal Housing Finance Regulatory Reform Act of 2008 (“Reform Act”), the FHFA has the power in its capacity as conservator or receiver to repudiate any contract entered into by Fannie Mae or Freddie Mac prior to the appointment of FHFA as conservator or receiver if FHFA determines that the contract is burdensome and repudiation of the contract promotes the orderly administration of Fannie Mae’s or Freddie Mac’s affairs, as the case may be. FHFA has indicated that it has no intention to repudiate the guaranty obligations of Fannie Mae or Freddie Mac. However, in the event

that FHFA, as conservator or if it is later appointed as receiver for Fannie Mae or Freddie Mac, were to repudiate any such guaranty obligation, the conservatorship or receivership estate, as applicable, would be liable for actual direct compensatory damages in accordance with the provisions of the Reform Act. Any such liability could be satisfied only to the extent of Fannie Mae's or Freddie Mac's assets available for such purpose. In the event of repudiation, the payments of interest to holders of Fannie Mae or Freddie Mac RMBS would be reduced if payments on the mortgage loans represented in the mortgage loan groups related to such RMBS are not made by the borrowers or advanced by the servicer. Any actual direct compensatory damages for repudiating these guaranty obligations may not be sufficient to offset any shortfalls experienced by such RMBS holders. Further, in its capacity as conservator or receiver, FHFA has the right to transfer or sell any asset or liability of Fannie Mae or Freddie Mac without any approval, assignment or consent. Although FHFA has stated that it has no present intention to do so, if FHFA, as conservator or receiver, were to transfer any such guaranty obligation to another party, holders of Fannie Mae or Freddie Mac RMBS would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party. If any of the foregoing were to occur, the value of RMBS issued by Fannie Mae and Freddie Mac would be affected, and any decline in the value of RMBS issued by Fannie Mae and Freddie Mac may affect the value of RMBS in general. These adverse changes in market and credit conditions have in the past had, and may in the future have, the effect of depressing the market values of RMBS generally, impairing the cash flow performance of RMBS, and substantially reducing the liquidity of RMBS generally. If these conditions were to occur or be exacerbated at the time that the Funds had investments in RMBS or CDO Securities (as defined below) backed by a significant portion of RMBS, then the performance, marketability and overall market value of these investments (or synthetic securities of a Fund which reference such RMBS or CDO Securities backed by a significant portion of RMBS) and, therefore, the performance of the Funds as a whole, could be adversely affected.

Financial Regulatory Reforms and Proposed Regulations. In response to the financial crisis of the late 2000s, the United States Congress passed the Dodd-Frank Act, which was signed into law during the Obama administration on July 21, 2010. A discussion of various implications of the Dodd-Frank Act and associated regulations follows. In general, such regulations have had an adverse impact on liquidity, as various financial and other institutions have adjusted their businesses and will continue to make further adjustments in order to achieve compliance with existing and expected future regulatory changes. While such changes may create opportunities, the reduction in liquidity can give rise to associated risks, including volatility. The Dodd-Frank Act required the creation of new federal regulatory agencies, and granted additional authorities and responsibilities to existing regulatory agencies to identify and address emerging systemic risks posed by the activities of financial services firms. The Dodd-Frank Act also provides for enhanced regulation of derivatives and ABS / MBS offerings, and enhanced oversight of credit rating agencies. Additionally, the Dodd-Frank Act includes extensive changes to the laws regulating financial services firms, such as the creation of (i) the Consumer Financial Protection Bureau (the "CFPB") to regulate consumer financial products and



services and (ii) the Financial Stability Oversight Council (the “FSOC”) to identify, monitor and address emerging systemic risks posed by the activities of financial services firms and make recommendations to the Federal Reserve to alleviate those risks. The CFPB has sole rulemaking and interpretive authority under existing and future consumer financial services laws and supervisory, examination and enforcement authority over institutions subject to its jurisdiction. The FSOC has the authority to recommend heightened prudential standards for large, interconnected financial institutions and subject non-bank financial institutions that it deems to be “systemically important” to regulation by the Federal Reserve Board. The law also provides for enhanced regulation of derivatives and securitization transactions (including the addition of risk retention requirements, third-party due diligence disclosure requirements, expanded asset-level data requirements and new standards relating to eligibility of securities as “mortgage-related securities” under the Exchange Act), restrictions on executive compensation and enhanced oversight of credit rating agencies. In addition, the law provides for the elimination of prepayment penalties for mortgage loans and expanded consumer protection with respect to high-cost loans.

The CFPB, the U.S. Treasury Department, several regulatory bodies and state attorneys general have increased scrutiny of mortgage servicers and have imposed, or are seeking to impose, requirements on servicers to substantially revise their servicing practices, including the establishment of national servicing standards that would be applicable to all residential mortgage servicers. For example, such regulatory action may require servicers to make several enhancements to their servicing operations, including implementation of a single point of contact model for borrowers throughout the loss mitigation and foreclosure processes; adoption of measures designed to ensure that foreclosure activity is halted once a borrower has been approved for a modification unless the borrower fails to make payments under the modified loan; implementation of enhanced controls over third-party vendors that provide default servicing support services; and retention of an independent consultant to conduct a review of all foreclosure actions pending, or that have occurred within a specified period.

The Dodd-Frank Act also imposes a number of additional requirements on servicers of residential mortgage loans by amending certain existing provisions, adding new sections to existing legislation and increasing penalties for non-compliance therewith. Servicers of residential mortgage loans are subject to certain regulatory requirements that could result in increased servicing costs.

It is not yet entirely clear how the Dodd-Frank Act and its associated rules and regulations will impact the MBS market and mortgage lending generally. No assurance can be given that any new or proposed regulations, under the Dodd-Frank Act or elsewhere, will not have an adverse impact on the value of ABS or MBS or other instruments held by the Funds. The current regulatory environment in the United States may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act. Elements of the U.S. President’s legislative agenda are not yet fully known, but there has been some expectation that they would include certain deregulatory measures, including for the U.S. financial services industry. On February 3, 2017, the U.S. President



signed an executive order calling for the administration to review U.S. financial laws and regulations in order to determine their consistency with a set of core principles identified in the order. On June 12, 2017, the U.S. Department of the Treasury issued recommendations for streamlining banking regulation and changing key features of the Dodd-Frank Act (such as the Volcker Rule, capital and risk retention requirements, and the FSOC's powers) and other measures taken by regulators following the most recent financial crisis. Prospective investors should note that any significant changes in, among other things, banking and financial services regulation, including the regulation of the asset management industry, could have an adverse impact (possibly material) on the Funds and their activities.

The federal government, state and local governments, consumer advocacy groups and others have urged mortgage loan servicers to be aggressive in modifying mortgage loans to avoid foreclosure, and federal, state and local governmental authorities have enacted and proposed numerous laws, regulations and rules relating to mortgage loans generally, and foreclosure actions particularly. New laws, regulations and rules may provide new defenses to foreclosure, insulate the servicers from liability for modification of loans without regard to the terms of the pooling and servicing agreement or other servicing agreements underlying an RMBS, or result in limitations on upward adjustment of mortgage interest rates, reduced payments by borrowers, permanent forgiveness of debt, increased prepayments due to the availability of government-sponsored refinancing initiatives and / or increased reimbursable servicing expenses, all of which could result in delays and may result in reductions in the distributions to be made on RMBS.

Several courts and state and local governments and their elected or appointed officials also have taken unprecedented steps to slow the foreclosure process or prevent foreclosure altogether (including proposals to use eminent domain powers). Laws and regulations also have been enacted to the same effect. These laws, regulations and rules will result in delays in the foreclosure process, and may lead to reduced payments by borrowers or increased reimbursable servicing expenses. Investors in RMBS bear the risk that future regulatory and legal developments could result in losses on their RMBS. Such changes also could impact the Funds' investments in real estate-owned assets by limiting the options available for the ongoing management and disposition of such assets.

Collateralized Debt Obligations. The Funds sometimes invest in collateralized debt obligations ("CDOs") and similar structured debt products (collectively, "CDO Securities") including securities issued by CDOs that are structured, managed and / or advised by Centerbridge or its affiliates. CDO Securities in which a Fund invests will be backed by certain fixed income securities, such as ABS, CDO Securities, corporate leveraged loans, credit default swaps and other derivatives. CDO Securities are instruments representing interests in pools, the underlying asset classes of which include bonds, debentures, syndicated loans and private placement debt and are limited-recourse obligations of the issuer thereof payable solely from the underlying securities in the portfolio of such issuer. CDO Securities are subject to various risks including the following credit, liquidity, interest rate and other risks:



CDOs may invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the holder of the related CDO Securities to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry or region would subject the holder of the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry or region.

A Fund's investment in CDOs involves significant leverage. Leverage is embedded in all classes of a CDO other than the most senior tranche. While the leverage presents opportunities for increasing a Fund's total return, it has the effect of potentially increasing losses as well.

The value of the CDO Securities owned by the Funds generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

CDOs are subject to significant interest rate risk. Some of the CDO Collateral of an issuer of a CDO bears interest at a fixed rate, while the CDO Security typically bears interest at a floating rate. As a result, there could be a floating / fixed rate mismatch between such CDO Security and the CDO Collateral.

There are no restrictions on the credit quality of the investments of the Funds. CDO Securities in which the Funds may invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and / or principal. In general, the ratings of nationally recognized rating organizations represent the opinions of such agencies as to the quality of securities that they rate. Such ratings are relative and subjective; they are not guarantees of performance or absolute standards of credit quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

At times, the fixed income markets have in the past experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, a CDO may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of a Fund's portfolio, and may be difficult or impossible to hedge against.

Valuation of Investments. There is no established market for the interests in the Funds and there may not be any comparable companies for which public market valuations exist. Each Fund's investments will include securities or other financial instruments or obligations, including of the types described above and including instruments that are very thinly traded or for which no market exists and which may be



extremely difficult to value accurately. Although Centerbridge will determine the fair value of such investments based on various factors and generally will engage an independent third party to review such valuations, the valuation of such investments is inherently subjective and subject to increased risk that the information utilized to value the investment or to create price models may be inaccurate or subject to other errors. In addition, securities which Centerbridge believes are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and / or within the time frame Centerbridge anticipates. In particular, purchasing securities at prices which Centerbridge believes to be distressed or below fair value, even meaningfully so, is no guarantee that the price of such securities will not decline even further. Because of this significant uncertainty as to the valuation of illiquid investments, the values of such investments may not necessarily reflect the values that could actually be realized by the Funds. Under certain conditions a Fund may be forced to sell its investments at lower prices than it had expected to realize or defer – potentially for a considerable period of time – sales that it had planned to make. In addition, under limited circumstances, Centerbridge may not have access to all material information relevant to a valuation analysis with respect to an investment. As a result, the valuation of an investment (and as a result the valuation of the interests held by investors in the Fund), may be based on imperfect information and is subject to inherent uncertainties. The valuation of investments will affect the compensation payable to Centerbridge. As a result, the potential exists for Centerbridge to determine valuations that may be higher than the actual fair value of investments.



ITEM 9
DISCIPLINARY INFORMATION

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



ITEM 10
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

Centerbridge and its management persons are not currently registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

For purposes of the EU's AIFMD, Centerbridge would be deemed an Alternative Investment Fund Manager, but as of the date of this filing, Centerbridge has not filed or registered with any EU regulators for EU marketing activities. Accordingly, as of the date of this filing, Centerbridge does not actively engage in marketing in the EU; Centerbridge does, however, respond to EU reverse solicitation requests.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.

Centerbridge and its management persons are not registered as, and do not have any application pending to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities. Centerbridge currently relies on exemptions from registration as a commodity pool operator and / or commodity trading advisor.

C. Material Relationships or Arrangements with Industry Participants.

Centerbridge or its affiliates have received compensation and expect that in the future they will receive similar compensation in connection with financial transactions structured by Centerbridge or its affiliates (which does not include fees received by portfolio companies). Such compensation includes, for example, break-up and topping fees, monitoring and directors' fees, organization fees, set-up fees, consulting fees, management fees, closing and transaction fees and other similar fees. Such fees, generally (but with some exceptions as specified in a Fund's governing documents) reduce all or a portion of the Management Fees paid by the Funds, as discussed in Item 5.

D. Material Conflicts of Interest.

Centerbridge does not recommend or select any third-party investment advisers for its clients.

Portfolio companies of a Fund may be counterparties or participants in agreements, transactions or other arrangements with portfolio companies of another Fund or other Centerbridge affiliates that, although Centerbridge determines to be consistent with the requirements of such Funds' governing agreements, may not have otherwise been entered into but for the affiliation with Centerbridge, and which may involve fees and / or servicing payments to Centerbridge-affiliated entities that are not subject to Management



Fee reduction provisions. For example, portfolio companies held by one or more Funds have from time to time been selected by Centerbridge to perform certain services and functions, including, but not limited to, loan servicing and other functions, on behalf of one or more Funds and / or Centerbridge, and Centerbridge anticipates that similar arrangements sometimes will occur in the future. Such selections will be made on an arm's-length basis and subject to terms which Centerbridge has determined to be no less favorable to the relevant Fund(s) and / or Centerbridge than would be obtained in a transaction with an unaffiliated party.

In connection therewith, a portfolio company may spend a disproportionate amount of time providing services to a Fund that is not commensurate with such Fund's *pro rata* interest in the portfolio company or provide services to a Fund that has no interest in such portfolio company. For example, Centerbridge may, like other private equity firms, in the future cause companies to enter into agreements regarding group procurement, benefits management, data aggregation and management, technology development, purchase of title and / or other insurance policies (which, where applicable, may be pooled across portfolio companies and discounted due to scale) and other similar operational initiatives that may result in fees, commissions or similar payments and / or discounts being paid to Centerbridge, or a portfolio company, including related to a portion of the savings achieved by the portfolio company.

At times, including if unrelated officers of a portfolio company have not yet been appointed, Centerbridge will be negotiating and executing agreements between Centerbridge parties on the one hand and the portfolio company or its affiliates on the other hand, including management services agreements or similar agreements, which would entail a conflict of interest in relation to efforts to enter into terms that are arm's length. Among the measures Centerbridge uses to mitigate such conflicts is involving outside counsel to review and advise on such agreements and provide insights into commercially reasonable terms.

Additionally, Centerbridge may hold equity or other investments in companies or businesses (even if they are not "affiliates" of Centerbridge) that provide services to or otherwise contract with portfolio companies. In connection with such relationships, Centerbridge also may make referrals and / or introductions to portfolio companies (which may result in financial incentives (including additional equity ownership) and / or milestones benefitting Centerbridge that are tied or related to participation by portfolio companies). In the case of opportunities that Centerbridge has determined are not suitable for the Funds, Centerbridge may identify, to corporate platforms in which certain Funds invest and may have control, potential investors who could be contacted by such corporate platforms if it is believed that the opportunity may be of interest to such potential investors, which could result in such person making an investment with or through, or contracting for the services of, such corporate platforms on such terms as they determine to agree. The Funds and their investors will not share in any fees or economics accruing to Centerbridge as a result of these relationships and / or participation by portfolio companies.



Certain of the companies owned by the Funds are, or may become, during the course of the Funds' investment, involved in financial services and / or investment advisory activities, which may include status as broker-dealers, investment companies or other pooled investment vehicles or investment advisers, among other things.

Investors in the Funds sometimes seek a written agreement when subscribing for an interest in such Fund to clarify certain matters that arise from the particular facts and circumstances applicable to such investor. In such cases, it is not uncommon for a Fund or Centerbridge to enter into side letters or other similar agreements with a particular investor of a Fund with respect to such Fund without the approval or vote of any other investors of such Fund, which may have the effect of establishing rights under, altering or supplementing the terms of the governing documents of such Fund with respect to such investor in a manner more favorable to such investor than those applicable to other investors as more fully described in the confidential private placement memorandum for the applicable Fund. Any rights established, or any such altered or supplemented terms or other similar agreement with a particular investor will govern solely with respect to such investor notwithstanding any other provision of the applicable Fund's governing documents or any subscription agreement related thereto. It is also expected that Centerbridge will from time to time confirm factual matters to incoming investors, make statements of intent or expectation to such investors or acknowledge statements by such incoming investors that relate to a Fund and / or Centerbridge's activities pertaining thereto in one or more respects, and side letters or similar arrangements may include undertakings to make certain confirmations. Any such statements, confirmations, acknowledgments, agreements or undertakings are not rights or benefits that are subject to the "most favored nations" process or election by the investors in a Fund, and such investors generally will as a result not typically receive notice thereof or copies of the documentation (if any) in which they are contained. The matters of interest and importance to investors as to which they request disclosure can influence, where considered appropriate, the decisions made by Centerbridge in the management of the Funds.



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

A. Code of Ethics.

Centerbridge strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, Centerbridge has adopted a Code of Ethics (the “Code of Ethics”). The following set of principles from the Code of Ethics frames the professional and ethical conduct that Centerbridge expects from its personnel:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective investors, employers, employees, colleagues in the investment profession and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients and the interests of Centerbridge above one’s own personal interests;
- Adhere to the fundamental standard that personnel should not take inappropriate advantage of their position;
- Identify and manage conflicts of interest;
- Conduct all personal securities transactions in a manner consistent with the Personal Securities Trading Policy (as defined in the Code of Ethics);
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities;
- Devote sufficient time and attention to the proper execution of one’s professional responsibilities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect favorably on the employee and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve one’s professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

Clients and prospective clients may request a copy of the Code of Ethics by contacting Centerbridge at the address or telephone number listed on the first page of this document.



B. Securities in which Centerbridge or a Related Person Has a Material Financial Interest.

1. Cross Trades

Centerbridge disfavors cross trades; however, cross trades are not prohibited by the Funds' organizational documents. In the exceptional circumstance that Centerbridge were to undertake a cross trade between two Funds, such a transaction would be conducted in accordance with, and subject to, any applicable laws and Centerbridge's fiduciary obligations to each client. Situations may arise where it may be necessary or appropriate to transfer certain assets held by one or more Funds. For example, the governing documents of certain funds expressly contemplate periodic transactions between a fund and its parallel funds for the purpose of maintaining alignment of such funds, and it should be understood that such permitted transactions may occur as and when warranted, subject to the requirements of the applicable governing documents. In addition, we note that Centerbridge from time to time has restructured and may in the future restructure where appropriate the form of legal ownership of an investment, *e.g.*, from direct ownership to participation or indirect ownership through a shared subsidiary. Such restructuring is not intended to result in a change in the level of beneficial ownership. In addition, Centerbridge from time to time has caused and may in the future cause a Fund to enter into a back-to-back, contribution, indemnification or similar agreement with another Fund to ensure that each Fund assumes its *pro rata* share of any obligation, including in circumstances where they may share indirect ownership of an investment through a shared subsidiary.

2. Principal Transactions

Centerbridge also disfavors principal transactions. To the extent that cross trades or other transactions with a Fund are viewed as principal transactions due to the ownership interest in a client by Centerbridge or its personnel, Centerbridge would effect such transaction only if Centerbridge were to first determine that such trade is in the best interests of the affected Funds and then only in compliance with the requirements of Section 206(3) of the Advisers Act or similar applicable law, and the governing documents of the affected Funds, including obtaining any required informed consents.

C. Investing in Securities that Centerbridge or a Related Person Recommends to Clients.

The Code of Ethics places restrictions on personal trades by employees, including that employees pre-clear most types of personal securities transactions and that they disclose their personal securities holdings and transactions to Centerbridge on a periodic basis.

Centerbridge, its affiliates and its employees, sometimes are permitted to invest on behalf of themselves or through family investment vehicles or similar accounts that they control or as to which they are the primary beneficiary in securities and other



instruments that would be appropriate for, held by, or fall within the investment guidelines of clients, or may give advice or take action for their own accounts or through family investment vehicles or similar accounts that they control or as to which they are the primary beneficiary (including family offices, as described more fully in the Firm's ADV Part 2B) that may differ from or conflict with advice given or action taken for clients. These activities could adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also could arise due to the fact that Centerbridge and its personnel have investments in some Funds but not in others or have different levels of investments in and participation with respect to the various Funds.

Centerbridge has established policies and procedures designed to monitor and resolve or mitigate conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code of Ethics, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

D. Conflicts of Interest Created by Multiple Funds.

Centerbridge manages investments on behalf of a number of clients. Certain clients have investment programs that are similar or overlap and may, therefore, participate with each other in investments. For example, CPREF has an overlapping investment program with the Capital Partners Funds, particularly in respect of certain corporate platform real estate-related investments, and will have an overlapping investment program with the Credit Funds, particularly in respect of certain real estate-related investments that involve loans and securities. It is the policy of Centerbridge to allocate investment opportunities on a basis that Centerbridge believes in good faith to be fair and equitable and in accordance with applicable laws, rules and regulations and the provisions of any applicable operating agreements of the Funds, as well as disclosures provided to clients, and taking into account the considerations more fully described below. Allocation to a particular Fund is not based on the amount or structure of fees for such Fund.

In general, allocations of new investment opportunities will be made primarily on the basis of the following factors:

- The exclusivity, priority and other allocation requirements and lifecycle considerations pursuant to the applicable governing documents;
- A Fund's existing position in a particular security or issuer; and
- The net asset value or available capital (or liquidity) of the Funds for which such investment may be appropriate.

In addition, other factors as Centerbridge reasonably deems relevant generally are taken into account when determining an allocation, including, without



limitation, a Fund's investment objective, the nature and character of the investment (*e.g.*, control, non-control or real estate-related), policies and restrictions, guideline limitations and relevant risk considerations (including risk weighting considerations), tax or regulatory implications, anticipated position duration, the anticipated future size of the investment particularly for investments in platforms or other investments where scale is contemplated, offering or other limitations, eligibility criteria imposed by counterparties and other counterparty-imposed limitations.

The above-described clients managed by Centerbridge include closed-ended funds (which in certain cases have one or more successor funds), each with a designated investment period, harvest period and termination date, and funds that are open-ended. As noted above in this Item 11, among the reasons that allocations may not be made ratably among funds that pursue the same investment strategy are lifecycle and structural differences among the funds, which can impact the ability of a client to transact directly with counterparties. From time to time a fund in its harvest period will not add to a position or will reduce a position at a time when other funds that are actively investing do add to or maintain a position. In addition, for open-ended funds that retain cash, from time to time an investment opportunity will arise that Centerbridge determines is a suitable investment for such client and not other clients. Managing the ramp-up, investment and harvest process will from time to time result in allocations that are not ratable or arrangements with counterparties that involve one or more clients (or even the General Partner if a Fund is not yet effective) being a direct party to a transaction while others participate in such transaction through other arrangements – for example, participation or other sharing or “back-to-back” arrangements or allocations, or a subsequent transfer of interests to such participants – that are intended to apportion rights and obligations among others that also participate in such transaction in an effort to achieve parity among the participants. Even with such measures, differences can remain – for example, by virtue of each participant's unique profile (including its credit terms, credit quality and cost of capital). See also Item 11.B.1.

In certain circumstances, taking into account the investment programs and guidelines of the Funds and Centerbridge's views regarding whether the investment's characteristics make it appear to be suitable for more than one fund family, Centerbridge will allocate an investment to more than one Fund in the first instance or over time, for example, to the Capital Partners Funds and to the Credit Funds. Such allocations sometimes have occurred. Such determinations, including determinations as to the proportion in which such allocations occur, are made by Centerbridge in its good faith judgment, taking into account the facts and circumstances known to it and expectations, projections or predictions made at the time, all of which then-current assumptions may vary from how the investment ultimately evolves.

Centerbridge and its employees (on behalf of themselves or through family investment vehicles or similar accounts that they control or as to which they are the primary beneficiary) may purchase or sell securities on their own behalf, and (with respect to



Centerbridge) on behalf of certain Funds, which may differ from those purchased or sold for other Funds, even though their investment objectives may be the same or similar.

While Centerbridge has policies regarding these activities, it is possible that these activities could adversely affect the prices and availability of other securities or instruments held by or potentially considered for the Funds. Potential conflicts also could arise due to the fact that Centerbridge and its personnel may have investments in some Centerbridge funds but not in others or have different levels of investment in or participation with respect to the various funds.

Likewise, a Fund, for example, may make an investment at the same time that one or more of the other Funds is disposing of the same or a similar investment. The Funds may make an investment in a position which is already held by one or more of the other Funds or a position that is subordinated or senior to or otherwise adverse to a position held by one or more of the other Funds.

It is possible that the activities or strategies used for some of the Funds could conflict with the activities and strategies employed in managing the assets of other Funds and affect the prices and availability of the securities and instruments in which the Funds invest. It has at times been the case and may in the future be the case that certain Funds may invest in securities or instruments of publicly traded or private companies which are actual or potential investments of other Funds. The trading activities of one Fund may differ from or be inconsistent with activities which are undertaken for the account of another Fund in such securities or related securities. In addition, a Fund may not pursue an investment as a result of such investing or trading activities by other Funds. Additionally, if Centerbridge personnel serve on the board of directors (or other similar committees or bodies) of any company in which another Centerbridge investment fund has invested, then such Centerbridge personnel may have fiduciary duties or other similar obligations to such companies and / or their other respective constituents. While Centerbridge personnel would generally assume such positions in order to promote the interests of the Funds, Centerbridge may not be able to put the interests of the Funds ahead of the interests of such companies or constituents and / or it is possible that Centerbridge will be unable to take certain actions in respect of the Funds that it otherwise would have taken had such personnel not served in any such capacities. With respect to companies more generally, it is also possible that such companies (or subsidiaries thereof), or portfolio companies (or subsidiaries thereof) of a Fund engage in investing activities that are similar or related to the investing activities of other Funds. In such cases (and even in cases where a company engaged in an operating business is contemplating a strategic transaction), a Fund or Centerbridge may come into possession of material, non-public information or otherwise become bound by confidentiality, standstill or other obligations. While Centerbridge has policies in place to minimize these instances, it is possible that the activities of and information within a company may result in a Fund being required to forgo certain investment or divestment activity and may otherwise restrict the ability of such Fund to engage in certain activities that would not be prohibited but for such relationships.



For example, in a situation where a Fund invests in debt securities of a company in which other Funds hold or are contemporaneously acquiring equity securities, questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest. If additional capital is necessary as a result of financial or other difficulties, a Fund may or may not provide such additional capital as Centerbridge determines in its sole discretion. A Fund may have an interest in structuring debt securities and instruments that have financial terms (such as interest rates, repayment terms, seniority, covenants and events of default) that are more restrictive than the terms that other Funds would seek to negotiate. In addition, it is possible that in a bankruptcy proceeding the interest of a Fund may be subordinated or otherwise adversely affected by virtue of the other Funds' involvement and actions relating to their investment. In connection with negotiating loans and bank financings in respect of Centerbridge-sponsored private equity transactions, Centerbridge may obtain the right to participate on its own behalf (or on behalf of vehicles or accounts that it manages) in a portion of the loans or financings with respect to such Centerbridge-sponsored private equity transactions on an agreed-upon set of terms. In addition, certain Funds in some cases own a significant or controlling percentage of the common equity of portfolio companies, which, depending upon the amount of equity owned by them, any relevant contractual arrangements between such portfolio company and the participating Funds, and other relevant factual circumstances, could result in an extension to one year of the 90-day bankruptcy preference period with respect to payments made to the Funds and / or subordination of its claims to other creditors and / or recharacterization of debt claims into equity claims. Centerbridge will seek to resolve such conflicts of interest in a fair and equitable manner. Conflict resolution may result in a Fund receiving more or less consideration than such Fund may have otherwise received in the absence of such a conflict of interest.

Historical investments made by one or more Funds may result in future opportunities that are available to one or more other Funds, by virtue of, among other things, the nature of such opportunities, the Funds' respective investment programs and investment horizons, legal, tax and other similar considerations, regulatory changes and other unique circumstances. The research and diligence process applied to the sourcing and execution of one or more specific investments has benefits that can extend to other investments, while the associated expenses and other resources often arise or are applied at the time of the original investment. As noted above, Centerbridge makes determinations regarding the allocation of investment opportunities and the expenses and other resources applied to generate investment opportunities in its good faith judgment based on facts and circumstances considered to be relevant at the time such determinations are made.

In addition, in certain circumstances, taking into account the investment programs and guidelines of the Funds, the sourcing of the investment opportunity, fiduciary or other obligations to portfolio companies (which can arise, for example, due to board



service) and Centerbridge's views regarding whether the investment's characteristics make it potentially suitable for a particular portfolio company, Centerbridge may determine to first offer an investment opportunity to a portfolio company held by a Fund.

Certain Funds may get priority allocations in their core strategy if contemplated or not prohibited by the offering documents of the partially overlapping Funds.

While investment opportunities may be allocated among the Funds, investors in one Fund may have more favorable liquidity terms than investors in another Fund.

Centerbridge also from time to time offers co-investments to third-party investors, based on, among other factors determined by Centerbridge in good faith, strategic reasons, as further described in Item 4.

Please also refer to the discussion of expense allocations in Item 4, Part B.



ITEM 12 BROKERAGE PRACTICES

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.

As noted previously, Centerbridge has full discretionary authority to manage the Funds, including authority to make decisions with respect to which investments are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. Centerbridge's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

Portfolio transactions for the Funds are allocated to brokers and dealers on the basis of seeking best execution and in consideration of Centerbridge's assessment of factors such as such broker's or dealer's ability to effect such transactions, and its resources, responsiveness and reliability, market or product knowledge, market standing, integrity and financial responsibility. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged to the Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers.

1. Research and Other Soft Dollar Benefits

As a matter of general policy, Centerbridge does not participate in soft dollar arrangements, although the U.S. office of Centerbridge, from time to time, receives research prepared by broker-dealers and circulated by such broker-dealers to their clients.

With the implementation of the Markets in Financial Instruments Directive (2004/39/EC) ("MiFID II") in January 2018, the Sub-Advisor pays directly for any products deemed to be "investment research" pursuant to MiFID II, although in the future the Sub-Advisor may determine to use a research payment account for this purpose as permitted by MiFID II.

2. Brokerage for Client Referrals

Broker-dealer selection for trade order execution is a function of the best execution considerations described in this Item 12. In relation to trade order execution, Centerbridge has no active engagement with any broker-dealer providing for the payment of fees in consideration for client referrals or recommending any specific broker to clients.

At such times as Centerbridge engages a placement agent registered as a broker-dealer for the purpose of assisting with fundraising activities, such placement agent would receive compensation in connection with such engagement, which is unrelated to the trade order execution activities of the Funds. See Item 14.B.



3. Directed Brokerage

Centerbridge does not recommend, request or require that a client direct Centerbridge to execute transactions through a specified broker-dealer.

B. Order Aggregation.

In some circumstances, it will be appropriate for Centerbridge to buy or sell an investment on behalf of more than one client account for which the transaction is allocable at one time or over a period of time, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one client cannot be fully executed under prevailing market conditions, securities may be allocated among the different clients on a basis which Centerbridge considers equitable. As a general matter, Centerbridge believes that the aggregation of orders for multiple advisory clients is consistent with its duty to seek best execution for its clients. Aggregation of trades facilitates more efficient and less costly execution by enabling Centerbridge to negotiate transactions on a consolidated basis rather than dealing with multiple smaller lots in investment types that normally trade in significant and / or pre-set blocks.



ITEM 13 REVIEW OF ACCOUNTS

A. Frequency and Nature of Review of Client Accounts or Financial Plans.

Centerbridge performs various daily, weekly, monthly, quarterly and periodic investment monitoring reviews of each client's investment portfolio. Such reviews are conducted by Centerbridge's investment professionals together with members of other teams.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review.

Portfolio management is a dynamic process. The frequency of reviews of client account portfolios is a function of facts and circumstances, which can include, for example, market or economic conditions, conditions affecting a particular issuer and Centerbridge's general views about various opportunities and risks that may be relevant to the portfolio or a particular position at a given point in time. Accordingly, evaluation of the portfolio happens on a periodic as well as a non-periodic basis as believed warranted by Centerbridge taking into account circumstances such as those noted above.

C. Content and Frequency of Account Reports to Investors.

Centerbridge provides annual audited financial statements to the Funds' investors no later than 90 to 120 days after the applicable Fund's fiscal year end, as required by the governing documents of the Fund and consistent with the Custody Rule (as defined in Item 15).

Investors in the Funds receive periodic update letters from Centerbridge with commentary, although Centerbridge provides, in certain circumstances, certain investors with information on a more frequent and detailed basis if agreed to by Centerbridge, including in response to specific due diligence requests made by one or more investors or their representatives. Investors and prospective investors have unique due diligence needs and requirements. The information furnished in response to requests varies based on the nature of, and confidentiality considerations relating to, the information requested. Similarly, not all investors monitor their investments in vehicles such as the Funds in the same manner. For example, certain investors may periodically request from Centerbridge information regarding the Funds and investments and / or portfolio companies that is not otherwise or is yet to be set forth in the reporting and other information delivered to investors generally. When receiving specific questions or information requests from investors, prospective investors or their representatives, Centerbridge does not make such questions, requests or the responses thereto available to persons other than the requesting parties.

In addition, investors in the Funds structured as closed-end vehicles are invited to attend annual meetings regarding the applicable Fund. Information also is available through the Funds' password-protected website. Centerbridge endeavors to make



matters that Centerbridge considers to be of general significance to investors available to investors generally and to ensure that information furnished in response to due diligence requests is generally consistent; however, to the extent an investor receives information that other investors have not received, which is in addition to information provided in a Fund's or Centerbridge's regular reports to investors, such information may provide such investor with greater insight into the Fund's and Centerbridge's activities. This may enhance such investor's ability to make investment decisions with respect to a Fund and possibly, with respect to the Credit Partners Funds, affect such investor's decision to request a redemption from the Fund. Conversely, investors who are "friends and family" investors have agreed that they will receive more limited information.

Centerbridge encourages all investors and prospective investors to make such due diligence requests as they consider appropriate.



ITEM 14
CLIENT REFERRALS AND OTHER COMPENSATION

A. Economic Benefits for Providing Services to Clients.

Centerbridge does not receive economic benefits from non-clients for providing investment advice and other advisory services to its clients.

B. Compensation to Non-Supervised Persons for Client Referrals.

For certain Funds raised early in Centerbridge's history, Centerbridge has engaged placement agents, and from time to time, for certain closed-end Funds that are to be raised, or for certain first-time Funds (as was the case, for example, with the Real Estate Fund), Centerbridge may enter into a placement agreement pursuant to which a placement agent would receive fees (which placement agent fees offset the Management Fee paid or payable by the applicable client) in consideration for introducing investors to the Funds.

Certain jurisdictions mandate the use of placement agents or licensed persons in order to market funds to investors in such jurisdictions, and in such circumstance engaging a placement agent could become necessary or advisable, and an offset of the Management Fee would not necessarily apply.



ITEM 15 CUSTODY

Centerbridge is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to clients are sent by qualified custodians to Centerbridge.

Centerbridge is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule") and satisfies its Custody Rule obligations with respect to each Fund by either: (i) complying with the provisions of the so-called "Pooled Vehicle Annual Audit Exception" with respect to such Fund, which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days after the end of its fiscal year or (ii) complying with the requirements related to quarterly delivery of account statements and annual independent verification, and any other applicable requirements of the Custody Rule with respect to such Fund. The independent public accountants confirm such independence through their audit reports that accompany the audited financial statements of the Funds, and through analyses provided to Centerbridge confirming their determinations with respect to independence that Centerbridge itself relies upon when making its own determination as to auditor independence and related Custody Rule compliance.



ITEM 16
INVESTMENT DISCRETION

Centerbridge serves as the management company with discretionary trading authority for each Fund.

Centerbridge's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as described in its offering documents.

Centerbridge or an affiliate of Centerbridge entered into an investment management agreement, or similar arrangement, with each Fund, pursuant to which Centerbridge or an affiliate of Centerbridge was granted discretionary trading authority. In addition, the Sub-Advisor has entered into sub-advisory agreements with the Advisors pursuant to which the Sub-Advisor serves as sub-advisor to the Funds.



ITEM 17

VOTING CLIENT SECURITIES

A. Policies and Procedures Relating to Voting Client Securities.

In compliance with Advisers Act Rule 206(4)-6, Centerbridge has adopted a proxy voting policy and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, “Proxies”) in a way Centerbridge believes, consistent with its fiduciary duty, will cause the value of the issue to increase the most or decline the least.

Centerbridge’s general practice is to vote consistently for all Funds offered the opportunity to vote. In certain circumstances, Centerbridge may refrain from voting Proxies where Centerbridge believes that abstaining from voting would be in the applicable Fund’s best interest and / or where Centerbridge believes abstention is appropriate to address potential conflicts of interest, as more fully discussed below.

Conflicts of interest may arise between the interests of the clients on the one hand and Centerbridge or its affiliates on the other hand. If Centerbridge determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, Centerbridge will either (i) use an independent, third-party service to vote the proxy on behalf of the affected Fund(s), (ii) disclose the conflict of interest to the investors in such Fund(s) and obtain their consent to vote the proxy in accordance with Centerbridge’s policy or (iii) employ an alternative method of addressing the identified conflict of interest (which can include refraining from voting, as discussed above).

A copy of Centerbridge’s Proxy voting policy is available through the Funds’ password-protected website. In addition, clients may obtain a copy of Centerbridge’s Proxy voting policy and its Proxy voting record upon request.



ITEM 18
FINANCIAL INFORMATION

Centerbridge is not required to include a balance sheet for its most recent fiscal year (see Item 5(A)), is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past 10 years.