

# **NAPIER PARK GLOBAL CAPITAL LTD**

**FORM ADV PART 2A – DISCLOSURE BROCHURE**

**March 28, 2019**

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**This brochure provides information about the qualifications and business practices of Napier Park Global Capital Ltd. If you have any questions about the contents of this brochure, please contact us at +44 20 7866 4772. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Napier Park Global Capital Ltd. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Napier Park Global Capital Ltd. is an SEC-registered investment adviser. Being a registered investment adviser does not imply a certain level of skill or training.**



## **Item 2 Material Changes**

**This Item 2 includes only material changes since the last annual update of this Brochure. The last brochure was dated March 28, 2019.**

No other material changes to report.

Additional information about Napier Park, including a full copy of its current brochure, also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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#### **Item 4 Advisory Business**

Napier Park Global Capital Ltd. is a wholly-owned subsidiary of Napier Park Global Capital LP. Napier Park employees own 100% of the voting equity of Napier Park Global Capital LP and a third party strategic partner holds a small revenue share interests in a non-voting and non-controlling capacity. Napier Park is authorized and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom. Napier Park provides advisory services and investment advice to private investment companies including hedge funds (together “Funds” and each a “Fund”). Napier Park also provides advisory services and investment advice on a discretionary or non-discretionary basis to separately managed accounts (together “Managed Accounts” and each a “Managed Account”; Managed Accounts together with Funds, “Investment Vehicles”). Investors in these Investment Vehicles include institutional investors, funds of funds, pension plans and state, municipal and governmental entities.

A number of fixed income strategies may operate through Napier Park or its affiliates. At present Napier Park provides investment management services for the Investment Vehicles described below.

#### ***Services Provided***

Currently, the European credit team (the “ECT”) is the only strategy within Napier Park. The ECT focuses on European corporate credit, managing fixed income investments in European loans, bonds and structured credit for Investment Vehicles. In the future, Napier Park may manage a range of fixed income products with varying degrees of risk, return and diversification profiles (including hedge funds and separate accounts) with the ability to customize solutions.

Napier Park uses an integrated product development, investment management, risk, operations and technology platform that draws upon professionals who have experience in investments, research, structured finance, liability management, risk analytics, client servicing, operations, technology, legal and accounting.

#### **Funds**

Napier Park manages Funds on a discretionary basis, employing the strategy and infrastructure described above.

#### **Managed Accounts**

Napier Park provides investment advice to separately Managed Accounts. The Managed Accounts may be managed on a fully discretionary basis (“Discretionary Managed Accounts”) or a non-discretionary basis (“Non-Discretionary Managed Accounts”).

With respect to a Discretionary Managed Account, Napier Park and its affiliates enter into an advisory agreement with the client pursuant to which Napier Park constructs and manages, on a discretionary basis, the Discretionary Managed Account. With respect to a Non-Discretionary Managed Account, Napier Park and its affiliates enter into an advisory agreement with a client pursuant to which Napier Park provides investment advice relating to private investment funds and

constructs, on a non-discretionary basis, the Non-Discretionary Managed Account's portfolio. Individual agreements may provide for other services to be provided by Napier Park which may include: overall allocation advice, due diligence services, certain account consolidation, analytical and reporting services and certain administrative services. Affiliates or third parties may be retained by the Managed Account clients or Napier Park to provide administrative, custodial or other services to the Managed Accounts.

In constructing a Managed Account portfolio, Napier Park first considers and assesses the Managed Account client's financial goals, investment objectives, investment time horizon, and investment preferences. Napier Park expects that, in most cases, Managed Accounts will follow strategies similar to the Funds it advises, as described above. See Item 8 "Methods of Analysis."

### ***Particular Investment Restrictions***

Individual investors in the Funds are not consulted in the design or implementation of such Fund's investment programs. Each Fund's account documentation describes that Fund's investment program.

With respect to Managed Accounts, each advisory agreement and the related account documentation specifies the particular investment program and any related investment restrictions. Generally, each Managed Account is customized to reflect a particular client's investor profile.

### ***Assets under Management***

As of December 31, 2018, Napier Park had approximately \$1 billion in discretionary regulatory assets under management based on December 31, 2018 gross assets under management as reflected on the balance sheet.

## **Item 5 Fees and Compensation**

Napier Park offers discretionary and non-discretionary investment management and advisory fees for a percentage of assets under management or fees based on performance as described below and in Item 6. Fees may differ based upon a number of factors, including without limitation, overall fee arrangements, account complexity and size, assets under management and the terms of the various Napier Park Funds. Fees for certain of Napier Park Funds may be waived, reduced or calculated differently with respect to certain investors, including Napier Park employees or affiliates, at the discretion of Napier Park as permitted by the Napier Park Fund's offering documentation and organizational documents.

Napier Park may in the future charge other types of fees and use different fee structures, including variations of performance or incentive fee and allocations. Napier Park may share a portion of such fees with certain placement, sales or referral agents.

Napier Park's fee schedule is available upon request.

## ***Fees Charged***

### **Funds**

The Funds pay Napier Park a management fee and, in certain cases, an incentive fee or incentive allocation (if earned). Fees earned with respect to a Fund may compensate Napier Park or its affiliates for the provision of certain ancillary services, the responsibility for all or a portion of which may be subcontracted to other parties. The amount of fees to be paid by a Fund is set forth in the offering materials for that Fund.

### **Managed Accounts**

The investment advisory agreement and account documentation relating to each Managed Account specifies the fees payable to Napier Park. Such fees may include management fees and incentive fees. Napier Park may share a portion of such fees with certain sales or referral agents.

Napier Park or its affiliates may provide certain administrative services related to the support of the Managed Accounts for fees.

### ***Method of Payment of Fees***

The Funds pay management and incentive fees at such times and in such manner specified in their respective documentation. Such fees will be deducted from the relevant Fund and reflected in an investor's net asset value per share or capital account, as applicable.

Management fees and incentive fees in respect of any Managed Account are paid as set out in the respective documentation for the relevant Managed Account and may be customized.

### ***Additional Compensation Received by Affiliates***

Affiliates of Napier Park may have relationships with, and provide certain services to, an Investment Vehicle for which Napier Park receives compensation.

### ***Additional Fees and Expenses***

As described in more detail in its respective offering or account documentation, each Investment Vehicle bears its organizational and initial offering expenses and its operating and other expenses, which may include, but is not limited to, direct investment-related expenses (e.g., custodial fees, interest expense, consulting and other professional fees relating to particular investments), reporting and legal expenses, accounting, audit and tax preparation expenses, ongoing expenses relating to the offering and sale of interests in such Investment Vehicle (e.g. market data and research) administrative expenses, remuneration to directors or managing members, as applicable, insurance, administrator fees, liability insurance premiums, compliance expenses incurred by Napier Park or its affiliates in connection with its services to Investment Vehicles (which include but is not limited to Form PF, Form CPO-PQR and AIFMD Annex IV reports (as applicable), fees and expenses incurred by Napier Park or its affiliates in connection with its services to an Investment Vehicle, fees and expenses relating to software tools, programs or other technology

utilized in managing Investment Vehicles (including, without limitation, third party software licensing, implementation, data management and recovery services and custom development cost); research and market data (including Bloomberg market data, Intex, any connectivity hardware incorporated into the costs of obtaining such research and market data, indemnification expense any extraordinary expenses and other similar expenses related to such Investment Vehicle.

As described in more detail in each client's advisory agreement and related account documentation, each Managed Account client may incur other costs and charges in certain circumstances (for example where individual securities are held in the Managed Account).

### ***Compensation of Napier Park Personnel***

Napier Park's personnel or supervised persons do not receive commissions tied directly to the sale of any particular securities or other investment products advised by Napier Park in the form of asset-based sales or services fees.

### ***Payment of Fees in Advance and Arrears***

All fees currently payable to Napier Park with respect to Funds are payable in arrears. Fees for Managed Accounts are generally payable in arrears as specified in such Managed Account's relevant documentation.

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

Napier Park and its affiliates receive performance-based fees from certain Investment Vehicles. Any performance fees charged by Napier Park will comply with the requirements of Section 205 of the Investment Advisers Act of 1940 (the "Advisers Act") and all applicable rules thereunder. Performance-based fees may create an incentive for Napier Park to make investments on behalf of Investment Vehicles that are riskier or more speculative than would be the case if Napier Park did not receive a performance-based fee, or for Napier Park to direct investments in favor of Investment Vehicles paying performance-based fees over those without such fees. Please refer to Item 11 "Code of Ethics Participation in Client Transactions and Personal Trading" and Item 12 "Brokerage Practices" for a discussion of conflict management procedures, incentive compensation arrangements, managerial review and oversight and allocation policies applicable to Napier Park, all of which are intended to mitigate conflicts. Investment Vehicles are also charged fixed fees, including asset-based fees.

## **Item 7 Types of Clients**

Napier Park provides investment advice to Investment Vehicles which consist of funds, managed accounts and other investment entities. However, the ultimate investors in Investment Vehicles advised by Napier Park typically are institutional investors, funds of funds, pension plans, and state, municipal and governmental entities.



### Funds

Ultimate investors in each Fund are required to make a minimum capital commitment generally ranging between \$250,000 and \$10,000,000 depending on the product. The minimum for a specific Fund will be set forth in the offering materials for that Fund.

### Managed Accounts

With respect to Managed Accounts, the clients are the holders of the Managed Accounts. Napier Park expects that such clients may include individuals, trusts, institutions, investment funds and pension plans. Napier Park generally requires a minimum investment of \$50 million for both Discretionary Managed Accounts and Non-Discretionary Managed Accounts.

At its discretion, Napier Park may accept lower capital commitments from an investor in a Managed Account operated through Napier Park.

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

### ***Investment Strategy and Method of Analysis***

The following statements in relation to Napier Park apply in respect of the ECT which manages Napier Park's European credit strategies, focusing on European corporate credit.

ECT manages two strategies within its European credit strategies as described further below. One investment strategy is to invest opportunistically in European corporate credit-related instruments including, but not limited to, investment grade and high yield bonds, leveraged loans and collateralized loan obligation ("CLO") tranches. It may also invest in post-reorganization equity or equity-like instruments that result from or are related to a corporate restructuring.

ECT's second strategy is to invest opportunistically in credit assets acquired in primary and secondary markets ("Collateral Obligations") (e.g. debt obligations in the form of senior, mezzanine and second lien loans, high yields bonds, floating rate notes and similar credit assets), CLO securities, investments in CLO warehouse facilities by way of debt and/or equity and other investments facilitating an Investment Vehicle's ability to make investments in subordinated tranche securities that are (i) European CLOs which have been established by the Napier Park and the Investment Vehicle in connection with a collateral manager ("Retention CLO") and investment in other European CLOs where Napier Park and the Investment Vehicle on its own or together with other Napier Park funds, special purposes vehicles, or other vehicles managed by Napier Park or one of its affiliates ("Napier Vehicles") holds at least a controlling stake in such CLO ("CLO Investments"), including financing provided to collateral managers to purchase retention securities for a particular CLO ("Retention Financing"), but excluding CLO Investments.

The ECT takes a value-oriented approach to investing and seeks current income and capital appreciation by investing principally in obligations of corporate issuers facing operational or financial difficulties, as well as obligations of corporate issuers that present inherent value through mergers, acquisitions, divestitures, and other event-driven opportunities. The ECT makes investments that it considers will generate current income and capital appreciation based on a

perceived difference in the prices available in the financial markets for a corporation's obligations and their inherent underlying economic value.

The ECT intends to engage in short sales and various transactions in derivatives either as hedges of its investment portfolio or as individual investments. The ECT may also affect short sales and derivative transactions in situations where investments are overvalued and have a high probability of declining in value. In addition, the ECT may use derivatives as a substitute for actual long or short positions.

The ECT will seek to hedge, in whole or in part, the currency exposure resulting from the purchase of obligations denominated in a currency other than Euro through spot, forward, option or swap transactions in situations where it considers it both possible and economical to do so.

### ***Investment Strategy Risks***

Investments made in Investment Vehicles advised by Napier Park involve significant risks. Prospective investors in such Investment Vehicles should carefully consider, among other factors, the risks described below. Such risk factors are not meant to be an exhaustive list of all potential risks associated with these investments and not all risks may be applicable to a particular investment. Prospective investors in Investment Vehicles advised by Napier Park should carefully review the relevant offering and governing documents and any other documents relating to the applicable Investment Vehicle received prior to making an investment in the Investment Vehicle and pay particular attention to the risk factors contained within those documents.

Investors should have the financial ability and willingness to accept the risks of their particular investments. There can be no assurance that Napier Park will be able to achieve its investment objectives or that investors will receive a return of their capital. Investing involves significant risks, including potential loss of the entire investment.

Investment Vehicles advised by Napier Park may be subject to the following risks, among others.

### **Investment Objective and Investment Strategy**

There can be no assurance that an Investment Vehicle will achieve its investment objective and investment results may vary over time.

The investment strategy of an Investment Vehicle may be broad and involve the making of investments in a wide range of markets and instruments. An Investment Vehicle may trade in diverse and complex strategies that are affected in different ways and at different times by changing market conditions, which may result in a volatile return profile and potential losses. Asset classes or instruments may at times be out of market favor for considerable periods, creating adverse consequences for a portfolio, which may prompt an Investment Vehicle to change its strategy. In certain instances, anticipated catalysts (such as extraordinary corporate actions) may fail to materialize as expected, which could cause losses on an issuer's securities. Due to the nature of a particular investment strategy, the portfolio of an Investment Vehicle may experience

significant price volatility. Investors should expect that any investment in an Investment Vehicle may experience significant volatility in returns.

### *Concentration of Investments*

Investment Vehicles may hold relatively few investments at any given time and may at certain times also hold substantial amounts of cash or cash equivalents. An Investment Vehicle could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected, including by reason of a default of the issuer or of the collateral supporting a particular investment.

### *Short Selling*

Short selling involves trading on margin and accordingly can involve greater risk than investments based on a long position. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no guarantee that securities necessary to cover a short position will be available for purchase.

### *Undervalued Securities*

The Investment Vehicles may invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there can be no assurance that such opportunities will be successfully recognized. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from an Investment Vehicle's investments may not adequately compensate for the business and financial risks assumed.

An Investment Vehicle may make certain speculative investments in securities which Napier Park believes to be undervalued; however, there can be no assurance that the securities purchased will in fact be undervalued or that they will increase in value. In addition, an Investment Vehicle may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of an Investment Vehicle's capital would be committed to the securities purchased, thus possibly preventing the Investment Vehicle from investing in other opportunities. In addition, an Investment Vehicle may finance such purchases with borrowed funds and, in that case, would have to pay interest on such funds during such waiting period.

### ***Certain Financial Instrument Risk***

#### *Debt Securities*

An Investment Vehicle may invest in debt securities that are unrated or below investment grade. Such debt securities are subject to greater risk of loss of principal and interest than retail or higher-rated debt securities. An Investment Vehicle may invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. An Investment Vehicle may invest in debt

securities which are not protected by financial covenants or limitations on additional indebtedness. Such Investment Vehicles, therefore, will be subject to credit, liquidity and interest rate risks. In addition, evaluating credit risk for debt securities of issuers in some jurisdictions involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult.

*Collateral and security arrangements attached to an investment may not have been properly created or perfected, or may be subject to other legal or regulatory restrictions*

The collateral and security arrangements in relation to secured obligations in which an Investment Vehicle may invest (and the security arrangements relating to the underlying assets of CLOs) will be subject to such security or collateral having been correctly created and perfected and any applicable legal or regulatory requirements which may restrict the giving of collateral or security by an obligor, such as, for example, thin capitalisation, over-indebtedness, financial assistance and corporate benefit requirements. If the investments do not benefit from the expected collateral or security arrangements, this may adversely affect the value of, or in the event of a default, the recovery of principal or interest from, such investments. Accordingly, any such failure properly to create or perfect collateral and security interests attaching to the investments may adversely affect the performance of the CLO and/or an Investment Vehicle and, by extension, the Issuer's performance and valuation and the return on the Notes.

*CLOs are volatile and interest and principal payments payable on the CLOs are not fixed*

CLO securities purchased by an Investment Vehicle may constitute the most subordinated tranche of a CLO and all payments of principal and interest on such CLOs are fully subordinated. Interest and principal payments are not fixed but are based on residual amounts available to make such payments. As a result, payments on CLOs will be made by the CLO to the extent of available funds, and no payments thereon will be made until amongst other things (a) the payment of certain costs, fees and expenses have been made and (b) interest and principal (respectively) has been paid on more senior notes of the CLO. Non-payment of interest or principal on the more subordinated tranches of CLOs will be unlikely to cause an event of default in relation to the CLO.

CLOs represent a highly leveraged investment in the underlying assets of the CLO. Accordingly, it is expected that changes in the market value of such CLOs will be greater than changes in the market value of the underlying assets of the CLO, which themselves are subject to credit, liquidity, interest rate and other risks. Utilisation of leverage is a speculative investment technique and involves certain risks to investors and will generally magnify the CLO investors' opportunities for gain and risk of loss. In certain scenarios, CLOs may be subject to a partial or a 100 percent loss of invested capital. As CLO securities purchased by an Investment Vehicle may represent the most subordinated securities in a leveraged capital structure, any deterioration in performance of the asset portfolio of such a CLO, including defaults and losses, a reduction of realised yield or other factors, will be borne first by holders of such CLO securities prior to the rest of the capital structure. Accordingly, there will be an adverse effect on the performance of the CLO and/or an Investment Vehicle and, by extension, the performance and return on the Notes.

### CLOs are a limited recourse obligation

CLOs are a limited recourse obligation and amounts payable on CLOs are payable solely from amounts received in respect of the collateral of the CLO. Payments on a CLO prior to and following enforcement of the security over the collateral of a CLO are subordinated to the prior payment of certain costs, fees and expenses of, or payable by, the CLO and, if the investment is a subordinated tranche, to payment of principal and interest on more senior notes of the CLO. The holders of CLOs must rely solely on distributions on the collateral of the CLO for payment of principal and interest, if any, on CLO securities. There can be no assurance that the distributions on the collateral of a CLO will be sufficient to make payments on such CLO. If distributions are insufficient to make payments on the CLO, no other assets of the CLO will be available for payment of the deficiency and following realisation of the collateral and the application of the proceeds thereof, the obligations of the CLO to pay such deficiency shall be extinguished. Such shortfall will be borne in the first instance by the most subordinated tranche of any CLO securities.

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

### CLO securities have limited liquidity

There is no guarantee that any party to a CLO transaction will make a secondary market in relation to the CLOs. There can be no assurance that a secondary market for any CLO will develop or, if a secondary market does develop, that it will provide the holders of CLO securities with liquidity of investment or that it will continue for the life of such notes. As a result, an Investment Vehicle may have to hold such CLO securities for an indefinite period of time or until their early redemption date or maturity date. Where a market does exist, to the extent that an investor wants to sell the CLO securities, the price may, or may not, be at a discount from the outstanding principal amount. There may be additional restrictions on divestment in the terms and conditions of CLOs.

### The Controlling Stake holding of CLOs may be affected by a situation outside of an Investment Vehicle's control

An Investment Vehicle intends to, along with the Napier Vehicles, hold the controlling stake in certain CLO Investments. However, an Investment Vehicle has no control over the actions of the Napier Vehicles and an Investment Vehicle and the Napier Vehicles may hold less than the Controlling Stake in CLO Investments where, for example, certain Napier Vehicles decide to sell CLO Investments which form part of such Controlling Stake.

By holding less than the controlling stake in CLO Investments, an Investment Vehicle may lose its ability to exercise certain rights that are available to investors of such CLO Investments only

where a certain percentage of investors vote in favour of exercising such rights, for example the ability to exercise an optional redemption of the CLO.

*An Investment Vehicle will be unable to liquidate, sell, hedge or otherwise mitigate its credit risk under or associated with the CLO Retention Investments until such time as the securities of the relevant Retention CLO have been redeemed in full*

The Retention CLOs are intended to be compliant with the EU Retention Requirements. In connection with this intention, an Investment Vehicle will be required to, amongst other things, (a) on the closing date of a CLO, commit to purchase the portion of a Retention CLO required to comply with the EU Retention Requirements and (b) undertake that, for so long as any securities of the CLO remain outstanding (including the CLO Retention Investments), it will retain its interest in such CLO Retention Investments and will not (except to the extent permitted by the EU Retention Requirements) sell, hedge or otherwise mitigate its credit risk under or associated with such CLO Retention Investments. An Investment Vehicle may make certain representations and/or give certain undertakings in favour of Retention CLOs (and/or certain other transaction parties) in respect of its ongoing retention of the CLO Retention Investments and regarding its agreement to sell certain assets to such Retention CLO from time to time.

There are currently transactions in the market which are similar to the Retention CLOs, however if an applicable regulatory authority supervising investors in a Retention CLO were to conclude that an Investment Vehicle was not holding the CLO Retention Investments in accordance with the EU Retention Requirements, this may negatively impact upon the investors in such Retention CLO. If such investors decided to take action against an Investment Vehicle as a result of any negative impact, this may have an adverse effect on an Investment Vehicle's business and financial position and, by extension, may have an adverse effect on the Issuer's financial performance and prospects.

In addition, with the intention of achieving classification as an "originator" and complying with the EU Retention Requirements, an Investment Vehicle will: (a) establish the relevant CLO; (b) sell investments to the relevant CLO which it has (i) purchased for its own account initially; or (ii) itself or through related entities, directly or indirectly, been involved in the original agreement which created such obligations; and (c) during each relevant CLO's reinvestment period agreeing to sell investments to the relevant CLO from time to time so as to ensure that over 50 percent of the total securitised exposures held by the Retention CLO have come from an Investment Vehicle (such percentage calculated including the principal proceeds received by the relevant CLO in respect of any an Investment Vehicle sourced assets).

As a result of the above, an Investment Vehicle will be unable to liquidate, sell, hedge or otherwise mitigate its credit risk under or associated with the CLO Retention Investments required to be held to comply with the EU Retention Requirements until such time as the securities of the relevant Retention CLO have been redeemed in full (whether at final maturity or early redemption). Consequently, if the Interests were to become due and repayable in connection with an early redemption or were subject to partial-redemption, the Investment Vehicle will not be obliged to immediately sell, transfer or liquidate the CLO Retention Investments and the proceeds of such CLO Retention Investments (if any) will not be available until the final maturity or early redemption in full of the securities of the relevant CLO. In addition, cash held by an Investment

Vehicle will not be able to be used to repay the Interests to the extent that such repayment could leave an Investment Vehicle unable to continue to originate and sell assets to the Retention CLOs in order to ensure during the relevant Retention CLO's reinvestment period it has provided over 50 percent of the total securitised exposures of such Retention CLO (such percentage calculated including the principal proceeds received by the relevant Retention CLO in respect of any an Investment Vehicle sourced assets).

An Investment Vehicle (or, in the case of CLO Investments that are not CLO Retention Investments, an Investment Vehicle together with Napier Vehicles) will hold at least a controlling stake in the CLO Investments. Accordingly, upon exercise by an Investment Vehicle (and the Napier Vehicles, as applicable), an early redemption option will result in a full redemption of the applicable CLO Investments. An Investment Vehicle (or the Napier Vehicles, as applicable) will generally not be able to exercise any early redemption options until two years from the closing date of the CLO. In the case of Retention CLOs, as a result of the EU Retention Requirements, the CLO Retention Investments will not be permitted to be sold, transferred or liquidated during this time. In relation to each CLO Investment, even after an early redemption option is permitted to be exercised, such an option usually contains a number of conditions to its exercise including, but not limited to, a threshold that the liquidation value of the CLO collateral exceeds an amount which would pay (a) all expenses of the CLO and (b) principal and accrued interest on the CLO notes senior to the CLO Investments. If the liquidation value of the Portfolio will not achieve this threshold at the time an Investment Vehicle intends to exercise its early redemption option, the CLO will not be able to be optionally redeemed by an Investment Vehicle at such time. In such circumstances the CLO Retention Investments may not redeem until their final stated maturity (which may be in excess of 20 years), therefore producing no proceeds to repay the Interests until this point.

*The hedging arrangements of an Investment Vehicle may not be successful*

An Investment Vehicle's economic risks cannot be effectively hedged. In addition an Investment Vehicle will not be permitted to enter into hedging with respect to the CLO Retention Investments other than in compliance with the EU Retention Requirements.

However, in connection with the financing of certain investments, an Investment Vehicle may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, prices of Collateral Obligations and/or currency exchange rates. However, some residual risk may remain as a result of imperfections and inconsistencies in the market and/or in the hedging contract. While such hedging transactions may reduce certain risks, they create others.

An Investment Vehicle may utilise certain derivative instruments (including, without limitation, single-name credit default swaps, credit default swap and loan credit default swap indexes, equity futures and equity indexes) for hedging purposes. However, even if used primarily for hedging purposes, the prices of derivative instruments are highly volatile, and acquiring or selling such instruments involves certain leveraged risks. There may be an imperfect correlation between the instrument acquired for hedging purposes and the investments or market sectors being hedged, in which case, a speculative element is added to the highly leveraged position acquired through a derivative instrument primarily for hedging purposes. In particular, the investments which are in

the form of loans may, in certain circumstances, be repaid at any time on short notice at no cost, and accordingly the hedging of interest rate or currency risk in such circumstances may be less precise than is the case with investments in the public securities market.

Furthermore, default by any hedging counterparty in the performance of its obligations could subject the investments to additional credit and market risks. Accordingly, although an Investment Vehicle may benefit from the use of hedging strategies, failure to properly hedge the market risk in the investments and/or default of a counterparty in the performance of its obligations under a hedging contract may have a material adverse effect on the performance of an Investment Vehicle and, by extension, the performance and return on the Notes, and such material adverse effects may exceed those which may have resulted had no hedging strategy been employed.

#### Payments under hedging contracts

An Investment Vehicle's ongoing payment obligations under hedging contracts (including termination payments) may also be significant. The payments associated with such hedging arrangements generally rank senior to payments on the Interests. An Investment Vehicle will depend upon each hedge counterparty to perform its obligations under any hedging contract. If a hedging counterparty defaults or becomes unable to perform due to insolvency or otherwise, an Investment Vehicle may not receive payments it would otherwise be entitled to from such counterparty to cover the exposure it intended to hedge. The applicable hedging counterparty may also have the right to terminate the relevant hedging contract following the occurrence of certain events relating to the applicable hedging contract, including related to certain regulatory matters. Any such termination in the case of a hedging contract would result in an Investment Vehicle being exposed to risk it intended to hedge for so long as it has not entered into a replacement hedging contract, and may result an Investment Vehicle being required to pay a termination amount to the relevant hedging counterparty. Such termination amount may be significant, and would rank senior to payments on the Interests.

#### Under certain hedging contracts that an Investment Vehicle may enter into, an Investment Vehicle may be required to grant security over some of its assets to the relevant counterparty as collateral

In connection with certain hedging contracts, an Investment Vehicle may be required to grant security interests over some of its assets to the relevant counterparty to such hedging contract as collateral. Such hedging contracts typically will give the counterparty the right to terminate the agreement upon the occurrence of certain events. Such termination events may include, among others, a failure by an Investment Vehicle to pay amounts owed when due, a failure to provide required reports or financial statements, a decline in the value of the investments secured as collateral, a failure to maintain sufficient collateral coverage, a failure by an Investment Vehicle to comply with the investment strategy and any investment restrictions, key changes in an Investment Vehicle's management, a significant reduction in an Investment Vehicle's net asset value, and material violations of the terms, representations, warranties or covenants contained in the hedging contract, as well as other events determined by the counterparty. If a termination event were to occur, there may be a material adverse effect on the performance of an Investment Vehicle and, by extension, the performance and return on the Interests.



### Currency risk

Investors will be exposed to certain currency risks both from the Portfolio and the distributions on Investments. Certain of an Investment Vehicle's assets may be invested in securities and other investments which are denominated in other currencies. Accordingly, an Investment Vehicle will necessarily be subject to foreign exchange risks and the value of its assets may be affected unfavourably by fluctuations in currency rates. Although an Investment Vehicle may utilise financial instruments to hedge against declines in the value of such assets as a result of changes in currency exchange rates, it is not obliged to do so and may terminate any hedge contract at any time. There can also be no assurance that any such hedging will be successful, and to the extent that such hedging is not successful the cash flows and values of investments made by an Investment Vehicle may be adversely impacted. Moreover, it may not be possible for an Investment Vehicle to hedge against a particular change or event at an acceptable price or at all. In addition, there can be no assurance that any attempt to hedge against a particular change or event would be successful, and any such hedging failure could materially and adversely affect the performance of an Investment Vehicle and, by extension, the Issuer's performance and valuation and the return on the Notes.

Distributions will be paid in Euro. This presents certain risks relating to currency conversions if an Investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than Euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, Investors may receive less distributions than expected, or no distributions.

### Derivatives; Leverage

An Investment Vehicle may from time to time utilize both exchange-traded and over-the-counter futures contracts, options and contracts for differences as part of its investment policy. These instruments are highly volatile and expose investors to a high risk of loss. Derivative instruments may alter the default risk implicit in the transaction in that the Investment Vehicle will typically have rights against the issuer of the derivative as opposed to the issuer of the security underlying the derivative. The low initial margin deposit normally required to establish a position in such instruments permits a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount actually placed as initial margin and may result in unquantifiable further loss exceeding any margin deposited. Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk.

Investment Vehicles may also sell covered and uncovered options on securities. To the extent that such options are uncovered, an Investment Vehicle could incur an unlimited loss. Investment Vehicles may enter into total return and credit default swaps. Because these are leveraged investments, a loss in the value of assets underlying swap transactions may have a magnified adverse effect on the value of an Investment Vehicle's portfolio.

If an Investment Vehicle invests in derivatives at inopportune times or judges market conditions incorrectly, such investments may lower the Investment Vehicle's return or result in a loss. An Investment Vehicle could also experience losses if derivatives are poorly correlated with its other investments, or if it is unable to liquidate its position because of an illiquid secondary market. The market for many derivatives is, or may suddenly become, illiquid. Conversely, many of these products are subject to variation or other interim margin requirements, which may force premature liquidation of investment positions. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

*The use of leverage, external financing and hedging by an Investment Vehicle may increase the volatility of returns and providers of leverage, financing and hedging would rank ahead of investors in the Investment Vehicle in the event of insolvency*

Investment Vehicles may enter into credit facilities to purchase Collateral Obligations and/or CLO Investments and hedges to cover currency, credit or interest rate risk. There are no pre-determined limitations on the amount of leverage to be deployed or hedges to be entered into. Providers of such leverage, financing and hedging will rank ahead of the Investment Investor in the event of an insolvency.

While leverage presents opportunities for increasing total returns, it can also have the effect of increasing the volatility of the performance of an Investment Vehicle, including the risk of total loss of the amount invested. If income and capital appreciation on investments made with borrowed funds are less than the costs of In addition, to the extent leverage is employed, an Investment Vehicle may be required to refinance transactions from time to time. On each refinancing, the applicable counterparty may choose to re-negotiate the terms of each transaction or indeed not to refinance the transaction at all. To the extent refinancing facilities are not available in the market at economic rates or at all, an Investment Vehicle may be required to sell assets at disadvantageous prices. Any such deleveraging may result in losses on investments which could be severe and accordingly could have a material adverse effect on the performance of an Investment Vehicle.

### ***General Risks***

Investments in Investment Vehicles entail a high degree of risk. Investors should give careful consideration to the following risk factors and conflicts of interest detailed in this Item 8 and other product-specific information provided by the Investment Vehicle, the ECT or Napier Park in evaluating the merits and suitability of any Investment Vehicle. The following does not purport to be a comprehensive summary of all the risks and conflicts of interest associated with investments in Investment Vehicles.

### *General Economic Conditions and Recent Events*

Various sectors of the global financial markets experienced an extended period of adverse conditions following serious disruptions in the U.S. residential mortgage market. Market uncertainty in the United States increased dramatically during this time, and adverse market conditions in the United States expanded to other markets. These conditions resulted in reduced liquidity, greater volatility, general widening of credit spreads and a lack of price transparency. These difficult global credit market conditions adversely affected the market values of equity, fixed-income and other securities and these circumstances may continue or even deteriorate further. The longer-term impact of these events is uncertain, but they had and are likely to continue to have a material effect on general economic conditions, consumer and business confidence and market liquidity worldwide. Investments made by any Investment Vehicle may be sensitive to the performance of the overall economy. A negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of investments made by any Investment Vehicle may and these or similar events may affect the Investment Vehicle's ability to execute its investment strategy.

#### *Deterioration of the Credit Market*

In the past there have been slowdowns and weakening of the credit market, along with a widening of credit spreads, a deterioration of the sub-prime and global debt markets, and a rise in interest rates, which reduced investors' demand for high yield debt and senior bank debt, which in turn led to some investment banks and other lenders being unwilling to finance new investments or to only offer committed financing for these investments on unattractive terms. The ability of any Investment Vehicle to generate attractive investment returns for its investors may be adversely affected to the extent the Investment Vehicle or its investments are unable to obtain favorable financing terms. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of global economies. Such an economic downturn could adversely affect the financial resources of operating partners and investment projects in which any Investment Vehicle intends to participate, and may result in the inability of such partners and projects to make principal and interest payments on outstanding debt when due, and may also restrict the ability of any Investment Vehicle to sell or liquidate investments at favorable times or for favorable prices.

#### *Investment in General*

Any prospective investor must be able to bear the risks involved and must meet the suitability requirements of an Investment Vehicle. Some or all investment strategies employed by an Investment Vehicle may not be suitable for certain investors. No assurance can be given that an Investment Vehicle's investment objectives will be achieved. Investments in hedge funds, private equity funds, and other types of private investment funds are typically speculative and involve a substantial degree of risk. Past results of an Investment Vehicle are not necessarily indicative of future performance of any Investment Vehicle and the performance of such Investment Vehicle may be volatile. Such past performance may not be an accurate indicator of future returns. Investment results may vary substantially on a monthly, quarterly or annual basis. The establishment and use of an Investment Vehicle does not constitute a complete investment

program. A prospective investor must realize that it could lose all or a substantial amount of its investment in an Investment Vehicle.

Napier Park expects that certain Investment Vehicles may underperform or experience financial difficulties, which difficulties may never be overcome. Certain Investment Vehicles may be highly illiquid and/or permit redemptions infrequently and under very restrictive terms. Napier Park may utilize highly speculative investment techniques, including extremely high leverage, highly concentrated portfolios, workouts and startups, control positions and illiquid investments. No assurance can be given that an Alternative Investment will achieve its goals or investment objectives.

In the event of a default in relation to an investment, an Investment Vehicle will bear a risk of loss of principal and accrued interest

Performance and investor yield on the Issuer's investments in an Investment Vehicle may be affected by the default or perceived credit impairment of investments made by an Investment Vehicle and by general or sector specific credit spread widening. Credit risks associated with the investments include (among others): (i) the possibility that earnings of an obligor may be insufficient to meet its debt service obligations; (ii) an obligor's assets declining in value; and (iii) the declining creditworthiness, default and potential for insolvency of an obligor during periods of rising interest rates and economic downturn. An economic downturn and/or rising interest rates could severely disrupt the market for the investments and adversely affect the value of the investments and the ability of the obligors thereof to repay principal and interest. In turn, this may adversely affect the performance of an Investment Vehicle and, by extension, the Issuer's performance and valuation and the return on the Notes.

In the event of a default in relation to an investment held by it, an Investment Vehicle will bear a risk of loss of principal and accrued interest on that investment. Any such investment may become defaulted for a variety of reasons, including non-payment of principal or interest, as well as breaches of contractual covenants. A defaulted investment may become subject to workout negotiations or may be restructured by, for example, reducing the interest rate, a write-down of the principal, and/or changes to its terms and conditions. Any such process may be extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on the defaulted investment. In addition, significant costs might be imposed on an Investment Vehicle, further affecting the value of the investment. In the case of secured loans, restructuring can be an expensive and lengthy process which could have a material negative effect on an Investment Vehicles' anticipated return on the restructured loan. By way of example, it would not be unusual for any costs of enforcement to be paid out in full before the repayment of interest and principal. The liquidity in such defaulted investments may also be limited and, where a defaulted investment is sold, it is unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest owed on that investment. This would adversely affect the value of the portfolio of Collateral Obligations and CLO Investments held by or on behalf of an Investment Vehicle from time to time ("Portfolio") of an Investment Vehicle and, by extension, performance and return on the Notes.

An Investment Vehicle can purchase CLO securities and the issuers of such CLO securities can invest in investments similar to those described herein. Furthermore CLO securities also have limited liquidity

### Legal and Regulatory Environment for Private Investment Funds and their Managers

The legal, tax and regulatory environment worldwide for private investment funds and their managers is evolving. Changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of the Investment Vehicle to pursue its investment program and the value of investments held by the Investment Vehicle. There has been an increase in scrutiny of the private investment fund industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Investment Vehicle to pursue its investment program or employ brokers and other counterparties could have a material adverse effect on the Investment Vehicle's investments therein. In addition, the Investment Manager may, in its sole discretion, cause the Investment Vehicle to be subject to certain laws and regulations if it believes that an investment or business activity is in the Investment Vehicle's interest, even if such laws and regulations may have a detrimental effect.

### Dodd-Frank Act.

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in July 2010. The Dodd-Frank Act has resulted in extensive rulemaking and regulatory changes that affect private fund managers, the funds that they manage and the financial industry as a whole. Under the Dodd-Frank Act, the CFTC and the SEC have mandated (and will mandate) new recordkeeping, reporting, central clearing and mandatory trading on electronic facilities requirements for investment advisers, which add costs to the legal, operational and compliance obligations of the Investment Manager and the Investment Vehicle and increase the amount of time that the Investment Manager spends on non-investment-related activities. The Dodd-Frank Act affects a broad range of market participants with whom the Investment Vehicle interacts or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders and broker dealers, and may change the way in which the Investment Manager conducts business with its counterparties. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile and make it difficult for the Investment Manager to execute the investment strategy of the Investment Vehicle.

### Regulation in the Derivatives Industry

The Dodd-Frank Act has had a significant impact on the derivatives industry. The Dodd-Frank Act divides the regulatory responsibility for derivatives in the United States between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The CFTC has regulatory authority over "swaps" and the SEC has regulatory authority over "security-based swaps". As a result of this bifurcation and the different pace at which the agencies have promulgated necessary regulations, different transactions are subject to different levels of regulation in the United States. Though many rules and regulations have been finalized, there are others that are still in the proposal stage and more that will be introduced. In addition, there has been and will be extensive rulemaking related to derivative products by non-U.S. regulatory authorities. Differences between

regulatory regimes may make it more difficult or costly for dealers, prime brokers, futures commission merchants ("FCMs"), custodians, exchanges, clearinghouses and other entities, such as the Investment Vehicle, to comply with and follow various regulatory regimes. There are significant legal, operational, technological and trading implications that result from the Dodd-Frank Act and related rules and regulations that may make it difficult or impossible for the Investment Vehicle to enter into otherwise beneficial transactions.

#### Governmental Interventions.

Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Investment Vehicle's strategies.

#### Potential Interest Rate Increases

The United States is experiencing historically low interest rate levels. However, the continued recovery of the U.S. economy and recent and potential future changes in U.S. government policy, including the tapering of the U.S. Federal Reserve Board's quantitative easing program, increase the risk that interest rates will rise in the near future. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by the Investment Vehicle to decrease, which may result in substantial withdrawals from the Investment Vehicle that, in turn, force the Investment Vehicle to liquidate such securities at disadvantageous prices, negatively impacting the performance of the Investment Vehicle.

#### Current Economic Conditions in European Countries

Certain European countries, including Greece, Ireland, Italy, Portugal and Spain, are currently experiencing varying degrees of financial distress. Risks from the debt crisis in Europe could result in a disruption of the financial markets, which could have a detrimental impact on global economic conditions. Recently, contagion fears have expanded to Spain and Italy, and credit spreads widened further in European peripheral countries and European banks. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on global financial markets. A significant deterioration of the European debt crisis could result in material reductions in the value of sovereign debt and other asset classes, disruptions in capital markets, widening of credit spreads, loss of investor confidence in the financial services industry, a slowdown in global economic activity, and other adverse developments that could negatively impact the performance of the Investment Vehicle.

Brexit In June 2016, the United Kingdom voted to leave the European Union. If, as expected, the United Kingdom triggers the withdrawal procedures in Article 50 of the Treaty of Lisbon, there will be a two-year period (or longer) during which the arrangements for exit will be negotiated. This vote and the withdrawal process could cause an extended period of uncertainty and market volatility, not

just in the United Kingdom but throughout the European Union, the European Economic Area and globally. It is not possible to ascertain the precise impact these events may have on the Investment Vehicle or the Investment Manager from an economic, financial or regulatory perspective but any such impact could have material consequences for the Investment Vehicle and the Investment Vehicle.

#### Potential non-compliance with or changes to the EU Retention Requirements

The purchase and retention of the CLO Retention Investments will be undertaken by an Investment Vehicle with the intention of achieving compliance with the EU Retention Requirements by the relevant Retention CLO. In this regard, it should be noted that on 22 December 2014 the European Banking Authority (the **EBA**) published a paper (the **EBA Paper**), providing advice to the European Commission on the application and effectiveness of the EU Retention Requirements in the light of international market developments. The EBA recommended that the definition of "originator" should be narrowed in order to avoid potential abuses. In response, the abovementioned legislative proposals seek to implement the EBA's recommendation. These proposals include a provision which would restrict an entity from being an "originator" (as defined in the legislative proposals) for risk retention purposes if it has been established or operates "for the sole purpose of securitising exposures". The explanatory memorandum published in conjunction with the legislative proposals indicates that the provision relating to originators is intended to restrict retention by an entity if it has been established as a dedicated shelf for the sole purpose of securitising exposures and lacks a broad business purpose, providing the example of an entity which does not have the capacity to meet a payment obligation from resources not related to the exposures being securitised.

Furthermore, the European Commission published on 30 September 2015 legislative proposals for two new regulations related to securitisation. Amongst other things, the proposals include provisions intended to implement the revised securitisation framework developed by the Basel Committee on Banking Supervision and provisions intended to harmonise and replace the risk retention and due diligence requirements (including the corresponding guidance provided through technical standards) applicable to certain EU regulated investors. There are differences between the legislative proposals and the current requirements, including with respect to the application approach under the Retention Requirements and in relation to the originator entities which are eligible to retain the required interest.

Based on the form of the re-cast retention requirements as originally proposed in the legislative proposals, the legislative proposals (including the corresponding new technical standards which would apply thereunder) would apply in respect of new securitisation positions issued on or after the date of entry into force of the regulation ("New Securitisations") and then outstanding securitisation positions are intended to remain subject to the current regulations. As a result, if adopted as originally proposed, the re-cast retention requirements in the legislative proposals should only be relevant in respect of Retention CLOs that are New Securitisations. The date of entry into force of the securitisation regulation is not yet known but investors should note that in the current draft legislative proposals the drafting of the "grandfathering" provision described above is not clear. In particular, as originally proposed, the re-cast investor due diligence requirements in the legislative proposals are described to apply in respect of New Securitisations as well as those securitisations entered into prior to the entry into force of the regulation. As a

result, if such re-cast due diligence requirements are adopted as originally proposed, investors acquiring their investments in Retention CLOs following the date of entry into force of the new securitisation regulation where the relevant Retention CLOs were issued prior to such date of entry into force may be unable to satisfy their due diligence obligations where the relevant retention arrangements are not fully compliant with the re-cast retention requirements as adopted. Based on the legislative proposals as originally proposed, this deficiency in the proposed grandfathering position should not affect the direct compliance obligation under the re-cast retention requirements imposed on an Investment Vehicle and the applicable Collateral Manager.

It is not clear whether, and in what form, the legislative proposals (and any corresponding technical standards) will be adopted. In particular, the proposed restriction in relation to originators may be adopted in a different form to that currently proposed and/or other changes to the risk retention requirements (including to the technical standards) applicable to securitisations such as this transaction and any affected investors may be made through the political negotiation process and adopted. The compliance position under any adopted and potentially revised requirements of transactions entered into, and of activities undertaken by a party (including an investor), prior to (and, in certain circumstances, on and after) adoption is uncertain. No assurance can be given that the EU Retention Requirements, or the interpretation or application thereof, will not change (whether as a result of the legislative proposals put forward by the European Commission or otherwise). There can be no assurances as to whether the compliance position of any Retention CLO will be affected, if at all, by any change which may be adopted in any final law or regulation (including any regulatory technical standards) relating to the EU Retention Requirements. If such compliance position of Retention CLOs were to be negatively affected with any of the above, this may have a negative impact on the effective execution of an Investment Vehicle's business strategy, in particular its investment in Retention CLOs, and, consequentially, may negatively impact return on the Notes.

#### An Investment Vehicle may not be able to comply with the U.S. Risk Retention Regulations

On 21 and 22 October 2014, the joint final regulations implementing the credit risk retention requirements of section 15G of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") as added by the Dodd-Frank Act ("US Risk Retention Regulations") were adopted and will become effective in December 2016. The U.S. Risk Retention Regulations generally require securitisers of asset-backed securities, including CLO managers, to retain not less than five per cent. of the credit risk of the assets collateralising such asset-backed securities unless an exemption applies. The U.S. Risk Retention Regulations are not currently applicable to securities issued prior to December 2016.

If an Investment Vehicle is unable to establish CLOs that comply with the U.S. Risk Retention Regulations after December 2016, NP ELM's ability to generate returns may be affected. It is also possible that a refinancing or additional issuance of notes by a Retention CLO after the effective date of the U.S. Risk Retention Regulations could be considered a new transaction that would be subject to the U.S. Risk Retention Regulations. If a Retention CLO is unable to comply with the U.S. Risk Retention Regulations, the ability of the Retention CLO to effect any such refinancing or additional issuance of notes may be impaired or otherwise limited, which could also affect an Investment Vehicle's ability to generate returns.



In addition, the U.S. Risk Retention Regulations may adversely affect the leveraged loan market generally, which could also have adverse effects on the Notes. For example, it is possible that the U.S. Risk Retention Regulations may reduce the number of CLO managers active in the CLO market, which may result in fewer new-issue CLOs and reduce the liquidity provided by CLOs to the leveraged loan market generally. A contraction or reduced liquidity in the leveraged loan market could reduce opportunities for an Investment Vehicle to invest in Collateral Obligations and/or CLO Investments or establish Retention CLOs, which could negatively impact the return on the Notes and could reduce the market value or liquidity of the Notes. As a result, a negative impact on secondary market liquidity for Interests may be experienced even prior to the effective date of the U.S. Risk Retention Regulations, due to the effect of the U.S. Risk Retention Regulations on market expectations, the relative appeal of Investment Vehicles not subject to the U.S. Risk Retention Regulations and other factors.

Furthermore, no assurance can be given as to whether the U.S. Risk Retention Regulations will have any material adverse effect on the business, financial condition or prospects of an Investment Vehicle and, by extension, the Issuer.

#### Liability for breach of a risk retention letter

The arranger and certain other parties of a Retention CLO in which an Investment Vehicle agrees to hold the CLO Retention Investments will require NP ELM to execute a risk retention letter. Under a risk retention letter an Investment Vehicle will typically be required to, amongst other things, make certain representations, warranties and undertakings: (a) in relation to its acquisition and retention of the CLO Retention Investments for the life of the Retention CLO; and (b) regarding its agreement to sell Collateral Obligations to the relevant Retention CLO from time to time. If an Investment Vehicle sells or is forced to sell the CLO Retention Investments prior to the maturity of the relevant Retention CLO, or an Investment Vehicle holds insufficient cash or investments to continually sell the assets to the Retention CLO as described above or for any other reason an Investment Vehicle is not considered to be an "originator" for the purposes of the EU Retention Requirements, an Investment Vehicle may be in breach of the terms of the related risk retention letter. In such circumstances the arranger of the relevant Retention CLO and the other parties to the related risk retention letter would have recourse to an Investment Vehicle for losses incurred as a result of such breach. Such claims may reduce, or entirely diminish any cash or assets of an Investment Vehicle which may have been available to pay principal or interest on the Interests.

#### MiFID II.

The EU Markets in Financial Instruments Directive (Directive 2014/65/EU) and Markets in Financial Instruments Regulation (Regulation (EU) No 600/2014) (together, "MiFID II") governs the provision of investment services and activities in relation to, as well as the organized trading of, financial instruments such as shares, bonds, units in collective investment schemes and derivatives. MiFID II was required to be implemented in EU member states from January 3, 2018. Although the Fund is not organized in the EU, and is not authorized or regulated by any EU member state financial services regulator, certain aspects of MiFID II may have an impact on an Investment Vehicle. MiFID II imposes certain restrictions as to the trading of shares and derivatives,

which could apply to transactions made by or with an Investment Vehicle. Subject to certain conditions and exceptions, an Investment Vehicle may be unable to trade shares or derivatives with affected counterparties other than as provided by MiFID II. MiFID II also applies position limits to the size of a net position that a person can hold at all times in commodity derivatives traded on EU trading venues and in “economically equivalent” OTC derivatives.

More generally, EU regulated firms that have trading relationships with an Investment Vehicle may be obliged by MiFID II to impose certain requirements on an Investment Vehicle, or they may seek to do so contractually, with a view to satisfying their own compliance obligations. It is difficult to predict the full impact of MiFID II on an Investment Vehicle. Prospective investors should also be aware that there may be costs (whether direct or indirect) of compliance with MiFID II.

### Market Disruption and Political Risk

The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of asset prices, liquidity, interest rates and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Volatility, illiquidity, governmental action, currency devaluation, or other events in global markets in which an Investment Vehicle directly or indirectly holds positions could impair such Investment Vehicle’s ability to achieve its investment objectives and could cause the Investment Vehicle to incur substantial losses.

### Business and Regulatory Risks

The industry of hedge funds, private equity funds, and other private investment funds has been and is expected to continue to be subject to increased regulation and public scrutiny. Legal, tax and regulatory changes are expected to occur that may adversely affect an Investment Vehicle. The regulatory environment for hedge funds, private equity funds, real estate funds and other private investment funds is evolving globally, and changes in the regulation of private investment funds may adversely affect the value of investments held by an Investment Vehicle and the ability to obtain the leverage such Investment Vehicle might otherwise obtain or the ability of an Investment Vehicle to pursue certain trading strategies. The effect of any future regulatory change on an Investment Vehicle could be substantial and adverse.

### Illiquidity of the Investment Vehicles

Interests in an Investment Vehicle are offered without registration under the Securities Act of 1933 (the “Securities Act”), in reliance upon an exemption contained in Section 4(2) of the Securities Act and/or Regulation D under the Securities Act. There will be no public market for interests in such Investment Vehicle and, for a variety of regulatory reasons, no such market will be permitted to exist. The only source of liquidity lies in an investor’s right to redeem from an Investment Vehicle (if any such right even exists). Redemptions from an Investment Vehicle may be subject to various restrictions, including prior notice and minimum redemption requirements, lock-up periods of one year or more, side-pocketed investments, and the right of an Investment Vehicle to reduce the amount of redemptions in accordance with a redemption gate. In addition, in the event of a complete redemption from an Investment Vehicle, a portion of the redemption proceeds may

be retained by such Investment Vehicle until the completion of such Investment Vehicle's annual audit. An Investment Vehicle may have discretion to further defer payment of redemption proceeds, to suspend redemptions indefinitely and to satisfy redemptions in-kind. In addition, redemption payments from certain Investment Vehicles may be based on inaccurate/or estimated data, and may be subject to a return of any overpayments by the investor.

#### *Lack of Regulation of Investment Vehicles*

The Investment Vehicles are generally not subject to many provisions of the federal securities and commodities laws that are designed to protect investors in pooled investment vehicles offered to the public in the United States. Interests in the Investment Vehicles generally are not offered pursuant to registration statements effective under the Securities Act. In addition, the Investment Vehicles generally are not subject to the periodic information and reporting provisions of the Exchange Act of 1934, nor in most cases will those Investment Vehicles be registered as investment companies under the Investment Company Act of 1940. Similarly, the investment managers of Investment Vehicles that trade in commodity interests may be exempt from the disclosure, reporting and record-keeping requirements of the Commodity Exchange Act of 1936, as amended.

#### *Valuation Risks*

Valuations of assets of an Investment Vehicle's directly or indirectly held positions may involve uncertainties and require the application of business judgment. If such valuations should prove to be incorrect, the net asset value of an Investment Vehicle could be adversely affected. Valuation of assets of an Investment Vehicle is generally based on the net asset value of the Investment Vehicle reported by Napier Park in accordance with its practices and policies.

#### *Risk Management*

Napier Park's risk analysis team includes professionals with technical expertise in analyzing the risks of investing in Investment Vehicles. Napier Park's risk analysts maintain a proprietary risk management system that provides processes and tools designed for the complex strategies used by Investment Vehicles. No risk management process is fail-safe, and no assurances can be given that Napier Park's risk management process will achieve its objective. From time to time, Napier Park may modify or change its risk management system in its sole discretion.

#### *Leverage*

The Investment Vehicles are generally authorized to borrow funds in order to employ leverage, to manage liquidity and for any other purpose (as specified in their respective account documentation and governing documents). Such borrowings may be secured by a pledge of assets to the lender. Borrowing money to purchase securities may provide an opportunity for greater capital appreciation by permitting greater economic exposure to profitable positions. At the same time, leverage increases an Investment Vehicle's exposure to capital risk and higher current expenses through greater exposure to losses, interest charges, fees imposed by lenders and transaction costs.

### Effect of Substantial Redemptions

Substantial redemptions by investors within a short period of time could require Napier Park to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the value of an Investment Vehicle's assets. The resulting reduction in an Investment Vehicle's assets could make it more difficult to generate a positive rate of return or to recoup losses due to a reduced equity base. Because substantial redemptions may be funded by liquidating the more liquid assets in the portfolio, such redemptions may cause the remaining portfolio to be substantially less liquid overall.

### Effects of In-Kind Redemptions

Proceeds of an in-kind redemption may be distributed to an investor directly or indirectly including through a distribution of interests in one or more special purpose vehicles holding assets owned by an Investment Vehicle or participations therein. To the extent an investor is distributed interests in one or more special purpose vehicles holding participation interests in the assets of such Investment Vehicle, an investor may continue to be at risk of such Investment Vehicle's business until all such assets are sold. The value of proceeds distributed in kind may increase or decrease before they can be sold by an investor, if received directly, or by Napier Park if held through a special purpose vehicle. In the case of interests in special purpose vehicles, an investor will share a proportionate portion of the operating and other expenses borne by such vehicle, including possibly fees to Napier Park. Additionally, proceeds distributed in kind, either directly or indirectly, may not be readily marketable. The risk of loss and delay in liquidating these assets will be borne by investors. Furthermore, to the extent that an investor receives interests in one or more special purpose vehicles, such investor will generally have no control over when and at what price the assets in which such vehicles have an interest are sold.

### Dependence on Key Personnel

The success of any Investment Vehicle depends in substantial part on the skill and expertise of the key members of the investment team. There can be no assurance that the key members of any investment team will continue to be employed by Napier Park or its affiliates throughout the life of an Investment Vehicle. The loss of the services of one or more of such officers or employees could have a material adverse effect on the performance and operation of the Investment Vehicle. In the event that the services of any such personnel are lost, the Investment Vehicle may not be able to successfully recruit new personnel with the requisite skills, knowledge, relationships or experience.

### Reliance on Management

Although Napier Park seeks to monitor the performance of each investment, an Investment Vehicle will rely upon the management of its portfolio companies to operate them on a day-to-day basis. There can be no assurance that such management, or any new management, will continue to operate successfully.

### Bankruptcy of Portfolio Companies

An Investment Vehicle may make investments in portfolio companies that may experience financial difficulties and become insolvent or file for bankruptcy protection. Various U.S. federal and state and non-U.S. laws in connection with such bankruptcy proceedings could operate to the detriment of such Investment Vehicle. There is also a risk that a court may subordinate the investment to other creditors or require the Investment Vehicle to return amounts previously paid to it by a portfolio company that becomes insolvent or files for bankruptcy, a risk that could increase if the Investment Vehicle has management rights in such portfolio company.

### Investment Selection

Napier Park selects investments on the basis of information and data prepared by the issuers of such securities or made directly available to Napier Park by the issuers of the securities and other instruments or through sources other than the issuers. Although Napier Park evaluates available information and data and seeks independent corroboration when it considers it to be appropriate and when it is reasonably available, Napier Park is not in a position to confirm the completeness, genuineness or accuracy of such information and data.

### Investment in Foreign Securities

The Investment Vehicles may, either directly or indirectly, take positions in non-U.S. securities. Investment in non-U.S. securities may be subject to greater risks than purely domestic investments because of a variety of factors, including currency controls and the fluctuation of currency exchange rates, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. In addition, there may be less publicly available information about non-U.S. issuers than about U.S. issuers, and non-U.S. issuers may not be subject to uniform accounting, auditing and financial reporting standards and requirements that are comparable to those of U.S. issuers.

### Counterparty Risk

An Investment Vehicle is subject to the risk of the failure or default of any counterparty to the transactions of such Investment Vehicles Vehicle. The institutions, including brokerage firms and banks, with which an Investment Vehicle does business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of an Investment Vehicle. Hedging transactions, margin trading and other financial mechanisms designed to implement various trading strategies involve counterparty risk elements that may be impossible or impractical to eliminate or may create unforeseen exposures. If there is a failure or default by the counterparty to such a transaction, the contractual and other legal remedies available may be limited or inadequate. Counterparty risk may be reduced but not eliminated through the selection of financial institutions and types of transactions employed.

### Correlation Risk

In many cases, the strategy of an Investment Vehicle will be based on an assumption that historical pricing correlations accurately represent future correlations. In contexts where a strategy is based

on identifying apparent pricing anomalies based on historical correlations, a short- or long-term change in those correlations could adversely affect the anticipated market gain achievable from trading on the basis of the strategy.

Historical pricing patterns do not necessarily predict future relationships, particularly at times of serious market disruption or during unusual trading periods or market events. Consequently, the adoption of certain strategies will not necessarily eliminate or modulate market risk. Since many strategies assume a continuation of historical pricing patterns, any substantial deviation from those patterns can result in volatility and losses.

#### No Current Income

An Investment Vehicle's investment policies should be considered speculative, as there can be no assurance that Napier Park's assessments of the short-term or long-term prospects of investments in an Investment Vehicle will generate a profit. In view of the fact that there may be no assurance that an Investment Vehicle will make distributions, that such distributions may be infrequent and that investors may have limited rights to redeem from an Investment Vehicle, an investment in an Investment Vehicle is not suitable for investors seeking current income for financial or tax planning purposes.

#### No Manager Liability Beyond Investment Assets

Subject to Napier Park's fiduciary responsibility to investors in an Investment Vehicle, Napier Park shall have no personal liability to an investor for the return of any investment in such Investment Vehicle, it being understood that any such return shall be made solely from such Investment Vehicle's assets.

#### Indemnification; Return of Redemptions and Distributions

Napier Park and other persons retained by an Investment Vehicle are entitled to indemnification and/or exculpation for liability and losses incurred or arising out of their performance of services, except under certain circumstances, from such Investment Vehicle as set forth in more detail in its account documents. An Investment Vehicle may also enter into indemnification arrangements and other arrangements that impose limitations on liability with its service providers and other parties

#### Early Termination

In the event of the early termination of an Investment Vehicle, it is possible that, at the time of such sale or distribution, certain securities held by the Investment Vehicle would be worth less than the initial cost or previously reported value of such securities, resulting in a loss to investors.

#### Limited Voting Rights

The documents governing the Investment Vehicles generally provide that investors have no voting rights except in limited circumstances. Generally, investors have no right to vote on many matters affecting an Investment Vehicle, including, without limitation, the election and dismissal of directors, most amendments, supplements or other modifications to the governing documents of

such Investment Vehicle, the merger and/or consolidation of the Investment Vehicle or the liquidation of the Investment Vehicle.

#### *Involuntary Sale of Interest*

The general partner of an Investment Vehicle may cause an investor to sell its interest if the general partner determines that the continued participation of such investor would have a material adverse effect on the general partner, the Investment Vehicle, any portfolio company, any other investor or any of their respective affiliates.

#### *Tax Risks*

Tax consequences to investors from an investment in an Investment Vehicle are complex. There may be changes in tax laws or interpretations of such tax laws adverse to the Investment Vehicle or its investors. There can be no assurance that the structure of an Investment Vehicle or of any investment will be tax-efficient to any particular investor. Prospective investors are strongly urged to consult their own tax advisers with reference to their specific tax situations, including any applicable U.S. state or local or non-U.S. taxes and, in the case of U.S. tax exempt and non-U.S. investors, with reference to any special issues that investment in an Investment Vehicle may raise for such investors. For example, there can be no assurance that an Investment Vehicle will have sufficient cash flow to permit it to make annual distributions in the amount necessary to pay tax liabilities resulting from an investor's ownership of interests in such Investment Vehicle.

#### *Political Risks and Catastrophic Events*

Depending on the country in which a portfolio company is located, there may exist the risk of adverse political developments, including nationalization, confiscation without fair compensation or war. Portfolio investments may also be subject to catastrophic events and other force majeure events, such as fires, earthquakes, adverse weather conditions, changes in law, eminent domain, riots, terrorist attacks and similar risks. These events could result in the partial or total loss of a portfolio investment or significant down time resulting in lost revenues, among other potentially detrimental effects.

#### *Substantial Fees and Expenses*

The Investment Vehicles are required to meet certain fixed costs, including organizational and offering expenses, investment-related expenses, and ongoing administrative and operating expenses (such as fees payable to the service providers). These fees and expenses may be substantial and are payable regardless of whether any profits are realized by the Investment Vehicles.

#### *Side Letters and Other Agreements*

Some Investment Vehicles may enter into separate agreements with certain investors, such as those affiliated with Napier Park and its affiliates or those deemed to involve a significant or strategic relationship, to waive certain terms, or to allow such investors to invest in separate classes of interests with different terms than those of the other investors, including, without limitation, with

respect to fees, liquidity or depth of information provided to such investors concerning the Investment Vehicle. Under certain circumstances, these agreements could create preferences or priorities for such investors with respect to other investors in the Investment Vehicle. In addition, Napier Park may specifically allocate capacity with respect to some of the Investment Vehicle's investments to investors who desire increased exposure to such investments. New classes of interests of the Investment Vehicle may be established without the approval of the existing investors.

Some Investment Vehicles may offer certain investors additional or different information and reporting than that offered to other investors. Such information may provide the recipient greater insight into the Investment Vehicle's activities than is included in standard reports to investors, thereby enhancing the recipient's ability to make investment decisions with respect to the Investment Vehicle.

#### Business Continuity and Disaster Recovery

Napier's, the clients' and their portfolio companies' business operations may be vulnerable to disruption in the case of catastrophic events such as fires, natural disaster (e.g., tornadoes, floods, hurricanes and earthquakes), terrorist attacks or other circumstances resulting in property damage, network interruption and / or prolonged power outages. Although Napier has implemented various measures to manage risks relating to these types of events, there can be no assurances that all contingencies can be planned for. If such business operations are disrupted or suspended for extended periods of time, the Clients may be adversely affected.

#### Cyber Security Breaches and Identity Theft

Napier's, the clients' and their portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons, other security breaches and / or usage errors by their respective professionals. Although Napier has implemented various measures 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, Napier, a Client and / or portfolio company may have to make a significant investment to fix or replace them. The failure of these systems for any reason could cause significant interruptions in Napier's, such Client's and / or such portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm Napier's, such Client's and / or such portfolio company's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance.

**The foregoing list of risk factors is not a complete explanation of the risks involved in an investment in an Investment Vehicle.**



## **Item 9            Disciplinary Information**

To the best of Napier Park's knowledge, currently there are no legal or disciplinary events that may be material to a client or prospective client or underlying investor.

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

Napier Park may share resources, other employees and management, as well as investment ideas and opportunities, with any or all of its affiliates engaged in similar activities.

Napier Park may recommend that investors in its Investment Vehicles invest in other Investment Vehicles of which Napier Park or one of its affiliates is a managing or non-managing general partner (or equivalent).

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

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

Napier Park has adopted a Code of Ethics that memorializes Napier Park's fundamental duties as a fiduciary. The Code of Ethics includes standards of business conduct and incorporates a personal investments policy. Each employee providing services through Napier Park receives a copy of the Code of Ethics upon hiring and annually thereafter and must make an attestation that such employee has read and understood such Code of Ethics.

Napier Park's Code of Ethics requires each employee to prioritize the interests of the client, to avoid conflicts of interest, to never abuse such employee's position of trust and responsibility and to comply with all federal securities laws. Employees are required to safeguard material non-public information in such employee's possession and are prohibited from using such information to such employee's personal benefit. Each employee must treat information belonging to clients as confidential and take care to protect such information from unauthorized access by third parties.

To avoid any potential conflict of interest involving personal transactions, Napier Park requires each employee providing services through Napier Park to notify compliance upon opening a personal account, to pre-clear personal transactions and disclose all potential conflicts of interest with regard to any such personal transaction before engaging in the transaction. Employees are also subject to a restricted list and blackout periods. In addition, access persons (including employees providing services through Napier Park with access to non-public information regarding Napier Park's purchase or sale of securities and may include temporary workers and independent contractors) will (i) upon starting employment, provide a complete record of his or her securities holdings to compliance and annually thereafter and (ii) any individuals providing services on behalf of Napier Park must arrange to have copies of confirmations sent to compliance, unless such information has been provided through other means. All employees are required to inform compliance of any violation of the Code of Ethics that comes to his or her notice.

A copy of Napier Park's Code of Ethics will be provided to any client or prospective client upon request.

## ***Trading Practices***

### **Participation and Interest in Client Transactions**

Napier Park has implemented policies and procedures that address affiliated transactions. Therefore, from time to time, Napier Park or its affiliates may effect a securities transaction between one or more Investment Vehicles. In such case, one Investment Vehicle will purchase securities held by another Investment Vehicle. Napier Park effects these transactions only (i) when it deems the transaction to be in the best interests of both Investment Vehicles and (ii) at a price that Napier Park has determined by reference to independent market indicators, which Napier Park believes to constitute “best execution” for both accounts. Neither Napier Park nor its affiliates will receive any compensation, directly or indirectly, for arranging such a transaction. To the extent that Napier Park or its affiliates engage in principal agency, agency cross transactions or cross trades, such transactions will be consummated in accordance with FCA rules and regulations and, in relation to services provided to clients from the United States only, in accordance with Section 206(3) of the Advisers Act and, as applicable, Rule 206(3)-2 promulgated thereunder. As required pursuant to FCA rules, any transactions effected between Investment Vehicles would be covered by the duty of best execution and would need to take account of the FCA’s execution factors. Napier Park fulfills this requirement in relation to transactions between Investment Vehicles by requiring that such transactions be pre-approved by the relevant Napier Park Fiduciary Committee members. Approval by e-mail will suffice and such approval will then be noted and documented at the next Fiduciary Committee meeting.

### **Aggregation of Transactions**

If a portfolio manager operating through Napier Park believes that the purchase or sale of a security is in the best interests of more than one Investment Vehicle, the portfolio manager may, but is not obligated to, aggregate the securities to be sold or purchased, to the extent permitted by applicable law and regulations. In such event, the transactions, as well as the expenses incurred in such transactions, will be allocated by the portfolio manager consistent with fiduciary duties to ensure that all clients are treated fairly and in accordance with Napier Park procedures relating to the Allocation of Investments as described in Item 12. The portion of an aggregated order to be allocated to each client’s account will be specified contemporaneously with the execution of the trade.

### ***Interest in Client Transactions***

Napier Park may recommend securities in which it and/or its affiliates directly or indirectly have a financial interest. Napier Park affiliates also may buy and sell securities on behalf of an Investment Vehicle that Napier Park recommends to advisory clients for purchase and sale. Napier Park may give advice and take action in the performance of its duties to clients which differs from the advice given, or the timing and nature of action taken, with respect to the accounts of its affiliates and/or the accounts of other clients.

In certain instances, affiliates of Napier Park may acquire investments in an issuer on a side-by-side basis with an Investment Vehicle managed by Napier Park. Such investments may provide the Investment Vehicle with access to investments that it could not otherwise have obtained. However, this practice may give rise to potential conflicts of interest. Napier Park and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, investment opportunities between or among Investment Vehicle and its affiliates and other investment accounts. Please see Item 12 “Brokerage Practices - Allocation of Investment Opportunities” for more details.

Temporary investments in which an Investment Vehicle’s assets may be invested include instruments issued, or funds managed by, an affiliate of Napier Park, in which case such affiliate will receive fees or other compensation in connection with such investment. Such fees will be in addition to the advisory fees and other compensation paid to Napier Park.

### ***Inside Information***

Napier Park has adopted procedures to guard against insider trading. In the event that Napier Park obtains material, non-public information about an issuer, it may be prohibited from trading the issuer’s securities until the information becomes public or is no longer material. Napier Park’s investment flexibility may be constrained as a consequence of Napier Park’s inability to use such information for investment purposes.

### ***Other Conflicts of Interest***

Napier Park or any of its respective affiliates or directors may have an interest in an Investment Vehicle or in any transaction effected with or for it, or a relationship of any description with any other person, which may involve a potential conflict with their duties to such Investment Vehicle, and none of them will be liable to account for any profit or remuneration derived from doing so. If Napier Park has, or may have, in relation to a proposed transaction for an Investment Vehicle, a material interest or a relationship that gives or may give rise to a conflict of interest, Napier Park will not knowingly advise, or deal in the exercise of discretion in relation to that transaction, unless it takes reasonable steps to ensure fair treatment for the Investment Vehicle.

For example, such potential conflicts may arise because:

- a) Napier Park or its affiliates undertake business for other clients;
- b) a director or employee of Napier Park or its affiliates is a director of, holds or deals in securities of, or is otherwise interested in, any company the securities of which are held by or dealt in on behalf of an Investment Vehicle;
- c) the transaction relates to an investment in respect of which Napier Park or one of its affiliates may benefit from a commission, fee, mark-up or mark-down payable otherwise than by an Investment Vehicle;

- d) Napier Park or one of its affiliates may act as agent for an Investment Vehicle in relation to transactions in which it is also acting as agent for the account of other clients of Napier Park or its affiliates; or
- e) a transaction of an Investment Vehicle may be in units or shares of a collective investment scheme or any company in relation to which Napier Park or one of its affiliates is the manager, operator, adviser or trustee.

Affiliates of Napier Park engage in a broad spectrum of activities, including financial advisory activities and managing private investment funds and may from time to time present potential conflicts of interest with Napier Park's clients. Many of these potential conflicts of interest arise in connection with investment management activities of Napier Park affiliates. In these cases, these relationships may result in an Investment Vehicle not being permitted to pursue certain investment opportunities. Accordingly, no assurances can be given that all potentially suitable investment opportunities will be offered to any given Investment Vehicle.

Napier Park affiliates may provide services to, invest in, advise, sponsor and/or act as investment manager to investment vehicles and other persons or entities (including prospective investors in Investment Vehicles) which may have similar structures and investment objectives and policies to those of the Investment Vehicles and which may compete with the Investment Vehicles for investment opportunities and which may co-invest with the Investment Vehicles in certain transactions. In addition, Napier Park affiliates and their respective clients may themselves invest in securities that would be appropriate for the Investment Vehicles and may compete with the Investment Vehicles for investment opportunities.

Generally speaking, officers and employees providing services through Napier Park will devote such time as they deem necessary to carry out the operations of the Investment Vehicles. However, officers and employees providing services through Napier Park are not necessarily required to devote full time to a given Investment Vehicle's business and they may have conflicts of interest in allocating their time between such fund and other related or unrelated activities.

It is also possible that Napier Park professionals will be permitted to co-invest in certain investment opportunities in which a given Investment Vehicle invests as a further incentive and means of aligning such professionals' interests with the interests of the Investment Vehicle's investors.

Investors in Napier Park's various Investment Vehicles are expected to include entities and persons located in various jurisdictions, who may have conflicting investment, tax and other interests with respect to their various fund investments. As a result, conflicts of interest may arise in connection with decisions made by Napier Park or its affiliates that may be more beneficial for one type of investor than another type of investor. Napier Park will follow the investment objective and standards for resolving such conflicts set forth in each of its Investment Vehicle's governing documents, e.g., by focusing on the pre-tax investment objectives of an Investment Vehicle as a whole.

In certain situations, Napier Park may be restricted or precluded from pursuing an investment due to certain regulatory considerations arising under Employee Retirement Income Security Act, section 17 of the Investment Company Act of 1940, or similar laws.

### ***Procedures for Resolving Conflicts of Interest***

On any issues involving actual conflicts of interest, Napier Park will be guided by its legal obligations, including but not limited to the contractual requirements governing such situation, as well as its good faith judgment as to a client's best interests. Napier Park may refer the matter to a committee designed to monitor fiduciary relationships. Subject to the applicable investment management agreement and other governing documents, Napier Park may take such actions as it may deem necessary or appropriate to ameliorate the conflict. As an FCA regulated and authorized company, Napier Park is required to document all its actual or perceived conflicts of interest together with the remedial action that has been taken to reduce or minimize these conflicts. Such steps may include disclosure.

## **Item 12      Brokerage Practices**

### ***Brokerage Discretion***

Napier Park generally is not limited in its authority to select broker-dealers for trade execution.

In selecting an unaffiliated broker-dealer for trade execution, Napier Park uses its best judgment to select a broker-dealer that provides prompt and reliable execution at favorable securities prices and reasonable commission rates. Napier Park has an obligation to provide best execution to Professional Clients as defined in the FCA's Conduct of Business Rules. Best execution means taking all reasonable steps to obtain the best possible result for the execution of client orders, and acting in the best interests of its clients when Napier Park passes orders to other parties for execution. In doing so, Napier Park needs to take into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order, known as the "execution factors".

Napier Park may choose to participate in seminars or conferences, or other types of capital introduction service programs (collectively referred to as "Cap Intro Programs") held by affiliated and/or non-affiliated prime brokers for their current or prospective clients that are hedge fund or investment managers that manage funds or other types of investment vehicles or who are otherwise eligible to invest in Investment Vehicles managed by Napier Park. Napier Park may have an incentive to select or recommend a broker-dealer based on its interests in receiving referrals or invitations to participate in such Cap Intro Programs.

### ***Research and Other Soft Dollar Arrangements***

Napier Park currently does not utilize client's agency commission dollars to purchase research and other services, i.e., soft dollars.

### ***Allocation of Investment Opportunities***

Affiliates of Napier Park may co-invest with a client advised by Napier Park on a side-by-side basis from time to time. Clients may, from time to time, compete with such other investors for access to potential investments. Napier Park and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, such investment opportunities between or among the Investment Vehicles and its affiliates and other proprietary investment accounts. However, such allocation will not necessarily be made pro rata based on available assets. There can be no assurance that a particular investment opportunity which comes to the attention of Napier Park's affiliates will be referred to Napier Park and the Investment Vehicles it manages. Napier Park is not obligated to refer any specific investment opportunity to a client.

In the event that two or more Napier Park Investment Vehicles managed by Napier Park officers through affiliates (including proprietary portfolios) have cash available for investment at the same time and an investment opportunity arises that may be appropriate for each client and the affiliated portfolio but whose availability to Napier Park and its affiliates is limited, Napier Park and its affiliates will seek to fairly and equitably allocate such investment opportunity between or among such Investment Vehicles, taking into account such factors as each Investment Vehicle's investment objective, industry and sector focuses, size and available cash.

Napier Park will generally allocate trades on a pro-rata basis based upon capital weighting unless it is determined that pro rata allocations would not be fair and equitable, subject to the factors detailed below.

Napier Park must select from a large array of possible eligible investments those that are appropriate to the relevant Investment Vehicle. It must then decide the quantity that it is prudent to purchase, to which Investment Vehicles they should be allocated and in what size. It will never be possible to list fully every single factor that each business should take into account for each possible investment opportunity and indeed part of the skill of the investment manager at both the level of the individual and the team is the ability to weigh up the relevant factors in order to come to a balanced decision. However, the following serves as a non-exhaustive list of the factors that Napier Park should consider in respect of each portfolio when determining the allocation of assets:

- a) whether the portfolio already has sufficient exposure to, or has too much of a concentration in, certain securities, a particular issuer (or type of issuer) or market or sector;
- b) whether the portfolio is newly established and in its initial "ramp up" period;
- c) the different liquidity positions and requirements of the participating accounts;
- d) regulatory considerations on a portfolio basis (i.e., affiliate restrictions, limitations on "new issue" investments, CFTC 4.13(a)(3) de minimis exemption limitations, regulatory reporting impact);
- e) the relative capitalization and cash availability of the portfolio;
- f) the relative risk and value-at-risk profiles of the portfolio;
- g) portfolio concentration considerations;

- h) different portfolio strategies;
- i) formal and informal monitoring diversification requirements;
- j) investment time horizon;
- k) the composition of the current portfolios;
- l) the matching or complimenting assets in the portfolios;
- m) size of investment and transaction costs;
- n) minimum investment criteria;
- o) pricing;
- p) leverage levels;
- q) impact on existing hedges;
- r) effects on call or coupon distributions, if applicable; and
- s) any other factors deemed appropriate in light of the facts and circumstances of a given transaction at the time.

### ***Aggregation of Transactions***

If a portfolio manager believes that the purchase or sale of a security is in the best interests of more than one client, the portfolio manager may, but is not obligated to, aggregate the securities to be sold or purchased, to the extent permitted by applicable law and regulations. In such event, the transactions, as well as the expenses incurred in such transactions, will be allocated by the portfolio manager consistent with fiduciary duties to ensure that all clients are treated fairly and in accordance with Napier Park procedure relating to the allocation of investments as described above. The portion of an aggregated order to be allocated to each client's account will be specified contemporaneously with the execution of the trade.

## **Item 13      Review of Accounts**

### ***Review of Accounts***

Fiduciary committees consisting of senior Napier Park professionals including legal, risk and compliance meet quarterly or half yearly to review client accounts, fund performance and any significant events.

## ***Reports***

### **Funds**

Napier Park reports a Fund's performance to its investors on at least a quarterly basis.

### **Managed Accounts**

With respect to the Managed Accounts Napier Park's clients are the holders of the Managed Account. The relevant advisory agreement and related account documentation specifies the reports to be provided to the holders of a Managed Account, but generally they receive statements on at least a quarterly basis.

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

Napier Park does not receive any economic benefits from non-clients for providing investment advice or other advisory services to its clients.

Napier Park may enter into agreements with its employees, and/or third parties to solicit clients or investors for Napier Park's investment advisory services. Under such agreements, persons may refer or solicit clients or investors and receive compensation for such services. The structure of any agreement with a third party, including the compensation payable to the solicitor, will be disclosed fully to the client or investor in accordance with Rule 206(4)-3 of the Investment Advisers Act. Different solicitors, including affiliates, may receive varying amounts of compensation for their services.

In addition, Napier Park and its employees, as a matter of policy and practice, are prohibited from providing or agreeing to provide, directly, or indirectly, payment, consideration or any other item of value to any person unaffiliated with Napier Park to solicit a U.S. government entity for investment advisory services on Napier Park's behalf unless such person is a U.S. registered broker dealer and/or U.S. registered investment adviser. Any arrangement which may involve the solicitation of government entities must be in writing and shall contain provisions reasonably designed to ensure compliance with all applicable laws and rules by such person in connection with any solicitation of any governmental entities.

Napier Park also may refer clients and/or investors to its affiliates.

## **Item 15 Custody**

Napier Park does not provide custodial services to its clients. Napier Park ensures that any Investment Vehicle or other client that it advises maintains its assets with a qualified custodian, including a U.S. bank, an SEC-registered broker-dealer, a CFTC-registered futures commission merchant, or a foreign financial institution that segregates client assets.

However, under Rule 206(4)-2 of the Advisers Act, "custody" is broadly defined to also include indirectly holding funds or securities or having any authority to obtain possession of them. In



particular, Napier Park is considered by the SEC to have custody with respect to Investment Vehicles advised by Napier Park to the extent it or one of its affiliates serves in a capacity that gives it legal ownership of, or access to, such Investment Vehicle's assets (such as the general partner of a limited partnership, managing member of a limited liability company or a comparable position for another type of pooled investment vehicle). Napier Park is also considered by the SEC to have custody with respect to certain Investment Vehicles that it advises if Napier Park is authorized to withdraw client funds or securities maintained with a third-party custodian upon Napier Park's instruction to such custodian.

In order to avoid any conflict of interest that indirect custody of client assets may cause, Napier Park complies with the exemption in rule 206(4)-2(b)(4) under the Adviser's Act by arranging an annual audit of the financial statements of the Investment Vehicles managed by it and the delivery of such financial statements to those clients within 120 days of the Investment Vehicle's fiscal year-end. In the event such financial statements are not provided annually, the custodian of the relevant Investment Vehicle must send to each investor at least quarterly an account statement showing such Investment Vehicle's positions and NAV as well as its aggregate account transactions during the quarter. In addition, Napier Park must instruct a qualified independent accountant to conduct a surprise examination of the relevant Investment Vehicle during the year.

## **Item 16 Investment Discretion**

### Funds

Napier Park has the authority to determine the investments and temporary investments that a Fund may acquire without obtaining its specific consent, subject to the limitations and restrictions described in the Fund's offering materials, governing documents and investment advisory agreements.

### Managed Accounts

The relevant advisory agreement and related account documentation specify the investment authority (including limitations on it) granted to Napier Park by the holder of a Managed Account.

### In-Kind Distributions

An Investment Vehicle may receive an in-kind distribution from an investment fund in the form of securities of portfolio companies, some of which may be illiquid or restricted securities. With respect to such distributions, Napier Park may have the discretion to sell such securities and distribute the cash proceeds, distribute such securities in-kind or offer the Investment Vehicle's investors the option, subject to Napier Park's consent, either to receive the securities in-kind or have the Investment Vehicle sell them and distribute the cash proceeds. While Napier Park will use reasonable efforts in such instances to sell or to distribute marketable securities promptly, investors will bear any associated costs or market risks during the disposition process.

## **Item 17      Voting Client Securities**

Napier Park has been delegated the authority to vote investment proxies on behalf of certain of its clients and has adopted written policies that are reasonably designed to ensure proxies are voted in the best interests of its clients and to resolve conflicts of interest (the “Policies”). The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any, in a manner that serves the best interests of client accounts, as determined by Napier Park in its discretion. Clients may request a copy of the Policies and the proxy voting record relating to their account by contacting Napier Park.

As Napier Park is regulated by the FCA, it is required to disclose the nature of its commitment to the U.K. Financial Reporting Council’s Stewardship Code (the “Stewardship Code”). The Stewardship Code sets out the principals of effective stewardship by investors. It sets out good practices and is to be applied by firms on a “comply or explain” basis.

Napier Park’s investment strategy primarily involves credit and credit-related investments and only infrequently involves voting interests in listed companies and interaction with the management companies listed in the U.K. Therefore, while Napier Park generally supports the principles of the Stewardship Code, it does not consider it appropriate to conform to the Stewardship Code at this time.

## **Item 18      Financial Information**

All client fees owed to Napier Park are either paid in arrears or paid less than six months in advance. Under relevant SEC rules, this means that Napier Park is not required to disclose information about its financial position or balance sheets. Nonetheless, Napier Park confirms that it believes that it has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.