

# Wafra Capital Partners Inc.



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*Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of Wafra Capital Partners Inc. (“Wafra Capital Partners” or the “Firm”). If you have any questions about the contents of this Brochure, please contact Joseph Stowell, Chief Compliance Officer, at (212) 377-0033. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority, and any references in this Brochure to the Firm or any of its affiliates as a “registered investment adviser” are not intended to imply a certain level of skill or training.*

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

## **ITEM 2- Material Changes**

Wafra Capital Partners would like to report the following material changes since the last annual update, dated March 31, 2018:

### March 29, 2019 Updates:

- Item 8 has been modified to make enhancements to the risk factor disclosure regarding its material investment strategies.
- Item 8 has been modified to make enhancements to the conflicts of interest of Wafra Capital Partners and its affiliates.
- Item 16 has been modified to make enhancements to the description of custody
- Item 18 has been modified to reflect required disclosure

### September 4, 2018 Updates:

- Effective September 4, 2018, Joseph Stowell was appointed Chief Compliance Officer, replacing the previous Chief Compliance Officer.

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## ITEM 4 - Advisory Business

Wafra Capital Partners provides discretionary investment advisory services to its clients (each, a “Fund” and collectively, the “Funds”), which are non-U.S. domiciled investment vehicles intended for non-U.S. investors, based on each such Fund’s investment objectives, strategies, guidelines and restrictions. The Firm registered as an investment adviser with the Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in December 2011.

Wafra Capital Partners, which was formed as a Delaware corporation in December 2010, is managed primarily by members of the former Structured Finance division and Business & Product Development division of Wafra Inc. (“WIAG”), an affiliate of the Firm. Wafra Capital Partners is majority-owned by Wafra InterVest Corporation (“WIC”), a Cayman Islands company that is beneficially-owned by the Public Institution for Social Security of Kuwait. WIAG, an SEC-registered investment adviser, is wholly-owned by WIC. WIAG provides certain administrative and operational services to the Firm, including: payroll; office management and corporate accounting; affiliates’ audit oversight; and compliance oversight. Wafra Capital Partners (Luxembourg) S.A.R.L., wholly-owned by Wafra Capital Partners, LP, a Cayman Islands partnership, is based in Luxembourg and provides certain administrative and other services with regard to the Firm’s business, principally involving non-US transactions. Such services include accounting services, providing certain advice relating to tax and Shari’ah matters and conducting certain due diligence and ongoing monitoring of certain investment transactions.

On September 1, 2015, the Firm entered into a joint venture with Watani Investment Company K.S.C.C., an entity organized under the laws of Kuwait (“NBK Capital”), that conducts business under the trade name WCP Investments LP (“WCPI”). WCPI serves, and, in the future, is expected to serve as the manager (or its equivalent) for Funds advised by the Firm and marketed by NBK Capital to certain non-governmental investors primarily based in the Middle East and North Africa, which arrangements are disclosed in each such Fund’s offering documents.

The Firm’s advisory services principally focus on structuring and advising privately offered investment vehicles (each, a “Fund”) which invest in the structured finance, including equipment leasing, asset-based finance and specialty finance, and real estate sectors in the form of debt, debt like, and credit oriented instruments and other financial instruments and which vehicles, generally, though not always, are intended to comply with Shari’ah principles. Prior to Wafra Capital Partners’ formation as a distinct corporate affiliate of WIAG and subsidiary of WIC, certain of the Firm’s investment personnel, while serving as members of Wafra Inc.’s Structured Finance division, were responsible for providing day-to-day investment advisory services and making investment decisions with respect to numerous Shari’ah-compliant and other investment vehicles and products on behalf of Wafra Inc.

As of December 31, 2018, the Firm managed approximately \$4.1 billion of Fund assets and commitments, of which \$3.7 billion were managed on a discretionary basis.

## ITEM 5- Fees and Compensation

Wafra Capital Partners generally charges each Fund an annual investment advisory fee based on the amount of outstanding capital contributed or committed to the Fund by investors, or on an adjusted net asset value of the Fund. Generally, these investment advisory fees are deducted from each Fund's account on a quarterly basis. Funds also distribute to Wafra Capital Partners or to an affiliate of Wafra Capital Partners amounts akin to performance-based compensation, as discussed in Item 6. In some cases, Fund investors are subject to capital-based and/or asset-based investment advisory fees and performance-based (or similar) compensation through their Fund's investment in another Fund. Performance-based compensation is automatically deducted from the Funds.

In addition to paying investment advisory fees and, if applicable, performance-based (or similar) compensation, the Funds may be (and generally are) also subject to other investment fees and expenses, which may be considered material either individually or in the aggregate. Such fees and expenses may be paid to both affiliates and non-affiliates of the Firm and may include, but are not limited to: annual administration fees and/or shareholder servicing fees; structuring fees; selling and marketing costs; transaction due diligence and related expenses; custodial charges; investment-related fees and expenses, including travel and related expenses associated with investments, whether ultimately consummated or not, including origination, servicing, acquisition or other similar fees, expenses relating to the establishment and maintenance and administration of, and legal and other professional advice relating to Fund subsidiaries or special purpose vehicles, Fund general partners or managing members or similar entities; interest expenses; taxes, including penalties thereon, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; officer and directors' fees and expenses, which are paid to related persons of Wafra Capital Partners; travel and entertainment expenses; legal, auditing, accounting, consulting and other professional expenses; administration expenses; research expenses; and any other expenses related to the origination, purchase, preservation, sale or transmittal of Fund assets. Investments in certain Funds are and may in the future incur sales charges in connection with their subscription for Fund interests, and such sales charges may and in certain instances are shared with one or more affiliates of Wafra Capital Partners. Investors should refer to the offering documents for each Fund for a description of the particular fees and expenses applicable to that particular Fund.

The investment objective of a Fund may be to achieve during its term returns adequate to provide investors with an overall stated fixed or range of annual return and, by the expiration of such a Fund's term, the return of investors' capital. In those instances, Fund terms often provide that Wafra Capital Partners or one or more affiliates thereof or any one or more of their respective designees (which may include, for the avoidance of doubt, directors, officers and employees of the Firm and its affiliates), by virtue of one or more of those parties' ownership of certain shares or interests in such Fund, will receive the entirety of the excess value, if any, of the investments made by that Fund above and beyond that required to provide for the return of the investors' capital and the stated return.

With respect to certain Funds, Wafra Capital Partners or one or more affiliates also receive commitment, origination, acquisition, structuring, amendment, financing, monitoring

and/or other fees related to or from certain investments in which one or more Funds may invest or propose to invest, as disclosed in the Fund's Private Placement Memorandum, Investment Advisory Agreement, and/or Management Agreement.

The receipt of any of the foregoing fees or compensation by Wafra Capital Partners, its related persons or affiliates, which are expected to be, material when considered individually or in the aggregate, will not reduce or offset any investment advisory fees payable by the applicable Fund or Funds to the Firm (or one or more of its affiliates). In addition, the receipt of such fees or compensation creates a conflict of interest in that Wafra Capital Partners has an incentive to invest in those investments that generate such additional fees or compensation for Wafra Capital Partners and/or its affiliates.

Additional information about each Fund, as well as the fees and expenses that may be incurred by investors in such Fund, is provided in each Fund's offering materials, which potential investors are urged to consult.

In the event any terms or provisions of any of the Fund's respective offering documents conflicts with the information contained in this Brochure, such Fund's offering documents shall control.

## **ITEM 6 - Performance Fees and Side-By-Side Management**

As noted in Item 5, certain Funds incur a performance-based (or similar) distribution or performance-based fee or similar allocation, subject to any applicable hurdles or "high water marks." Such distributions and fees are made or paid, as applicable, to Wafra Capital Partners or to one or more affiliates of Wafra Capital Partners. As a result, it is possible for Wafra Capital Partners to have a greater incentive to favor a Fund that pays the Firm or an affiliate of the Firm (and indirectly the relevant investment personnel) performance-based compensation or otherwise pays higher fees than others that do not pay such compensation, or in which personnel of the Firm or any of its affiliates have more significant investments in or economic exposure to such Fund's underlying investments.

Additional information about each Fund, as well as the fees and expenses that may be incurred by investors in such Fund, is provided in each Fund's offering materials, which potential investors are urged to consult.

Wafra Capital Partners has adopted and implemented policies and procedures intended to address conflicts of interest relating to its provision of advisory services to the Funds, including Funds with different fee arrangements. In addition, the Firm reviews investment decisions for the Funds periodically and has policies in place in order to ensure that Funds with substantially similar investment objectives are treated fairly and equitably over time and that investment opportunity allocations are made in a manner that is fair and equitable to the Funds over time.

## **ITEM 7- Types of Clients**

As previously described in Item 4, the Funds are non-U.S. domiciled investment vehicles intended for non-U.S. investors. Any initial and additional subscription minimums are disclosed in the offering documents applicable to each Fund.

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

In providing advisory services to the Funds, and consistent with each Fund's investment objectives, Wafra Capital Partners seeks to identify investment opportunities principally in equipment leasing, transportation, asset-backed, specialty finance, and other structured financial instruments or arrangements, real estate and real-estate related instruments, and/or other financing transactions, debt structures and/or leverage-oriented

investments. Although Wafra Capital Partners does not currently offer separately managed accounts, it may seek to enter into the separately managed account business in the future.

The Funds generally are intended for investors who do not require regular current income and can accept a high degree of risk. All investment strategies used by the Firm include a risk of loss of principal, including the entirety thereof. If investors are not generally familiar with and prepared to bear such risks, they should not consider investing in the strategies used by the Firm. Investors should carefully read the offering documents relating to a Fund and consult with their financial professionals, advisors and legal counsel. The Funds are not available for investment by persons who are U.S. citizens or U.S.-domiciled persons.

The following is a summary of the investment strategies employed by Wafra Capital Partners in making investment decisions. Investors and potential investors should refer to the offering documents for a particular Fund for a more fulsome discussion of the investment strategy applicable to that particular product.

### ***Investment Strategies and Methods of Analysis – Structured Finance***

The Firm's structured finance Funds, which include any styled as "leasing," "equipment leasing," or "finance" or "financing" funds (collectively, "SF Funds"), typically seek to provide investors with periodic returns primarily derived from investments in equipment leasing, transportation, specialty finance, and other asset-backed or structured financing transactions and credit opportunities. Pending the investment of a SF Fund's assets in accordance with its primary investment strategy, or in response to market or economic conditions, a SF Fund generally may invest all or any portion of its assets in cash and cash equivalents or financial instruments, including asset-backed instruments and other similar investments. Many of these SF Funds invest through Shari'ah compliant structures.

In seeking to implement a SF Fund's investment strategy, a SF Fund will seek related exposures through investments that will involve, among other things, one or more, or any combination of, the following:

- strategic partnerships with/funding of or other exposure to companies or non-bank financial institutions, whether established platforms or new ventures, specializing in the origination and/or servicing/managing of equipment leasing, venture debt, real estate and real estate related finance, asset-based finance, structured finance or other financing transactions (including non-performing loans, small/micro-ticket leasing and various other alternative forms of commercial and/or consumer finance); borrowing (i.e., leverage) in the form and in amounts deemed appropriate by the Firm in its sole discretion;
- issuance of fund-level guarantees;
- investment in or exposure to mezzanine loans or otherwise subordinated credit instruments or structures;
- exposure to various forms of collateral, including, but not limited to, aircraft (fixed and rotary-wing), equipment and assets for the transportation, storage or distribution of petroleum and petroleum derived products, ships, automobiles and automotive assets, rolling stock and any related assets thereof;
- exposure (direct or indirect and including through securities or other financial instruments related to such exposures or companies engaged in the business of, or related businesses to, such exposures) to various forms of
- equipment and other assets/sources of return, including, but not limited to, computer networking equipment, telecommunications equipment, robotics, manufacturing equipment, forklifts, medical equipment, office furniture, oil and mining equipment (including equipment or other assets related to the exploration for, or transportation, distribution and storage of, petroleum and petroleum-derived products), construction equipment, automobiles and automotive assets, semi-conductor manufacturing and/or testing equipment, aircraft and
- related assets and financial instruments, real estate and/or real estate-related financial instruments, ships and/or related assets and financial instruments; transportation assets and/or transportation-related financial instruments; infrastructure assets (e.g., equipment) and/or related financial instruments; intellectual property; and warrants or other equity instruments;
- exposure to non-performing loans, including, but not limited to, non-performing residential mortgage loans;
- exposure to U.S. and non-U.S. currencies and the purchase and sale of various financial instruments and/or securities;
- exposure to direct or indirect counterparties of varying credit quality, including venture-funded or emerging entities as well as larger, more well-



established companies;

- direct or indirect counterparty credit enhancement through personal or corporate guarantees, advance rentals, vendor support, security deposits, letters of credit and bank guarantees; and/or
- investments in, and co-investments alongside, other pooled investment vehicles, including those that are managed according to Shari'ah principles, and asset acquisitions from other Wafra Capital Partners and non-Wafra Capital Partners managed funds.

Although SF Funds generally seek to diversify their risks by investing in a variety of transaction types and structures with varying collateral, equipment and/or other features and elements, SF Funds are not subject to any formal diversification requirements. In attempting to maximize SF Funds' returns, the Firm may concentrate the holdings of SF Funds in those investments that, in its sole judgment believes provides the best profit opportunities consistent with an SF Funds' investment objective.

Due to legal, regulatory, tax and other considerations, SF Funds generally make investments utilizing a variety of investment structures, which structures may involve the use of special or single purpose entities organized in various jurisdictions around the world.

Additionally, and for the avoidance of doubt, as SF Funds may have exposures to real estate and real estate related finance, the risks associated with RE Funds and real estate exposures (as described below) similarly apply to SF Funds.

### *Investment Strategies and Methods of Analysis – Real Estate*

The Firm's real estate Funds ("RE Funds") finance the acquisition, recapitalization and restructuring of real estate properties predominantly located in the United States and invest in other attractive real estate debt investment opportunities based on Wafra Capital Partners' ongoing analysis of prevailing market and economic conditions. Pending the investment of a RE Fund's assets in accordance with its primary investment strategy, or in response to market or economic conditions, a RE Fund generally may invest all or any portion of its assets in cash and cash equivalents or financial instruments, including asset-backed instruments and other similar investments. The RE Funds' investments, which typically, though not exclusively, involve an external fund advisor that sources, services and effects the transactions, may include investments in commercial, retail, and residential properties generally in Asia and Europe or in financial instruments related to such investments.

Investments are expected to involve, among other things, one or more, or any combination of, the following:

- strategic partnerships with/funding of companies or financial institutions, whether established platforms or new ventures, specializing in the origination and/or servicing/managing of real estate debt and real estate related finance transactions;

- providing balance sheet loans to specialty finance companies focused on real estate finance or real estate related debt;
- borrowing (i.e., leverage) in the form and in amounts deemed appropriate by the Wafra issuance of Fund-level guarantees;
- exposure (direct or indirect and including through securities or other financial instruments related to such exposures or companies engaged in the business of, or related businesses to, such exposures) to various types of real estate assets, including, but not limited to, single family, multifamily, commercial, retail and hospitality, healthcare (including, but not limited to, nursing and skilled care facilities) and senior and assisted living facilities, with investment strategies, including, but not limited to, core, value-add, opportunistic and development/construction;
- exposure to U.S. and non-U.S. currencies and the purchase and sale of various financial instruments and/or securities;
- counterparties and/or end-users of varying credit quality, including venture-funded or emerging entities as well as larger, more well-established companies;
- counterparty credit enhancement including, but not limited to, through personal or corporate guarantees, advance rentals, vendor support, security deposits, letters of credit and bank guarantees; and/or
- investments in, and co-investments alongside, other pooled investment vehicles and asset acquisitions from other Wafra and non-Wafra managed funds.

Certain other investment vehicles managed by the Firm or its affiliates typically provide mezzanine debt for the capitalization of cash flow producing real estate assets. These vehicles predominantly invest in garden style multi-family properties located throughout the United States that possess a value-add element, eventually allowing the borrower or sponsor to refinance their investment with conventional debt.

Although RE Funds generally seek to diversify their risks, the RE Funds are not subject to any formal diversification requirements. In attempting to maximize RE Funds' returns, the Firm may concentrate the holdings of RE Funds in investments that, in the sole judgment of the Firm, provide the best profit opportunities consistent with the RE Funds' investment objective.

Due to legal, regulatory, tax and other considerations, RE Funds generally make investments utilizing a variety of investment structures, which structures may involve the use of special or single purposes entities organized in various jurisdictions around the world.

### *Risks – General*

An investment in a Fund involves substantial risks, including, but not limited to, those described below. An investment in a Fund is speculative and involves a high degree of risk.

All or most of the amount invested therein may be lost. Past performance is not indicative of future results, and there is no assurance that a Fund's investment objectives will be achieved or that Wafra Capital Partners' investment strategies will be successful. The following summary identifies the material risks related to the Firm's significant investment strategies and should be carefully evaluated before making an investment with the Firm. This summary does not, however, identify all possible risks of an investment in a Fund or provide a full description of the identified risks. Potential investors are urged to carefully review a Fund's offering materials for additional information, which should be read in conjunction with this summary and the disclosures herein generally.

Overall Investment Risk: All investments risk the loss of capital. No guarantee or representation is made that any of Fund's investment program or risk management efforts will be successful. The performance of any particular investment is subject to numerous factors which are neither within the control of, nor predictable by, Wafra Capital Partners. Such factors include a wide range of economic, political, competitive and other conditions that may affect investments in general or specific industries or companies. Wafra Capital Partners may also simply make mistakes in managing a Fund's portfolio, and such mistakes could lead to material losses for the Fund. Mistakes are an inherent risk of any pooled investment vehicle such as the Fund, and shareholders will generally have no recourse against Wafra Capital Partners, the Fund Manager or any of their affiliates (or any other person) for mistakes in investment judgment or process, even in the case of negligence. As a result of the nature of investment activities, it is possible that a Fund's financial performance (including net asset values) may fluctuate substantially from period to period. Shareholders could lose a substantial portion or all of their investment.

Conflicts of Interest: Wafra Capital Partners, as investment adviser to each of the Funds, likely will cause a Fund to enter into transactions or other contractual arrangements (including guarantees) with an affiliate of the Firm, another Fund, or with an entity in which related persons of the Firm (or related persons of any of the Firm's affiliates) have or will thereby acquire ownership interests or control. At times, for example, to facilitate the structuring of an investment opportunity or to otherwise facilitate a transaction for one or more Funds, or provide credit enhancement for a Fund transaction, certain directors, officers or employees of the Firm or its affiliates may invest equity capital to fund the formation of an investment vehicle utilized in a transaction in which (or through which) a Fund may invest or participate, typically in the form of a debt financing or loan. While investment terms are expected to vary as well as the amount of equity capital invested (which may be limited as compared to the debt financing or loan provided by the Fund), generally such related persons will not receive back their capital contributions and any return thereon, with the exception of tax distributions, until all terms of the investment by the Fund in connection with the applicable investment transaction have been satisfied. Such returns may be material, are not impacted by returns (positive or negative) in other Fund investment transactions and may not be considered to have been determined on an arm's length basis, as certain likely participants in such equity capital investments are generally the parties which determine the terms on which the Fund will provide debt financing or loan or otherwise invest. Please see also "Other Financial Risks" below.

In addition, Wafra Capital Partners and its affiliates simultaneously operate Funds with similar investment objectives. Certain directors, officers and employees of Wafra Capital

Partners will provide advisory services to entities other than the Funds, and will manage or otherwise be involved with other businesses and activities, including, though not limited to, Wafra Inc., and will not devote their business time exclusively to managing and developing a Fund's investment strategy or achieving any such Fund's investment objective.

In addition, certain of the Funds expect to co-invest in a Shari'ah compliant manner, with other funds, including, but not limited to, those managed on a Shari'ah compliant basis by Wafra Capital Partners. Such Funds may also acquire assets from other Wafra Capital Partners and non-Wafra Capital Partners managed funds on an arm's length basis in a Shari'ah compliant manner and in accordance with such Fund's offering documents and applicable laws and regulations. However, to the extent a Fund invests in any Wafra Capital Partners-managed private investment funds, shareholders will not be subject to the fees charged by such funds.

The Fund Manager and Wafra Capital Partners are permitted to offer co-investment opportunities in investments to certain persons (who may or may not be shareholders or Wafra Affiliates (as defined below)) or to some (but not necessarily all) shareholders. The Fund Manager and Wafra Capital Partners may receive compensation with respect to such co-investments. Because of pre-existing relationships with certain potential co-investors or the prospect of future business relationships with certain potential co-investors, the Fund Manager and Wafra Capital Partners may have an incentive to offer co-investment opportunities to only certain shareholders or to third parties (including other Wafra Affiliates).

The Fund Manager may enter into a placement agency agreement with any placement agent or any placement agent who may be an affiliate of the Fund Manager and NBK Capital), which may not be negotiated on an arm's length basis. Each placement agent, in its capacity as a placement agent of a Fund, will be entitled to receive the upfront fees from the beneficial owners of the Fund and such upfront fees will not be borne by the Fund Manager, Wafra Capital Partners or their affiliates. In addition, in certain circumstances, each placement agent will be exculpated and indemnified from a Fund for certain liabilities, losses and damages.

Wafra Capital Partners and the Fund Manager, as well as their respective officers, directors and employees, may engage for their own account, or for the account of others, in other business ventures of any nature, and a Fund shall not be entitled to any interest therein. No such person shall be required to devote any minimum amount of time to the Fund.

The Fund Manager, Wafra Capital Partners and their affiliates may own participating non-voting shares in the Fund. They also may deal as principals with a Fund in the sale or purchase of investments of the Fund.

It is also possible that a Fund or an entity owned or controlled by Wafra Capital Partners, one or more of its related persons or an affiliate of Wafra Capital Partners, may exit an investment that a Fund continues to hold (or vice versa) or may take an investment position that may be different from a position taken by another Fund. For example, one Fund may take an investment position that is structurally or otherwise senior to that taken by another Fund. If such an underlying counterparty or issuer (as the case may be) encounters financial problems, decisions over the terms of any workout may raise a conflict of interest. Furthermore, in the event that a Fund continues to hold an investment, but another affiliate, client, or fund of or

managed by Wafra Capital Partners exits such investment, the Fund will not receive proceeds from such exit but may have a resulting larger ownership share of such investment thereafter (or vice versa).

Wafra Capital Partners, its affiliates, and/or certain employees, officers and directors (“Wafra Officers and Directors” and, collectively, with affiliates of Wafra Capital Partners, “Wafra Affiliates”) own, in the aggregate, minority or majority financial interests in one or more of its Funds’ anticipated counterparties. Wafra Capital Partners may simultaneously negotiate transactional and/or financial terms for parties on both sides of such transactions—i.e., as an advisor to one or more Funds on one side, from which Wafra Capital Partners or Wafra Affiliates earn management fees and/or performance fees, and as an owner of one of its Fund’s counterparties on the other, from which Wafra Capital Partners or Wafra Affiliates derive revenue or have the potential for capital appreciation through their ownership stakes. Accordingly, such transactional and/or financial terms may not be derived through “arm’s-length” negotiations and no assurance can be provided that the consideration and/or other financial benefits that Wafra Capital Partners or Wafra Affiliates receive due to their role on either side of such transactions is comparable to the consideration and/or other financial benefits that other parties in similar situations would receive. WCPI, an affiliate of Wafra Capital Partners, is a Manager of Funds; therefore, in such cases, the conflicts of interests described above would also apply with respect to WCPI’s relationship with the Fund, Wafra Capital Partners, and the Funds’ counterparties and service providers to the Funds (including, without limitation, the Distributor, NBK Capital and its affiliates). Furthermore, in certain instances, the Distributor is the sole subscriber to the Fund and, in such cases, would have a conflict of interest with respect to any underlying beneficial owners of the Fund, to the extent such beneficial owners are not the sole subscriber of the Fund.

Furthermore, consistent with such a Fund’s credit-focused investment strategy, such Fund and its investors may not participate in the equity portion of a transaction or the gains therefrom, even if such Fund or those investors participate in the debt portion of such transaction. In particular, the equity portion of a transaction, and the gains therefrom, may, and are likely to, be allocated to other persons (including Wafra Capital Partners and Wafra Affiliates, and any other managed clients), even if the equity opportunity is generated as a result of the debt investment. Wafra Capital Partners shall be under no obligation to allocate the equity portion of any transaction to the Fund or its investors. Nevertheless, it is expected that the gains from any such equity portion will generally be subordinated to the right of the Fund to receive its applicable return on its corresponding debt investment.

Additionally, a Fund’s counterparty may, in certain instances, terminate any given transaction with the Fund and enter into a new transaction with another Wafra Capital Partners managed Fund or another of the Fund’s counterparties, including the purchase or sale of assets or portfolios of assets from another Fund counterparty. This may result in one Wafra Capital Partners managed fund buying or refinancing assets directly or indirectly from another Wafra Capital Partners managed fund. Wafra Capital Partners or Wafra Affiliates may be responsible for causing a Fund’s counterparties to take such actions or otherwise initiate such actions.

Further, Wafra Capital Partners and its affiliates simultaneously sponsor and/or manage private funds with similar investment objectives. As a result of the foregoing, Wafra Capital Partners and its affiliates currently have, and may in the future have, additional conflicts of interest in allocating investments among its Funds, including ones in which Wafra Capital Partners and its affiliates may have a greater financial interest. Wafra Capital Partners has established policies and procedures designed to ensure that transactions made on behalf of a Fund are made in the best interest of the Fund, and to ensure that investment opportunities are allocated among its clients on a fair and equitable basis, and which allocation process may take into account the length of time that the Fund has had uninvested and/or uncommitted cash with Wafra Capital Partners in allocating certain investment opportunities between such clients.

Certain commitment, financing, monitoring, acquisition, origination, structuring, due diligence, servicing fees, releasing and remarketing or other fees related to an investment or a proposed investment by a Fund may be paid to or share with Wafra Capital Partners, one or more of its related persons, or an affiliate of Wafra Capital Partners, typically by various middle-market, venture/emerging and other originators or equity partners (“Originators”), other counterparties or asset managers involved in such investment or potential investment, and will not reduce or offset any investment advisory or management fee paid by the Fund. Such fees, if funded by the Fund as part of the aggregate cost of participating in the investment, will reduce the capital available for direct investment by the Fund. Some fees may be reflected in the price paid by a Fund for leased or financed assets. In addition, such fees may not have been negotiated at arm’s-length, especially in instances where the payor is an affiliate of or related to Wafra Capital Partners or any of its affiliates. Furthermore, such fees may be material (either individually or in the aggregate), may significantly impact the returns of shareholders, and may comprise a substantial portion of the compensation of the Fund Manager and Wafra Capital Partners in connection with their duties to the Fund. The specific amount of such fees may not be disclosed to shareholders. Where an Originator or other finance counterparty is involved in a transaction, the Originator or the finance counterparty or any affiliate thereof will generally own the residual value or upside above a defined return that the Fund will receive. Fees are negotiated and calculated separately for each Originator or other financial intermediary or counterparty. Wafra Capital Partners, its affiliates, directors, officers and/or employees may receive other compensation or profits in the nature of a promote or incentive fee (or other performance-based compensation or distributions) either through Originators, other financial intermediaries and counterparties or otherwise derived from investment returns related to a Fund’s investments.

If any expense or cost is incurred jointly for a Fund and any other managed clients or is not identifiable to the Fund or a particular managed client, such expense or cost will be allocated among the managed clients and the Fund by the Fund Manager or Wafra Capital Partners, who may have a conflict of interest in making such allocation. The Fund Manager and Wafra Capital Partners intend to allocate such expenses and costs equally or in proportion to their respective net asset values or in proportion to the size of the investment made by each managed client and the Fund in the activity, strategy or entity to which such expense or cost relates, or in such other manner as the Fund Manager and Wafra Capital Partners in their sole discretion consider fair and equitable under the circumstances.

The Fund Manager or its designee(s) (which may include, for the avoidance of doubt, directors, officers and employees of Wafra Capital Partners) will receive the excess value, if any, of the investments made by the Fund above and beyond that required to provide investors with the annual return and a return of investors' drawn capital. This arrangement may create an incentive Wafra Capital Partners to make investments that are riskier or more speculative than would be the case in the absence of such performance-based arrangement.

Wafra Affiliates own, in aggregate, majority or otherwise substantial financial interests in one or more Originators or other potential counterparties of the Funds. Under the direction of Wafra Capital Partners, a Fund may (and is likely to) invest or otherwise enter into business transactions with these Originators and counterparties. Wafra Capital Partners may simultaneously negotiate transactional and/or financial terms for parties on both sides of such transactions - as an advisor to the Fund on one side, from which Wafra Capital Partners or Wafra Affiliates earn compensation or otherwise derive revenue, and as an owner of Originators or counterparties on the other, from which Wafra Capital Partners or Wafra Affiliates derive revenue. Accordingly, such transactional and/or financial terms may not be derived through "arm's-length" negotiations; no assurance can be provided that the consideration and/or other financial benefits that Wafra Capital Partners or Wafra Affiliates receive due to their role on either side of such transactions is comparable to the consideration and/or other financial benefits that other parties in similar situations would receive.

Additionally, an Originator or other counterparty may terminate any given transaction with the Fund, and enter into a new transaction with another Wafra Capital Partners-managed fund or another Originator or counterparty, including the purchase or sale of assets or portfolios of assets from another Originator or counterparty. This may result in the Fund buying or selling assets directly or indirectly from/to another fund managed by Wafra Capital Partners. Wafra Capital Partners or Wafra Affiliates may be responsible for causing Originators or other counterparties to take such actions and may otherwise arrange for the purchase or sale of assets by a Fund from or to another Wafra Capital Partners-managed fund.

Independent Representative: Valuation Research Corporation (the "independent representative") will, as requested, provide an opinion as to whether principal economic terms of certain transactions are fair from a financial point of the Fund and whether any perceived or potential conflicts of interest arise as a result of such transactions. The opinion of the independent representative with respect to certain matters may bind a Fund's shareholders. No person should invest in a Fund unless willing to entrust these opinions to the independent representative. A Fund may designate the independent representative to receive, on behalf of each shareholder, notices and account statements as may be required under paragraph (a)(2) and (a)(3) of Rule 206(4)-2 of the Advisers Act. Furthermore, the Fund may bring before the independent representative for approval of any transaction under Section 206 of the Advisers Act or similar transaction and the costs of such services will likely be a Fund expense. None of WCPI, or another affiliated general partner, managing member or the equivalent entity, as applicable (collectively, the "Fund Manager"), the Funds or Wafra Capital Partners shall have any liability for entering into any transaction for which such consent or other approval or opinion has been received or for not entering into any transaction for which such consent or other approval or opinion has been withheld.

Other Financial Investment Risks: Pending the investment of a Fund's assets in accordance with its primary investment strategies, or in response to market or economic conditions, a Fund generally may invest all or any portion of its assets in cash and cash equivalents or other financial instruments or other transactions deemed appropriate by the Firm, including real estate-related and/or asset-backed instruments or transactions and other similar investments, including pooled investment vehicles and investments specifically structured as Shari'ah-compliant investments, such as Murabaha transactions ("Murabahas"), which may have durations ranging from short-term to long-term. Murabaha investment transactions are not FDIC insured. The returns on such investments are often (though not always) less than the overall yield target of the investing Fund. In addition, Murabahas involve substantial counterparty risk and, as a result, the Funds (and, indirectly, Fund investors) bear the risk of default under any Murabaha arrangement. Such default risks include, but are not limited to, timing defaults (risk of extension past a certain pre-defined term), repayment risks or risk of loss of both capital and return. Some of the real estate-related and/or asset-backed instruments and other investments in which a Fund may participate, which may include investments structured as Murabaha transactions, likely will include investment transactions with entities managed and/or owned (in whole or in part) by the Firm or related persons of the Firm. Please see also "Risks – Real Estate" below for a general discussion of risks associated with real-estate and/or real-estate related investments.

Leverage: The Funds' investment program likely will involve the use of, or exposure to, significant financing, or financing deemed as "borrowing" under relevant local laws. Any use of leverage will result in the Funds controlling more assets than it has equity. Leverage will increase returns to the Funds if the Funds earn a greater return on investments purchased with financed funds than the Funds' cost of financing such funds. However, the use of leverage will expose the Funds to additional levels of risk, including (a) greater losses from investments than would otherwise have been the case had the Funds not financed to make the investments and (b) losses on investments where the investment fails to earn a return that equals or exceeds the Funds' cost of financing such funds. In the event of a sudden, precipitous drop in the value of the Funds' assets, the Funds might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred by the Funds. The Funds expect to make many of their investments in the form of mezzanine or otherwise subordinated debt or debt like instruments and structures (including unsecured positions), which may increase the risk of loss as compared to investments in more senior and/or secured instruments and structures. In addition, assets may be used to cross-collateralize debt. Such an arrangement may have an adverse impact on a more significant group of assets if the value of the relevant asset declines. Accordingly, any event that adversely affects the value of an underlying investment or asset would be magnified to the extent leverage is employed. This may result in a substantial loss, which would be greater than if leverage had not been employed.

Subject to compliance with applicable Shari'ah restrictions and limitations, the Funds may, and be authorized, to (a)(i) finance and otherwise incur indebtedness or engage in financing activities, including, without limitation, obtain lines of credit, finance commitments and letters of credit for the account of the Funds (collectively, "Financings"), (ii) issue evidences of indebtedness to evidence such financings and other financings contemplated above, and (iii) enter into, deliver and perform all agreements and documents contemplated by any Financing or relating thereto, and (b) secure Financings by pledge, charge or mortgage of, or grant of other



security interests, liens or any other encumbrances over or in respect of, any or all of (i) the assets of the Funds (including, without limitation, an assignment by the Funds to the financiers, any counterparty to any Financing or any agent acting on behalf of any of the foregoing (each, a “Financing Counterparty”) of (A) the Funds’ right to receive all amounts in respect of the unfunded commitments (whether presently payable or not) from time to time, and (B) the right to deliver a call notice (as set forth in each Fund’s respective confidential offering memorandum) in accordance with the terms of the applicable Financing documentation); (ii) the rights to exercise remedies upon a default by a shareholder in payment of moneys in respect of its participating non-voting shares; (iii) the rights of the Funds to receive other payments under each Fund’s respective confidential offering memorandum, each Subscription Agreement (defined below), and articles of association; and (iv) any other rights of each Fund’s respective confidential offering memorandum, Subscription Agreement, and articles of association.

For so long as any Financing is in place, all payments made by a shareholder under its Subscription Agreement, each Fund’s confidential offering memorandum or articles of association will, if the Fund Manager so directs, be made by wire transfer in immediately available funds to an account established by the Funds which the Funds may pledge to any Financing Counterparty for the benefit of such Financing Counterparty to secure all the obligations of the Funds under or in connection with such Financing, including the payment obligations relating to any financing or financing deemed as a “loan” under relevant local laws, made or other indebtedness incurred by the Funds under or in connection with such Financing.

Shari’ah Risk: Pooled investment vehicles alongside which a Fund may invest in or co-invest with, including those managed by Wafra Capital Partners, may be governed, in part, by a Shari’ah board charged with monitoring such vehicles’ compliance with Shari’ah principles. Such boards may require, in connection with certification of the Fund’s activities for Shari’ah purposes, the unwinding or otherwise restructuring of a transaction in which a Fund is participating at a time or in a manner unfavorable to such Fund. To the extent that the Shari’ah Supervisory Board comes to the conclusion that the Fund is non-compliant with Shari’ah principles and recommends unwinding or restructuring a transaction, and the Fund elects to do so, there is the possibility, given timing and other market conditions, that the Fund will experience a loss that in the absence of such “Shari’ah-compliant mandate” it would not necessarily have incurred. In disposal at a loss scenarios (where there is a passive breach of Shari’ah compliance), the Fund may approach the Shari’ah Board for an exception to dispose of the non-compliant investment for a period of time in anticipation of better performance of the underlying investment and a reduction of the loss to be borne by the investors. There is no guarantee that the Shari’ah Board will afford this exemption and the Fund may be obliged to dispose of the investment that is not compliant with Shari’ah at a loss.

Such boards will not give specific investment recommendations to the Fund, however, because Wafra Capital Partners remains responsible for the investment management of the Fund’s assets. In addition, such co-investments, or direct investments made by a Fund, may be documented using contracts and forms designed to comply with Shari’ah principles. There can be no assurance that courts or other relevant authorities will interpret such contracts and forms consistently or as anticipated or intended by Wafra Capital Partners. Should a court or other relevant authority interpret such contracts and forms in a manner unanticipated or unintended by Wafra Capital Partners, the Fund may experience a loss.

The restrictions placed on a Fund by adherence to Shari'ah principles may: (i) result in the Fund making fewer investments, resulting in less diversification; (ii) result in the Fund performing worse than other funds or entities with comparable investment objectives that are not subject to Shari'ah investment criteria; (iii) require that certain investments be structured to take the form of Shari'ah compliant quasi-mezzanine or alternative instruments pursuant to which the Fund will benefit indirectly from the economic performance of the underlying investments; and (iv) require the Fund to dispose of investments that become non-compliant with Shari'ah at a loss or in less than optimal circumstances, such as where a business whose activities are initially Shari'ah compliant changes its activities to those which are not Shari'ah compliant.

In addition, although Wafra Capital Partners will endeavor to ensure that each applicable Fund's investments are acceptable in the context of Shari'ah, no assurance can be given that the Fund's Shari'ah investment guidelines, as approved by the Shari'ah Board, will be acceptable to other Shari'ah advisors including, but not limited to, any Shareholder's Shari'ah advisors. Therefore, all prospective investors are encouraged to consult their own Shari'ah advisors prior to making a decision to invest in the Fund.

Subordinated Investments: The Funds likely will make investments that are subordinated or otherwise junior in a Fund counterparty's capital structure and that involve privately negotiated structures. To the extent the Funds invest in or otherwise have exposure to such subordinated debt, such investments and the Funds' remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, where applicable, will be subject to the rights of holders of more senior tranches in the relevant Funds' counterparty's capital structure and, to the extent applicable, contractual intercreditor and/or participation agreement provisions. Significant losses related to such investments could adversely affect the Funds' returns.

Taxation: Wafra Capital Partners is of the view that the Funds should not be subject to U.S. income taxes or withholding taxes on income received from their U.S. activities, provided that (i) the U.S. investments entered into by the Funds constitute "portfolio debt" or are otherwise eligible for an exemption from U.S. tax and (ii) the Funds do not engage in a trade or business within the U.S. If the Funds were considered to be engaged in a U.S. trade or business (for example, as a result of its investments in Master Limited Partnerships ("MLPs")), the Funds would be required to file U.S. federal income tax returns, pay tax at regular corporate rates, and pay an additional 30% branch profits tax, which would materially impact the Funds' ability to achieve their investment objective. The determination of whether non-U.S. corporations, such as the Funds, are engaged in a U.S. trade or business is determined on the basis of the facts and circumstances in each case. No assurance can be given that the Funds will not be considered to be engaged in a U.S. trade or business. Thus, no assurance can be given that the Funds' income and gains will not be subject to U.S. federal income tax and branch profits tax or subject to state and local taxes.

The activities of a Fund could be deemed to constitute a U.S. trade or business, causing the Fund to become subject to regular U.S. federal income taxation at the corporate rate of 21% and an additional 30% branch profit tax. Alternatively, any return on the Funds' investments deemed "interest" pursuant to U.S. taxation principles may not qualify for exemption from, and thus may be subject to, a 30% U.S. withholding tax. If the activities of a Fund is deemed to

constitute a U.S. trade or business, that Fund would be subject to a 30% U.S. federal withholding tax payable with respect to items of “fixed or determinable annual or periodical” income (which term includes, among other things, certain interest income, dividends, rents and royalties) which are considered to be from sources within the U.S. and which are not effectively connected with a U.S. trade or business. This tax will apply even if the Fund complies with its obligations under the Hiring Incentives to Restore Employment Act (the “HIRE Act”). In addition, the Funds may be subject to state and local taxes in the United States. Subject to certain related party ownership rules and other limitations, any interest received by the Funds that qualify as “portfolio interest” may be exempt from U.S. withholding tax. “Portfolio interest” is generally defined (with certain exceptions) as interest paid on registered obligations issued after July 18, 1984 with respect to which the person who is otherwise required to withhold tax has received the required certification that the beneficial owner of the obligation is not a U.S. person.

The aforementioned scenarios would materially and adversely impact a Fund’s ability to achieve its investment objective and there can be no assurance that the Firm’s views with regard to these matters will be upheld by any applicable taxing authority or relevant courts.

No Operating History: Generally, at the time an investor is making an investment into a Fund, it is a new enterprise with no operating history and therefore may not be able to operate its business, implement its investment strategy or generate sufficient revenue to make or sustain distributions to investors. Accordingly, an investment in such a Fund entails a high degree of risk. There can be no assurance that the Fund will achieve its investment objective or that Wafra Capital Partners will be able to succeed in implementing the Fund’s investment strategy. There exists a possibility that an investor could suffer a complete loss of committed or invested capital as a result of its commitment to, and/or its subsequent investment in, the Fund. In addition, the past investment performance of a Fund or other entities or accounts managed by Wafra Capital Partners or any of their respective employees or affiliates may not be indicative of the future performance of the Fund.

Dependence on Fund Manager and Investment Adviser: All decisions with respect to a Fund’s assets and with regards to achieving its investment objective through its investment strategy will be made solely by the investment team of Wafra Capital Partners, the Fund Manager and the Shari’ah Board. The holders of the participating non-voting shares will have no right or power to take part in the management, conduct, and control of the business of any Fund, including the management of a Fund’s investments. In certain circumstances, Wafra Capital Partners (as holder of participant voting shares) and its directors will have the right to dissolve a Fund, but the shareholders will not have any similar right to dissolve any Fund.

The success of a Fund for the foreseeable future will depend largely upon the ability of the Fund Manager and Wafra Capital Partners and the market judgment and discretion of their investment personnel. Competition in the financial services industry for qualified employees is intense. A Fund’s continued ability to effectively manage its portfolio depends on the ability of the Fund Manager or Wafra Capital Partners ability to attract new employees and to retain and motivate its existing employees. Misconduct by employees of such Fund Manager and Wafra Capital Partners could cause significant losses to the Fund. Employee misconduct may include binding a Fund to transactions that exceed authorized limits or present unacceptable risks. In addition,

employees may violate legal or contractual obligations to such Fund Manager or Wafra Capital Partners or their respective counterparties which could result in litigation or serious financial or reputational harm to the Fund. Although such Fund Manager and such investment adviser may adopt measures to prevent and detect employee misconduct, such measures may not be effective in all cases.

No person should invest in a Fund unless willing to entrust all aspects of the management of the Fund to the manager of the Fund and all investment responsibility with respect to the Fund to its investment adviser, having evaluated their capabilities to perform such functions.

Reliance on Key Personnel: Officers, members or employees of Wafra Capital Partners are important to the successful implementation of each Fund's investment strategy. If these persons were not available to its investment adviser, the investment adviser, the investment adviser may be impaired in its ability to pursue the Fund's investment objective and implement its investment strategy.

Achievement of a Fund's Investment Objective: No guarantee or representation is made that a Fund's investment objective will be obtained, in part because the availability and performance of investment opportunities is subject to changes in economic and market conditions, which may be volatile. Moreover, all or a substantial portion of any distributions from a Fund may be a return *of* principal and not a return *on* principal. Rates of distributions will not necessarily be indicative of a Fund's overall performance. To the extent that distributions a Fund makes are distributions of uninvested principal, the principal available to be invested will be reduced, increasing the possibility that a Fund will not be able to achieve its investment objective.

Side Letter Agreements: In accordance with common industry practice, the Fund Manager and/or Wafra Capital Partners, may enter into one or more "side letters" or similar agreements with certain shareholders pursuant to which the Fund Manager and/or Wafra Capital Partners may agree to vary certain of the terms applicable to any such shareholder or grant to any such shareholder specific rights, benefits or privileges that are not made available to shareholders generally. The Fund Manager and/or Wafra Capital Partners may also agree to provide a greater level of disclosure regarding the investments and activities of the Fund to certain shareholders rather than all shareholders. Such agreements will be disclosed only to those actual or potential shareholders who the Fund Manager or Wafra Capital Partners has given the right to review such agreements.

Capital Calls: Call notices will be issued by the Fund Manager from time to time at the discretion of the Fund Manager, based upon the Fund Manager's assessment of the needs and opportunities of a Fund. To satisfy such calls, shareholders may need to maintain a substantial portion of their commitments in assets that can be readily converted to cash. Except as specifically set forth in each Fund's respective confidential offering memorandum or articles, each shareholder's obligation to satisfy call notices will be unconditional. Without limitation on the preceding sentence, a shareholder's obligation to satisfy call notices will not in any manner be contingent upon the performance or prospects of a Fund or upon any assessment thereof provided by the Fund Manager. Notwithstanding the foregoing, the Fund Manager will not be obligated to call one hundred percent (100%) of the shareholders' commitments during a Fund's term.

In certain circumstances, shareholders may be required to make payments in addition to their commitments. For example, (a) payments in respect of the upfront fee will be in addition to, and not reduce, such shareholder's unfunded commitment, (b) proceeds comprising catch-up contributions that are received by a shareholder as a result of any subsequent closings will increase such shareholder's unfunded commitment and again be available for drawdowns, and (c) proceeds derived by a Fund either from dividends, profits or similar payments or investment returns with respect to an investment or from the sale or other disposition of an Investment that (i) constitute a return of capital contributions (but not income or gain) in the sole discretion of the Fund Manager, and (ii) are distributed to a shareholder during the investment period will increase such shareholder's unfunded commitment and again be available for drawdowns.

Investors in Second or Later Closings: It is expected that, following the initial closing date, the Funds will engage in a variety of investment and investment-related activities. In connection with such activities, the Fund Manager, Wafra Capital Partners, and the Funds likely will obtain confidential information regarding actual or potential Investments. The Fund Manager, Wafra Capital Partners, and the Funds generally will not disclose such information to prospective investors in connection with their consideration of an investment in the Funds. As a more general matter, any person considering an investment in the Funds (including an existing shareholder that is considering an increase to its commitment) subsequent to the initial closing date should assume that the Fund Manager, Wafra Capital Partners, and the Funds will be in possession of information (such as information relating to actual or prospective Investments, to actual or prospective shareholders, or to other matters arising subsequent to such initial closing) which information both: (x) would be material to such person's evaluation of an investment in the Funds; and (y) will not be disclosed to such person by the Fund Manager, Wafra Capital Partners, or the Funds in connection with such evaluation. The Fund Manager, Wafra Capital Partners, and the Funds explicitly disclaim any obligation to update each Fund's respective confidential offering memorandum to include (or otherwise inform prospective investors of) any such information.

Consequences of Failure to Make Contribution in Full: In the event any shareholder fails to make a capital contribution within the time allotted in a call notice, the Fund Manager, on behalf of and for the benefit of the non-defaulting shareholders, at its sole discretion may subject such defaulting shareholder to certain adverse consequences, including, but not limited to, (i) requiring such defaulting shareholder to pay the actual costs (including attorneys' fees) and expenses of collecting the unpaid capital contribution from such defaulting shareholder, (ii) causing distributions that would otherwise be made to the defaulting shareholder to be credited against the amount in default in a manner to be determined by the Fund Manager, (iii) with the consent of the directors, causing such defaulting shareholder to forfeit (by way of compulsory redemption) all or any portion of its participating non-voting shares and/or any voting rights (if applicable) with respect to any participating non-voting shares, (iv) reducing all or any portion of the defaulting shareholder's invested capital and/or percentage interest in the Fund, as determined by the Fund Manager in its sole discretion, (v) transferring such defaulting shareholder's participating non-voting shares to any person at a value determined by the Fund Manager in its sole discretion, and/or (vi) reducing all or any portion of the defaulting shareholder's unfunded commitment as determined by the Fund Manager in its sole discretion.

Early Termination: In the event of the early termination of the Fund, the Fund would have to distribute to the shareholders their pro rata interests in the assets of the Fund. Certain assets held by the Fund may be highly illiquid and might have little or no marketable value. It is possible that at the time of such sale or distribution, certain securities held by the Fund would be worth less than the initial cost of such securities, resulting in a loss to the shareholders.

Volatile Market Conditions: Global financial markets and economic conditions have been, and continue to be, volatile. Significant write-offs in the financial services sector, the repricing of credit risk and the continuing weak economic conditions have made, and will likely continue to make, for a difficult investment environment. The current state of global financial markets and current economic conditions might adversely impact a Fund's returns.

Illiquidity Risk: A Fund's underlying investments are likely to be illiquid and may be of extended duration. Although a Fund's investments may generate current income, the return of capital and the realization of gains, if any, from an investment may not occur until the partial or complete disposition of such investment, which may not occur for a number of years.

Distributions in-kind of illiquid securities or assets to the shareholders may be made in certain circumstances, including, without limitation, in the event of the termination of a Fund. Distributed securities and assets may be subject to a variety of legal or practical limitations on sale and may have little or no marketable value. In addition, immediately following a distribution of publicly-traded securities, trading volume may be insufficient to support sales by the shareholders without such sales triggering a price decline that makes it difficult or impossible for all shareholders to sell such securities at the distribution price. Nevertheless, the distribution price of such securities will be established by the Fund Manager and Wafra Capital Partners, in their sole discretion, and will not be adjusted to reflect actual sale prices obtained by the shareholders.

An investment in a Fund must be considered an illiquid investment and involves a high degree of risk. There is no public market for participating non-voting shares, and it is not expected that a public market will develop. The participating non-voting shares are being offered without registration under the Securities Act, in reliance upon an exemption thereunder. Certain restrictions on transferability preclude disposition and transfer of participating non-voting shares other than pursuant to an effective registration statement or in accordance with an exemption from registration contained in the Securities Act. In addition, the consent of the Fund Manager must be obtained before the transfer of any participating non-voting share. Furthermore, shareholders have no redemption or withdrawal rights. Shareholders could therefore be restricted from exiting a Fund for an extended period of time. As a result, a purchase of participating non-voting shares should be considered only by persons financially able to maintain their investment and who can afford a loss of all or a substantial part of such investment.

Disclosure of Confidential Information: As part of the subscription process and otherwise in their capacity as shareholders, investors will provide significant amounts of information about themselves to the Fund Manager and the Fund. Such information may be made available by the Fund Manager, Wafra Capital Partners, and their respective directors to other shareholders, third parties that have dealings with the Fund and governmental authorities (including by means of securities law-required information statements that are open to public inspection). Investors that

are highly sensitive to such issues should consider taking steps to mitigate the impact upon them of such disclosures.

In particular, the Funds, the Fund Manager, Wafra Capital Partners, and their respective officers, directors, managers, employees, and agents may be compelled to provide information requested by a regulatory or governmental authority or agency under applicable law. Disclosure of confidential information under such laws will not be regarded as a breach of any duty of confidentiality and, in certain circumstances, the Funds, the Fund Manager, Wafra Capital Partners, and their respective officers, directors, managers, employees, and agents may be prohibited from disclosing that the request has been made. The Funds, the Fund Manager, Wafra Capital Partners, and their respective officers, directors, managers, employees, and agents may also be required to provide information regarding investors to U.S. governmental and regulatory authorities, including the SEC and the U.S. Internal Revenue Service (the “IRS”). By subscribing for participating non-voting shares, each investor consents to the release of its information to relevant authorities.

Limited Access to Information: The rights of shareholders to information regarding a Fund and its investments will be specified, and strictly limited, in each Fund’s respective confidential offering memorandum and articles of association. In particular, it is anticipated that the Fund Manager and Wafra Limited Partners will obtain certain types of material information that will not be disclosed to shareholders. For example, the Fund Manager or Wafra Capital Partners may obtain information regarding Investments that is material to determining the value of such investments. Such information may be withheld from shareholders in order to comply with confidentiality obligations or fiduciary duties or otherwise to protect the interests of a Fund.

Decisions by the Fund Manager or Wafra Capital Partners to withhold information may have adverse consequences for shareholders in a variety of circumstances. For example, a shareholder that seeks to sell its interest in a Fund may have difficulty in determining an appropriate price for such interest. Decisions to withhold information may also make it difficult for shareholders to subject the Fund Manager or Wafra Capital Partners to rigorous oversight.

Freedom of Information/Sunshine Laws: Under “freedom of information,” “sunshine,” “public records” and similar laws, certain governmental or other regulated entities may be required to publicly disclose confidential information regarding a Fund or its investments, notwithstanding contractual obligations to the contrary. Any such disclosure could have a material adverse effect upon a Fund or its investments, and could even expose a Fund, the Fund Manager or the members of the Fund Manager to claims for damages. Nevertheless, a Fund’s confidential offering memorandum and articles of association will not prohibit such entities from being admitted to a Fund.

Functional Currency: The functional currency of a Fund will be U.S. dollars. Commitments of the shareholders, capital contributions, and distributions of cash generally will be stated, made or payable in U.S. dollars. An investor whose functional currency is not U.S. dollars will bear substantial risks associated with fluctuating currency exchange rates, particularly with regard to Capital Contributions that may not become due for several years.

Litigation Risks: Each Fund will be subject to a variety of litigation risks, particularly in consequence of the prospect that one or more investments will face financial or other difficulties during the term of the Fund's investment. In the event of a dispute arising from any of the Fund's activities (or other activities relating to the operation of the Fund, the Fund Manager, or Wafra Capital Partners), it is possible that the Fund, the Fund Manager, Wafra Capital Partners, or the shareholders, members or partners of the Fund Manager or the Wafra Capital Partners may be named as defendants. Under most circumstances, the Fund will indemnify the Fund Manager, Wafra Capital Partners and their respective partners, shareholders, members, officers and employees for any costs they incur in connection with such disputes. Beyond actual costs, such disputes may adversely affect the Fund in a variety of ways, including by distracting the Fund Manager and Wafra Capital Partners and harming relationships between the Fund and its investments.

Exculpation and Indemnification: To the fullest extent permitted by applicable law, each Fund will indemnify and hold harmless and pay all actual judgments and claims against the indemnified persons (which include the Fund Manager and Wafra Capital Partners) from and against any loss or damage incurred by them, by the shareholders or by the Fund for any act or omission taken or suffered by each indemnified person (including, without limitation, any act or omission performed or omitted by any indemnified person in reasonable reliance upon, and in accordance with, the opinion or advice of experts, including, without limitation, of legal counsel as to matters of law, of accountants as to matters of accounting, or of investment bankers or appraisers as to matters of valuation) in connection with the business and operations of the Fund, any alternative investment vehicles, or investments (including, without limitation, acting as a director, officer, manager or member of a portfolio company), including actual costs and actual attorneys' fees and any actual amount expended in the settlement of any claims or any loss or any damage, except with respect to any act or omission with respect to which a court of competent jurisdiction (or other similar tribunal) has issued a final, non-appealable, decision, judgment or order that such indemnified person was grossly negligent (as such term is interpreted under Delaware law) or engaged in willful misconduct. Because the Fund Manager is structured as a limited partnership and Wafra Capital Partners is structured as a corporation, and the limited partners and shareholders of the Fund Manager and Wafra Capital Partners generally will not be personally liable for the debts and obligations of the Fund Manager and Wafra Capital Partners, respectively, shareholders may have little or no recourse to the personal assets of the limited partners and shareholders of the Fund Manager or Wafra Capital Partners even in the event that the Fund Manager or Wafra Capital Partners breaches a duty to the shareholders or the Fund.

Furthermore, as applicable shareholders may be required to return distributions for the purpose of satisfying the Fund's obligations to any indemnified person and for paying other fund expenses. Such shareholder's obligation to return distributions shall (i) terminate on the second anniversary of the date of the dissolution of the Fund (unless, if at such second anniversary, there are any legal actions, suits or proceedings by or before any court, arbitrator, governmental body or other agency then pending or any other liability (whether contingent or otherwise) or claim then outstanding, in which case, the Fund Manager shall so notify each shareholder and the obligation of each shareholder to return any distribution under this paragraph shall survive with respect to each such action, suit, proceeding, liability and claim set forth in such notice (or any related action, suit, proceeding, liability or claim based upon the same or a similar claim) until



the date that such action, suit, proceeding, liability or claim is ultimately resolved and satisfied) and (ii) not exceed an amount equal to fifty percent (50%) of such shareholder's commitment.

In addition to the foregoing, each Fund's respective articles of association provide that every current or former director and officer of the Fund will be indemnified out of the assets of the Fund against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, which they or any of them may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud or willful misconduct. No person shall be found to have committed actual fraud or willful misconduct under the articles of association unless or until a court of competent jurisdiction shall have made a final, non-appealable, decision to that effect.

Furthermore, the Fund Manager and the Fund may indemnify and hold each placement agent harmless from and against all actual claims and demands (including costs and expenses arising therein or incidental thereto) which may be made against such placement agent in respect of any loss or damage sustained or suffered by any third party except as may be set forth under the applicable placement agency agreement.

Uncovered Losses: The Funds may, for its own account, attempt to maintain insurance coverage against liability to third parties and property damage as is customary for similarly situated businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. Coverage against certain risks, such as earthquakes or floods, may be unavailable, unavailable on economical terms, available in amounts that are less than the full market value or replacement cost of underlying properties or subject to a large deductible. In addition, the Funds may invest in jurisdictions in which insurance is unavailable. There can be no assurances that the particular risks that are currently coverable will continue to be coverable on an economically affordable basis.

The Funds' investments may benefit from insurance coverage against liability to third parties and property damage. However, there can be no assurance that such coverage will be available or sufficient to cover any such risks. Coverage against certain risks, such as earthquakes or floods, may be unavailable, unavailable on economical terms, available in amounts that are less than the full market value or replacement cost of underlying properties or subject to a large deductible. In addition, the Funds' investments may be in jurisdictions in which coverage is unavailable. There can be no assurances that the particular risks that are currently coverable will continue to be coverable on an economically affordable basis.

Because the Funds are pooled investment funds, all Fund assets may be at risk in the event of an uncovered liability to third parties.

Under some circumstances, a person considering an investment in the Funds may be provided with copies of the Funds' financial statements for periods following the initial closing date. Any such person is cautioned that it will be inherently difficult to determine the value of investments held by the Funds and that, accordingly, it would be inappropriate to interpret any information set forth in such statements as a representation or warranty regarding the true fair market value of any such securities.

Investors in Parallel Funds: The Fund Manager is authorized to create one or more funds that invest in parallel with the Funds. Investors in such funds are cautioned that the operative agreements of such parallel funds may contain terms and conditions that deviate significantly from those described in each Fund's respective confidential offering memorandum or in each Fund's respective articles of association. In all cases, the investment in such parallel funds must be independent from the investment in the Funds and must require written consent of shareholders participating therein.

Investors in Feeder Funds and Nominee Relationships: If a shareholder is a "Feeder Fund" (as defined in each Fund's confidential offering memorandum) or the shareholder is acting as trustee, agent, representative or nominee for any underlying beneficial owner ("Beneficial Owner"), the Indemnified Persons shall have no duties, obligations, or liabilities to any investor in such Feeder Fund or to any Beneficial Owner or under or pursuant to any of the agreements governing the operations of such Feeder Fund, the relationship between the shareholder and such Beneficial Owner, or any confidential offering memoranda, marketing materials, or similar documentation or materials related to such Feeder Fund or provided by the shareholder to such Beneficial Owner. Furthermore, such Feeder Fund investors or Beneficial Owners are not purchasing direct interests in the Funds and will have no contractual relationship with and no direct recourse against any Indemnified Persons. In addition, any such Feeder Fund investor and Beneficial Owner is subject to transfer restrictions applicable to their indirect investments in the Funds. Moreover, if a shareholder is a Feeder Fund or the shareholder is acting as trustee, agent, representative or nominee for any Beneficial Owner, and such shareholder becomes a defaulting shareholder, the Fund Manager may apply default remedies against such Shareholder and the entirety of its investment in the Fund, regardless of whether only some Feeder Fund investors or Beneficial Owners defaulted on their own obligations to such Shareholder.

Substantial Competition: Other major investors with significant capital and positioning in the market will compete with the Funds for investment opportunities. These competitors include investment banking firms, banks and other financial institutions, investment partnerships, individuals, and real estate investment trusts. These competitors may have greater resources, more favorable financing arrangements, larger research or technology staffs, more sophisticated software and equipment and more analysts and investment team members than are available to the Funds and Wafra Capital Partners and may have different investment objectives than the Funds, enabling them to accept more risk or pay higher prices than Wafra Capital Partners deems appropriate for the Funds. Due to substantial competition, the Funds may be unable to find attractive investments that offer suitable rates of return and there can be no assurance that the Funds will be able to invest fully its assets.

Non-U.S. Transactions: The Funds, directly or indirectly, may enter into transactions with or involving non-U.S. counterparties. In connection with such transactions, the relevant assets may be permanently or temporarily located outside the U.S., and the relevant contracts may be governed by non-U.S. laws.

Limited Redemption: Fund investors have no redemption rights and could be restricted from exiting a Fund for an extended period of time. Fund investors also have limited rights to transfer shares.

Joint Venture Risk: The Funds may co-invest with third-parties through funds, joint ventures or other entities or strategies which may or may not be controlled by Wafra Capital Partners or its affiliates or related persons. Such investments may involve risks not present if such third-parties were not involved, such as risks of ineffective decision making, impasses on joint venture decisions, the risk that the third-party may declare bankruptcy or otherwise fail to meet its financial commitments, and the risk that the third-party may have economic or business interests or goals which are inconsistent with those of the Funds or may otherwise be in a position to take action contrary to the Funds' interests. In addition, the Funds may under certain circumstances be liable for the actions of its co-investors.

The Funds may invest in certain transactions directly by, for example, acquiring a transaction by means of an assignment, or indirectly by, for example, acquiring a participation interest. Holders of participation interests may be subject to additional risks not applicable to a holder of a direct interest in a transaction, such as the additional credit risk of the counterparty, the lack of voting rights and the lack of direct enforcement rights in connection with a default under the underlying transaction.

Valuation Risks: Substantial uncertainty and subjectivity may exist in the valuation of certain assets, particularly for illiquid investments, and even the Fund Manager's best judgment as to fair value may not accurately reflect the prices at which the Funds could actually purchase or sell such assets or levels at which the Funds may invest. The Fund Manager and the Wafra Capital Partners may determine the value of many investments based on a variety of valuation methodologies, which depend on a variety of inherently unreliable estimates and assumptions. The methodologies applied to particular assets or types of assets may vary from case to case and over time depending on a range of factors. A failure to properly value the Funds' assets could have a material adverse effect on the returns earned by shareholders. Many assets are subject to rapid changes in value caused by sudden company-specific or industry-wide developments. For certain illiquid investments, long periods of time may pass during which the Administrator (as applicable), the Fund Manager, and Wafra Capital Partners may have no basis upon which to change the reported value of the investment, with the result that large price movements could occur suddenly when information does become available or an investment is liquidated.

All values assigned to assets and liabilities by the Administrator, the Fund Manager Wafra Capital Partners generally are conclusive and binding on all shareholders.

In order to value the assets and liabilities of the Funds, the Administrator, the Fund Manager, and Wafra Capital Partners may rely on information provided by employees of the Fund Manager, Wafra Capital Partners or outside parties, and such persons may provide inaccurate, incomplete, outdated or otherwise unreliable information. The Administrator, the Fund Manager, and Wafra Capital Partners may be unable to detect every error contained in the valuation information. To the extent the information received by the Funds is inaccurate or unreliable, the valuation of the Funds' assets and liabilities may be inaccurate.

Contagion Risk: Where applicable, the Funds may have the power to issue shares in classes or series. The articles of association of each relevant Fund provide for the manner in which the liabilities are to be attributed across the various classes or series (liabilities are to be attributed

to the specific class or series in respect of which the liability was incurred). However, each Fund is a single legal entity and there is no limited recourse protection for any class or series. Accordingly, all of the assets of the Funds will be available to meet all of its liabilities regardless of the class or series to which such assets or liabilities are attributable. In practice, cross-class or cross-series liability is only expected to arise where liabilities referable to one class or series are in excess of the assets referable to such class or series and it is unable to meet all liabilities attributed to it. In such a case, the assets of the Funds attributable to other classes or series may be applied to cover such liability excess and the value of the contributing classes or series will be reduced as a result.

Lock-Out Period Risk: Many of the Funds are subject to lock-out periods, which typically range from 24 to 36 months. During this period, a Fund's principal may not be returned to investors. This may influence the Fund to invest in longer term investments, which may not mature during the Fund term, thus potentially delaying the return of the investment as planned. In the alternative, if some or all of a Fund's underlying investments are of shorter duration than any applicable lock-out period, the Fund may have assets that are not fully invested, and thus may not be able to provide an adequate return to the investors. The lock-out provisions relating to a particular Fund, if any, are described in that Fund's offering documents.

Exit Strategy Risk: In order to meet capital repayment obligations, targets or duration expectations, a Fund may need to sell or refinance its underlying investments. Depending on the market cycle in any given market, there may not be willing buyers or buyers willing to pay the Fund the expected value of an investment. Similarly, there may not be financiers willing or able to refinance a Fund's investment on acceptable terms. As a result, such a Fund may need to either extend its term, if permissible, or realize a substantial loss on liquidation of its investment.

Counterparty Failure/Default: The Funds are subject to the risk of the failure or default of any of the Fund's direct or indirect counterparties. The Funds may seek to minimize such counterparty risk through various forms of counterparty diversification and monitoring; however, there can be no assurance that these efforts will be attempted or successful. Some companies to which the Funds directly or indirectly may extend financing, or in which the Funds directly or indirectly may otherwise invest in or have exposure to, may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small participants in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies. Such companies also tend to be less capable of weathering downturns in market cycles or general economic downturns.

Moreover, a direct or indirect counterparty's failure to satisfy financial, operating or "key man" covenants imposed by a Fund or another provider of financing could trigger defaults or cross defaults that jeopardize such counterparty's ability to make payments under or otherwise perform under financings or other contractual relationships with such Fund.

Lack of Diversification: Many of the Funds are subject to Shari'ah guidelines, and all have finite amounts of capital. In addition, while some Funds, consistent with their investment objectives, strategies and restrictions, receive committed capital as investment transactions become available, other Funds, consistent with their investment objectives, strategies and restrictions, receive all or a significant portion of their available capital at or near the launch of the Fund. As a result, due to the timing of the availability of funds and the desire to make timely investments, as well as possible limitations on potential investments, a Fund's investment portfolio may not be as diverse with respect to geographic, Originator or other counterparty, direct or indirect exposure to equipment or other assets, which may include financings or other intangible assets (collectively, "Assets"), industry, or other diversification factors as a portfolio that is not subject to such restrictions.

Blind Pool: A Fund's investments may not be specified, shareholders will not have an opportunity to evaluate for themselves the investments in which a Fund's capital will be invested or the terms of these investments. The shareholders must depend upon the ability of the investment adviser with respect to the selection of investments and decisions with respect to an investment once made or obtained, including when and if to divest of an investment.

No Liability Beyond Fund Assets: None of the Fund Manager, Wafra Capital Partners, the directors or officers (nor any of their respective directors, officers and employees, as applicable) shall have personal liability to the Funds or the holders of the participating non-voting shares for the return of any capital contributions; it being understood that any such return shall be made solely from a Fund's assets.

Limited Transferability: A Fund's investor shares are not listed on any securities exchange, and there are significant restrictions on transferability.

Third Party Indemnification; Reserve for Contingent Liabilities: In the normal course of its operations, a Fund may enter into contracts that contain indemnification provisions. While Wafra Capital Partners expects the risk of loss to be remote, future claims are inherently unpredictable; accordingly, a Fund's maximum exposure under these arrangements is unknown. Under certain circumstances, Wafra Capital Partners, in consultation with its directors, may find it necessary to establish a reserve for contingent liabilities or withhold a portion of a shareholder's redemption proceeds in which case, depending on how such reserve is maintained, the amount in reserve may remain at the risk of investment activities.

Hedging: In connection with certain Fund investments, a Fund may utilize hedging techniques designed to minimize the risks of adverse movements in, among other things, profit or rates deemed as "interest rates" under relevant local laws, securities prices, and/or currency exchange rates. While such transactions may reduce certain risks, the hedging transactions themselves may entail other risks, such as unanticipated changes in profit or rates deemed as "interest rates" under relevant local laws, securities prices or currency exchange rates and may result in a poorer overall performance for the relevant Fund than if it had not entered into such hedging transactions. In addition, there may be a lack of control over the underlying investment of a Fund (or the cash flows associated with such investment) which is denominated in a currency other than the Fund's currency. This may make it difficult for the Firm to hedge any resulting exposure.

In the case of some Funds that are not denominated in the currency of the underlying investments, such Funds may enter into currency swaps or hedging transactions with respect to both the anticipated investments and the projected cash flows therefrom. However, if the actual cash flows of a Fund's underlying investments do not substantially match the hedged cash flows, the difference in timing may result in the need to purchase needed funds at spot, subjecting the fund to a possible difference in exchange rates at the time of receipt of the actual cash flows, or funds which cannot be immediately repaid to investors, resulting in uninvested funds, which may result in an additional expense to the Fund. While the Fund generally will seek to enter into investments with contractual cash flows that may minimize this risk, there can be no assurance that it will be successful in doing so or that it will in fact receive its contracted-for cash flows.

Distressed Investments: A Fund may invest in or have exposure to unrated or "distressed" investments, i.e., investments in companies that are experiencing significant financial or business difficulties, including companies involved in debt restructurings or in bankruptcy or other reorganization and liquidation proceedings. A Fund may also purchase financial instruments of companies of low credit quality, purchase loans that are in default or purchase trade claims of suppliers and others, both within or outside of insolvency or reorganization proceedings. Although such investments may result in significant returns, they involve a high degree of risk. Investments of this type involve substantial financial and business risks that can result in substantial or at times even total losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Restructurings or reorganizations may fail to be completed or be substantially delayed and expected returns on their securities may never materialize. Non-performing loans, by their nature, may prove uncollectible or not yield appreciable returns for considerable periods of time.

Distressed investments also may be adversely affected by U.S. state and federal (and similar foreign) laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and ask prices of such securities is often greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value. In addition, in liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there is the risk that the reorganization either will be unsuccessful (for example, due to failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which is less than the purchase price the Fund paid for the security in respect of which such distribution was made.

Successful distressed investing requires considerable expertise and experience. The level of analytical sophistication, both financial and legal, necessary for successful investment in such companies, loans or claims is unusually high. There is no assurance that Wafra Capital Partners will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or rehabilitation of a distressed issuer or adequate

realization upon such loans and claims. The Fund's performance may be substantially impaired by unsuccessful distressed or low credit investments.

Financing Arrangements; Availability of Credit and Fund Level Guarantees: A Fund's investment program may involve the use of financings, including the use of margin, repurchase agreements, bank or dealer credit lines or the issuance of Fund level guarantees. There can be no assurance that such Fund will be able to maintain adequate financing arrangements under all market circumstances. Such risk is compounded by the fact that any such financing will need to comply with Shari'ah.

As a general matter, the banks and dealers that may provide financing to a Fund may apply discretionary margin requirements, "haircuts", and security and collateral valuation policies (and with certain of the Funds, applying discretionary margin requirements must be made in a Shari'ah compliant manner, if applicable). Banks and dealers may change these policies at any time, for any reason, including a change in market circumstances, government, regulatory or judicial action or simply a change in the policy of the relevant bank. Changes by banks and dealers in one or more of these policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances, government regulatory or judicial action, may result in largemandatory prepayments, loss of financing, forced liquidations of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other banks and dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants simultaneously. The imposition of any such limitations or restrictions could compel a Fund to liquidate all or part of its portfolio at disadvantageous prices, perhaps leading to a complete loss of a Fund's equity.

A Fund could also be subject to a "margin call", pursuant to which it must either deposit additional funds with the broker or be the subject of mandatory liquidation of the securities over which the broker has been granted security to compensate for the decline in value. A "margin call" can essentially be made at the discretion of the relevant broker, even if the securities over which that broker has been granted security to secure such Fund's margin accounts, have not declined in value. In the event of a sudden drop in the value of a Fund's assets, the Fund Manager and Wafra Capital Partners might not be able to liquidate assets quickly enough to pay off the margin debt. In such a case, the relevant broker may liquidate additional assets of the Fund, in its sole discretion, in order to satisfy such margin debt.

U.S. Government Securities: A Fund's counterparties may have exposure to U.S. Government securities. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises. U.S. Government securities also include Treasury receipts and other stripped U.S. Government securities, where the interest and principal components of stripped U.S. Government securities are traded independently. These securities are subject to market and interest rate risk. A Fund's counterparties may also have exposure to zero coupon U.S. Treasury securities and in zero coupon securities issued by financial institutions, which represent a proportionate interest in underlying U.S. Treasury securities. A zero coupon security pays no interest to its holder during its life, and its value consists of the difference between its face value at maturity and its cost. The

market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

High Growth and Technology Investments: A Fund may also have exposure to investments in the securities or other financial instruments of high growth companies and those in the technology sector. These securities or instruments may be very volatile. In addition, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, may operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses, have limited ability to protect their rights to certain patents, copyrights, trademarks and other trade secrets, or be otherwise adversely affected by the extremely competitive markets in which many of their competitors operate.

Short Sales: A Fund's investment program may include short selling. Short selling, or the sale of securities not owned by a Fund, necessarily involves certain additional risks. Such transactions expose such Fund to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by a Fund in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein a Fund might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier. There can be no assurance that securities necessary to cover a short position will be available for purchase.

Companies in the rapidly changing fields of computer/Internet technology and science face special risks. For example, these companies spend heavily on research and development and their products or services may not prove commercially successful or may become obsolete quickly. The computer/Internet technology and science areas may be subject to greater governmental regulation than many other areas, and changes in governmental policies and the need for regulatory approvals may have a material adverse effect on these areas. Additionally, companies in these areas may be subject to risks of developing technologies, competitive pressures and other factors and are dependent upon consumer and business acceptance as new technologies evolve.

Incentive to Make Riskier or More Speculative Investments: The receipt by Wafra Capital Partners of the excess value, if any, of the investments made by the Fund above and beyond that required to provide the holders of the Fund's shares with their respective yield, and a return on such investors' capital, may create an incentive for Wafra Capital Partners to cause the Fund to make investments that are riskier or more speculative than would be the case if Wafra Capital Partners was not entitled to such excess amounts, if any.

Annual Return: There is no guarantee that net proceeds will be sufficient to distribute the annual return to shareholders. To the extent that net proceeds received by the Funds are insufficient to make the expected distribution of the applicable portion of the annual return with respect to a



particular month, the Funds, in the Fund Manager's sole discretion, may make a reduced distribution or no distribution at all with respect to such month.

The receipt of the excess value, if any, of the investments made by a Fund above and beyond that required to provide the holders of certain share classes with the Annual Return and a return of such investors' drawn capital may create an incentive for Wafra Capital Partners, as an affiliate of the Fund Manager, to cause such Fund to make investments that are riskier than would be the case if the Fund Manager was not entitled to such excess amounts, if any.

In addition, in the event that a Fund makes debt investments to counterparties that are subordinated, structurally or otherwise, to other creditors, the Fund may not be able to receive proceeds from such investments until more senior creditors have been repaid.

Currency Risk: Some of the Funds, which can be either U.S. dollar denominated or non-U.S. dollar investment vehicles, invest in transactions that are denominated in a different currency than the Fund's base currency. In some cases these underlying transactions are not hedged. Currencies may decline in value relative to a Fund's base currency. Currency exchange rates may fluctuate significantly over short periods of time, and a decline in the value of any given relevant currency relative to a Fund's base currency will reduce the value of an investment held by a Fund and denominated in those currencies. Currencies are also subject to risks caused by inflation, interest rates, budget deficits and low savings rates, political factors and government controls. Other factors that may also affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment, capital appreciation and political developments. The determination as to whether a Fund will enter into transactions to hedge such risks will be made by Wafra Capital Partners, in its sole discretion. Even in the event that Wafra Capital Partners enters into any such transactions, there can be no assurance that a Fund will be able to successfully mitigate the inherent currency risks attributable to investments made in other currencies, and, therefore, a Fund may experience losses attributable to such risks. Additionally, there can be no assurance that a Fund will be able to enter into effective hedges even if determined advisable by Wafra Capital Partners (i.e., such hedges may be unavailable or available only on terms determined by Wafra Capital Partners, in its sole discretion, to be unfavorable to a Fund) and thus a Fund may have substantial un-hedged currency exposures.

Credit Risk: Some Fund strategies include the purchase of, or direct or indirect exposure to, credit products. Although a Fund may seek to hedge a portion of the perceived vulnerable credit exposure relating to these investments, it may not always do so or be able to do so, and, in any event, such hedges may not always be effective. Accordingly, there will always be some and sometimes significant amounts of credit risk in such Fund's portfolio.

Derivatives: To the extent that a Fund invests in swaps, derivative or synthetic instruments, repurchase agreements or other over-the-counter transactions, such Fund may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, daily mark-to-market and settlement, and segregation and minimum capital requirements applicable to

intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets (directly or indirectly) of a Fund, and hence a Fund should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this segregation, and there may be practical or time problems associated with enforcing rights to its assets in the case of an insolvency of any such party.

Options: The purchase or sale of an option (including an over-the-counter option) involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

Fixed Income; Debt Investments; and Loans: A Fund may have exposure to fixed income securities and other like instruments. Exposure to investments in these securities and instruments may offer opportunities for income and capital appreciation, and may also be used for temporary defensive purposes and to maintain liquidity. Fixed income securities and other like instruments are obligations of an issuer or obligor to make payments of principal and/or interest on future dates, and include, among other securities and instruments: bank debt, bonds, notes, and debentures issued by corporations; debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or by a non-U.S. government or one of its agencies or instrumentalities; municipal securities; and mortgage-backed and asset-backed securities. These securities and instruments may pay fixed, variable, or floating rates of interest, and may include zero coupon obligations. Fixed-income securities and instruments are subject to the risk of the issuer's, obligor's or a guarantor's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer/obligor, and general market liquidity (i.e., market risk). A Fund's fixed income investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer/obligor repaying the principal on an obligation held by the Fund earlier than expected. This may happen when there is a decline in interest rates or when a borrower's performance allows the refinancing of certain classes of debt with lower cost debt. To the extent early prepayments increase, they may have a material adverse effect on the Fund's investment objective and the profits on capital invested in fixed income investments.

As with other investments made by a Fund, there may not be a liquid market for any of the debt instruments in which such Fund has exposure.

A Fund may have exposure to investment grade loans and bonds. Investment grade securities typically do not contain significant covenants or other restrictions on the ability of the issuers to engage in certain activities which can lead to deterioration in their credit quality. Such

activities can include the declaration of dividends, the spin-off of substantial corporate assets, increases in corporate leverage for any purpose and engaging in mergers and acquisitions, whether as a buyer or a seller. Such activities can lead to sudden changes in the credit profile of such issuers and consequently to downgrades of their credit ratings. In addition, a deterioration of an issuer's operating performance, competitive position or outlook for any reason can also lead to negative rating agency actions. These factors and others can ultimately lead to reduced prices for an issuer's securities in the markets and losses for a Fund.

A Fund may have exposure (direct or indirect) to below investment-grade fixed income securities. Bonds and other fixed income securities, including, without limitation, higher yielding (and, therefore, higher risk) below investment-grade debt securities contain certain risks. Such securities may face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. High yield bonds (commonly known as "junk bonds") and other similar debt securities may be junior to the obligations of companies to senior creditors, trade creditors and employees. The lower rating of high yield debt reflects a greater possibility that adverse changes in the financial condition of the issuer or in general economic, financial, competitive, regulatory or other conditions may impair the ability of the issuer to make payments of principal and interest. High yield debt securities have historically experienced greater default rates than investment-grade debt securities.

A Fund may have exposure to corporate debt. Corporate debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity.

Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities.

A Fund likely will have exposure to debt and credit-oriented instruments. Various laws enacted for the protection of creditors may apply to indebtedness in which the Fund invests or otherwise has exposure to. The information in this paragraph is applicable with respect to U.S. issuers subject to U.S. federal bankruptcy law. Insolvency considerations may differ with respect to other issuers. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of indebtedness, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness, and that, after giving effect to such indebtedness, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of such issuer, or to recover amounts previously paid by such issuer in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. There can be no assurance as to what standard a court would apply in order to determine whether the issuer was "insolvent" after giving effect to the incurrence of the indebtedness in which a Fund

invested or that, regardless of the method of valuation, a court would not determine that the issuer was “insolvent” upon giving effect to such incurrence. In addition, in the event of the insolvency of an issuer of indebtedness in which a Fund invests, payments made on such indebtedness could be subject to avoidance as a “preference” if made within a certain period of time (which may be as long as one year) before insolvency. In general, if payments on indebtedness are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured from the Fund.

Indebtedness consisting of obligations of non-U.S. issuers may be subject to various laws enacted in the countries of their issuance for the protection of creditors. These insolvency considerations will differ depending on the country in which each issuer is located or domiciled and may differ depending on whether the issuer is a non-sovereign or a sovereign entity.

A number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various legal theories (collectively termed “**lender liability**”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower, has committed fraud, or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain potential Fund investments, the Fund could be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of the other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “**equitable subordination**.” Because of the nature of certain potential Fund investments, the Fund could be subject to claims from creditors of an obligor that the investments issued by such obligor that are held by the Fund should be equitably subordinated.

A Fund’s investments may involve investments in which the Fund would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting a Fund’s investments could arise without the direct involvement of the Fund.

A Fund may have exposure to bank debt, which includes interests in loans to companies or their affiliates undertaken to finance a capital restructuring or in connection with recapitalizations, acquisitions, leveraged buyouts, refinancings or other financially leveraged transactions and may include loans which are designed to provide temporary or bridge financing to a borrower pending the sale of identified assets, the arrangement of longer-term loans or the issuance and sale of debt obligations. A Fund may also invest in financial instruments, including interests on secured or unsecured whole commercial, consumer and other loans and lease contracts. These loans, which may bear fixed or floating rates, have generally been arranged through private negotiations between a corporate borrower and one or more financial institutions (“**Lenders**”),

including banks. The Fund's investment may be in the form of participations in the Lenders' interest in the underlying loans ("**Participations**") or of assignments of all or a portion of loans from Lenders ("**Assignments**").

In certain cases, the rights and obligations acquired by a Fund through the purchase of a Participation or an Assignment may differ from, and be more limited than, those held by the participating or assigning selling institution. Assignments are sold strictly without recourse to the selling institutions, and the selling institutions will generally make no representations or warranties to the Fund about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans.

The Fund has the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the Participation. Thus, the Fund may be assuming the credit risk of both the borrower and the Lender that is selling the Participation. In addition, in connection with purchasing Participations, the Fund generally will have no role in terms of negotiating or effecting amendments, waivers and consents with respect to the loans underlying the Participations. In the event of the insolvency of the Lender, the Fund may be treated as a general creditor of the Lender and may not benefit from any set-off between the Lender and the borrower.

Investments in Participations and Assignments involves additional risks, including the risk of nonpayment of principal and interest by the borrower, the risk that any loan collateral may become impaired and that a Fund may obtain less than the full value for the loan interests sold because they may be illiquid. Purchasers of loans depend primarily upon the creditworthiness of the borrower for payment of interest and repayment of principal. If scheduled interest or principal payments are not made, the value of the instrument may be adversely affected. A Fund's right to consent to amendments and waivers of the underlying loans may be limited in both Assignments and Participations.

Investments in loans through direct assignment of a financial institution's interests with respect to a loan may involve additional risks. For example, if a loan is foreclosed, a Fund could become a direct or indirect part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, a Fund could be held liable as a co-lender.

A loan is often administered by a bank or other financial institution that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. Unless, under the terms of the loan or other indebtedness, a Fund has direct recourse against the borrower, the Fund may have to rely on the agent to apply appropriate credit remedies against a borrower. If assets held by the agent for the benefit of a Fund were determined to be subject to the claims of the agent's general creditors, the Fund might incur certain costs and delays in realizing payment on the loan or loan participation and could suffer a loss of principal or interest.

Interests in loans are also subject to additional liquidity risks. Loans are generally subject to legal or contractual restrictions on resale. Loans are not currently listed on any securities exchange or automatic quotation system, but are traded by banks and other institutional investors engaged in loan syndication. As a result, no active market may exist for some loans, and to the extent a secondary market exists for other loans, such market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Consequently, a Fund may have difficulty disposing of Assignments or Participations in response to a specific economic event such as deterioration in the creditworthiness of the borrower, which can result in a loss.

Commodity and Futures Contracts: Trading in commodity and futures contracts and options thereon are highly specialized activities which while they may increase the total return in a Fund's investments, may entail greater than ordinary investment risks. A limited number of Wafra Capital Partners' Funds, if any, may have exposure (likely indirect) to such contracts.

Commodity and commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage may be typical of a commodity futures trading account. As a result, a relatively small price movement in a commodity futures contract may result in substantial losses to the trader. Commodity futures trading may also be illiquid. Certain commodity exchanges do not permit trading in particular futures contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, a party with direct exposure to commodity and futures contracts could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses.

Commodity options, like commodity futures contracts, are speculative, and their use involves risk. Specific market movements of the cash commodity or futures contract underlying an option cannot be predicted and no assurance can be given that a liquid offset market will exist for any particular futures option at any particular time.

Commodity-Related Securities: The production and marketing of commodities, may be affected by actions and changes in governments. In addition, commodity-related securities may be cyclical in nature. During periods of economic or financial instability, commodity-related securities may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various commodities. Commodity-related securities may also experience greater price fluctuations than the relevant commodity. In periods of rising commodity prices, such securities may rise at a faster rate, and conversely, in time of falling commodity prices, such securities may suffer a greater price decline.

Investment in Troubled Assets: The Funds may make investments in or otherwise have exposure to non-performing or other troubled assets, possibly utilizing leveraged capital structures. By their nature, these investments will involve a high degree of financial risk, and there can be no

assurance that the Funds' rate of return objectives will be realized or that there will be any return of capital. Furthermore, investments in or exposure to properties operating in workout modes or under Chapter 11 of the United States Bankruptcy Code are, in certain circumstances, subject to certain additional potential liabilities which may exceed the value of the Funds' original investment. Numerous other risks also arise in the workout and bankruptcy contexts.

Assignments and Participations: A Fund may invest in certain transactions directly by, for example, acquiring a transaction by means of an assignment or indirectly by means of a participation interest. Holders of participation interests may be subject to additional risks not applicable to a holder of a direct interest in a transaction, such as the additional credit risk of the counterparty, the lack of voting rights and the lack of direct enforcement rights in connection with a default under the transaction.

Fraud: In making certain investments, a Fund may rely upon the accuracy and completeness of representations made by the issuer or sponsor of such investment, but cannot guarantee the accuracy or completeness of such representations. Of concern in originating and in purchasing investments is the possibility of material misrepresentation or omission on the part of an issuer or sponsor. Such inaccuracy or incompleteness may adversely affect the valuation of any collateral underlying an investment, or may adversely affect the likelihood that a lien on the collateral securing an investment has been properly created and perfected. Instances of fraud and other deceptive practices committed by senior management of certain companies in which the strategies may invest may undermine the ability of Wafra Capital Partners to conduct effective due diligence on, or successfully exit investments made by a Fund in, such companies. In addition, financial fraud may contribute to overall market volatility, which can negatively impact a Fund's investment strategy. Under certain circumstances, payments to a Fund may be reclaimed if they are later determined to have been made with an intent to defraud creditors or make a preferential payment.

Follow-on Investments: Following an initial investment in an opportunity, a Fund may make additional investments in that opportunity, generally known as "follow-on" investments, in order to, among other things, increase or maintain in whole or in part its exposure to the opportunity or attempt to preserve or enhance the value of its investment. A Fund may elect not to make follow-on investments or may otherwise lack sufficient funds to make these investments. If a Fund (or another party) fails to make a follow-on investment, the continued viability of an opportunity may, in some circumstances, be jeopardized.

Regulation and Changes in Applicable Law: The Funds must comply with various legal requirements, including requirements imposed by the securities laws in various jurisdictions. Should any of the applicable laws change over the scheduled term of a Fund, the legal requirements to which a Fund and its investors may be subject could differ materially from current requirements and could negatively impact a Fund's ability to achieve its investment objective. If a Fund is not registered as an investment company under the U.S. Investment Company Act of 1940, as amended (or any similar U.S. state or non-U.S. laws), investors will not be accorded the protective measures provided by such legislation. In addition, some Funds do not constitute a mutual fund under the Mutual Funds Law (As Revised) of the Cayman Islands and thus are not subject to regulation under such law.

In addition, market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of the private investment fund industry in general. Certain legislation proposing greater regulation of the industry periodically is considered by U.S. federal, state and local and non-U.S. governments, regulatory or administrative agencies, self-regulatory organizations or other similar entities. It is impossible to predict what, if any, changes in the regulations applicable to the Funds, the Fund Manager, or Wafra Capital Partners, the markets in which they trade and invest, or the counterparties with which they do business may be instituted in the future. Any such regulation could have a material adverse impact on the profit potential of the Fund, as well as require increased transparency as to the identity of shareholders.

Profit, or amounts deemed as “interest” under relevant local laws, dividend and other income realized by the Funds from non-U.S. sources, and capital gains realized on the sale of securities of non-U.S. issuers, may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced. It is impossible to predict the rate of foreign tax the Funds will pay, since the amount of the assets to be invested in various countries and the ability of the Funds to reduce such taxes is not known.

Provision of Information: A Fund or any of its directors or agents domiciled in the Cayman Islands, may be compelled to provide information, subject to a request for information made by a regulatory or governmental authority or agency under applicable law, e.g., by the Cayman Islands Monetary Authority, either for itself or for a recognized overseas regulatory authority, and associated regulations, agreements, arrangements and memoranda of understanding. Disclosure of confidential information under such laws will not be regarded as a breach of any duty of confidentiality and, in certain circumstances, the directors may be prohibited from disclosing that the request has been made. Directors may also be required to provide information regarding investors to U.S. governmental and regulatory authorities, including the SEC and the U.S. Internal Revenue Service. By subscribing for certain shares, each investor consents to the release of its information to relevant authorities.

Credit Ratings: Wafra Capital Partners may use credit ratings issued by credit rating agencies as part of its evaluation of the creditworthiness of a counterparty (direct or indirect) or the safety of payments of rated securities or other financial instruments. These ratings do not, however, fully reflect the true risks of an investment. In addition, credit rating agencies may or may not make timely changes in a rating to reflect changes in the economy or in the condition of the issuer that affect the market value of the security or instrument. Consequently, credit ratings are used only as a partial indicator of investment quality. No assurance can be given that ratings assigned will not be withdrawn or revised downward if, in the view of a rating agency, risk of default increases. It is likely that many of a Fund’s investments will not be rated by a credit rating agency.

Custody and Prime Brokerage Risk: A Fund may open an account with and allocate assets to one or more prime brokers. There are risks involved in dealing with the custodians or prime brokers who settle Fund trades. Although the Fund Manager or Wafra Capital Partners will monitor any such prime broker(s) to the Fund, there is no guarantee that a prime broker, or any other custodian that a Fund may use from time to time, will not become bankrupt or insolvent. In such instance, there is no certainty that, in the event of a failure of a broker-



dealer that has custody of Fund assets, the Fund would not incur losses due to its assets being unavailable for a period of time, the ultimate receipt of less than full recovery of its assets, or both.

Further, a Fund and/or any prime broker to such Fund may appoint sub-custodians to hold the assets of the Fund. The prime broker may not be responsible for cash or assets which are held by sub-custodians in certain jurisdictions, nor for any losses suffered by the Fund as a result of the bankruptcy or insolvency of any such sub-custodian. A Fund may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections that would normally be provided to a fund by a custodian may not be available to the Fund. Under certain circumstances, including certain transactions where a Fund's assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of a prime broker, or where a Fund's assets are held at a non-U.S. custodian, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of the Fund and hence such Fund could be exposed to a credit risk with regard to such parties. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and bankruptcy, insolvency, or mismanagement in certain non-U.S. jurisdictions, the ability of a Fund to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy or insolvency could be in doubt, as a Fund may be subject to significantly less favorable laws than many of the protections that would be available under U.S. laws. In addition, there may be practical or time problems associated with enforcing a Fund's rights to its assets in the case of a bankruptcy or insolvency of any such party.

Risks Related to Public Health Developments: The business operations of companies and economic activity in general could be adversely affected by viruses, epidemics, or disease outbreaks. Any prolonged recurrence of such adverse public health developments in any country, region or globally could have a material adverse effect on the business operations of companies in which a Fund may invest or with respect to which a Fund has exposure.

Terrorist Action: Terrorist activities, anti-terrorist efforts and other armed conflicts may adversely affect any region or country, its financial markets and global economies and markets and could prevent Wafra Capital Partners, the Fund Manager, and any Fund from meeting their investment and risk management objectives and other obligations. Economic and diplomatic sanctions may be in place or imposed on certain states and military action may be commenced. The impact of such events is unclear, but could have a material effect on general economic conditions, any region or country, world financial markets, and market liquidity and thus the achievement of a Fund's investment objective.

Systems, Facilities and Programming Risks: The Funds rely on computer programs and systems to develop, test and refine models, to execute transactions, to evaluate certain securities and assets, to monitor its portfolio and capital, and to generate reports that are critical to oversight of the Funds' activities. In addition, certain of the Funds' systems interface with or depend on systems operated by third parties, including its data vendors, administrators, custodians and market counterparties. Any data source could include material inaccuracies or omissions. The Funds also rely on the ongoing services of the Fund Manager and Wafra Capital Partners and, if applicable, the Administrator, which may depend on access to their facilities. There can be

no assurance that any contingency plans put in place will be effective. For example, a natural catastrophe, cyber-attack, virus, worm, Trojan horse, accident or terrorist incident could temporarily or permanently interfere with the availability or efficient functioning of such resources. Given the potential for frequent price movements in the markets in which the Funds invest, any defect or failure in the Funds' computer programs or systems or data sources or any interruption in the Fund Manager's or the Wafra Capital Partner's access to its facilities, however brief, could have a material adverse effect on the Funds.

Cyber Security: As the use of the internet and other technologies has become more prevalent in the course of business, a Fund and its service providers, including the Firm, have become more susceptible to operational and financial risks associated with cyber security. Cyber security incidents can result from intentional attacks, such as obtaining unauthorized access to information systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or information, corrupting data or inciting operational disruptions. Cyber security incidents can also result from unintentional events, such as the inadvertent release of sensitive information. Any such incident with respect to a Fund, any of its service providers or an issuer of securities in which a Fund invests may affect business operations, potentially resulting in financial losses, privacy violations, transaction disruptions, legal and regulatory infractions and fines, reputational damage and compensation and/or additional compliance costs. There is no guarantee that any measures designed to reduce the risks associated with cyber security incidents will be effective, particularly since Funds do not directly control the cyber security defenses or plans of their service providers, financial intermediaries and companies in which they invest or with which they do business.

Legal Counsel: Documents relating to the Funds, including the subscription agreement to be completed by each investor (the "Subscription Agreement") as well as the articles of association, are detailed and often technical in nature. Legal counsel to the Funds will represent the interests solely of the Fund Manager and Wafra Capital Partners, and will not represent the interests of any shareholder. Moreover, by subscribing to the Funds, each shareholder waives any actual or potential conflicts of interest between such shareholder and legal counsel to the Funds. Accordingly, each prospective investor is urged to consult with its own legal counsel before investing in the Funds. Finally, in advising as to matters of law, legal counsel has relied, and will rely, upon representations of fact made by the Fund Manager, Wafra Capital Partners and other persons in each Fund's respective confidential placement memorandum and other documents. Such advice may be materially inaccurate or incomplete if any such representations are themselves inaccurate or incomplete, and legal counsel generally will not undertake independent investigation with regard to such representations.

Factual Statements: Certain of the factual statements made in each Fund's respective confidential offering memorandum are based upon information from various sources believed by the Fund Manager or Wafra Capital Partners to be reliable. The Fund Manager, Wafra Capital Partners, and the Funds have not independently verified any of such information and shall have no liability for any inaccuracy or inadequacy thereof. Except to the extent that legal counsel has been engaged solely to advise as to matters of law, no other party (including legal counsel to the Funds, the Fund Manager and Wafra Capital Partners) has been engaged to verify the accuracy or adequacy of any of the factual statements contained in each Fund's respective confidential offering memorandum. In particular, neither legal counsel nor any other party has

been engaged to verify any statements relating to the experience, skills, contacts or other attributes of the members, employees, officers, governors and directors of the Fund Manager or Wafra Capital Partners or to the anticipated future performance of the Funds.

During the Term of the Funds, the Fund Manager will provide to the shareholders reports and other information regarding the condition and prospects of the Funds and its investments. The Fund Manager's duties, obligations and liability to the shareholders with respect to the content, completeness and accuracy of such information will be determined solely under each Fund's respective confidential offering memorandum and management agreement.

Amendments: All or any of the share rights applicable to participating non-voting shares may be varied without the consent of the holders of the issued Participating Non-Voting Shares where such variation is considered by the directors not to have a material adverse effect upon the share rights of such holders. In addition, materially adverse variations to the class rights or other rights of any shareholder may be approved by the holders of a majority (by value) of Participating Non-Voting Shares. To the extent that the consent of a holder of Participating Non-Voting Shares is required, such consent shall be deemed to have been obtained if such Shareholder (A) affirmatively provides its consent within the timeframe prescribed in the applicable notice requesting its consent, or (B) fails to give notification to the Directors of its objection to the applicable matter within the timeframe prescribed in such notice. Furthermore, any meeting of the holders of Participating Non-Voting Shares will only require a quorum of twenty percent (20%) of the aggregate value of such Participating Non-Voting Shares. Accordingly, each Shareholder is cautioned that its share rights and other rights may be varied in a materially adverse manner without its consent and, as a result of the quorum threshold, it is possible that such variations may be approved with the consent of the holders of less than a majority (by value) of Participating Non-Voting Shares.

Definitive Terms and Conditions: Portions of the Funds' respective confidential offering memorandum describe specific terms and conditions expected to be set forth in each Fund's respective articles of association, management agreements and investment advisory agreements. The actual terms and conditions set forth in each Fund's respective articles of association, management agreements and investment advisory agreements may vary materially for a variety of reasons, including negotiations between the Fund Manager and prospective shareholders prior to the Initial Closing Date as well as formal amendments to each Fund's respective articles of association, management agreements and investment advisory agreements following such closing. Moreover, each Fund's respective articles of association, management agreements and investment advisory agreements will contain highly detailed terms and conditions. Prospective investors are urged to carefully review each Fund's respective articles of association, management agreements and investment advisory agreements, and must also be aware that, pursuant to the rules governing amendments set forth in each Fund's respective articles of association, management agreements and investment advisory agreements, certain types of amendments thereto may be adopted with the consent of less than all shareholders.

Industry Specific Terminology: Investors are cautioned that certain terms and phrases of common usage within the private equity industry may be misleading to those unfamiliar with such usage. With respect to all matters involving industry specific terminology, prospective investors are urged to consult with their own legal and other advisors.

Handling of Mail: Mail addressed to the Funds and received at its registered office will be forwarded unopened to the forwarding address supplied by the Funds to be dealt with. None of the Funds, the Fund Manager or any of its agents or their directors, officers, advisors or service providers (including the organization which provides registered office services in the Cayman Islands) will bear any responsibility for any delay howsoever caused in mail reaching the forwarding address. In particular, the directors of the general partner of the Fund Manager will only receive, open or deal directly with mail which is addressed to them personally (as opposed to mail which is addressed just to the Fund).

### *Risks – Structured Finance*

Industry Risk: The structured and asset-based finance industry, is highly competitive, and Wafra Capital Partners may be unable to source appropriate or attractive investments. This may cause a SF Fund to experience returns that are lower than anticipated, or to accept greater levels of risk.

Past Performance: There can be no assurance that the levels of delinquencies and write-offs experienced in recent years by (1) companies specializing in the origination and/or servicing of equipment leasing, venture debt, structured finance or other financing or specialty financing transactions or (2) Wafra Capital Partners with respect to its SF Funds and their investments will be indicative of the performance of any particular originator, servicer or SF Fund or that they will continue in the future. Delinquencies and write-offs could increase significantly for various reasons, including changes in the federal income tax law, changes in the local, regional or national economies, changes in technology or other events. Significant increases in the level of write-offs by these parties may result in material losses for a SF Fund's investors.

Default Risk: SF Funds generally rely significantly on the underlying leases or structured transactions as well as the residual value of the Assets to generate returns. A SF Fund is subject to the risk of loss through the failure to perform or default of any of the SF Fund's direct or indirect counterparties, including, but not limited to, master lessees, Murabaha providers, underlying lessees/end-users/counterparties and servicers. Such losses, which may not be recoverable, may include, but are not limited to, rental or other revenue; legal and other costs associated with taking enforcement action against the relevant counterparty; storing and transporting leased equipment; costs related to breaking financing arrangements, including costs associated with the early termination or restructuring of hedging arrangements and losses when selling Assets earlier than originally anticipated or otherwise at a disadvantageous time.

Wafra Capital Partners seeks to minimize such counterparty risk through various forms of counterparty diversification and performance monitoring; however, there can be no assurance that these efforts will be successful. Wafra Capital Partners may also attempt to minimize this risk by requiring certain financial covenants with respect to a SF Fund's dealings with such counterparties, including, but not limited to, those related to the amount of the financing and the value of the underlying collateral, and other contractual provisions with respect to each financing. Certain financings may be supported, in whole or in part, by personal guarantees made by the counterparty or a relative, or guarantees made by a company affiliated

with the counterparty. The amount realizable with respect to a financing may be detrimentally affected if a guarantor fails to meet its obligations under the guarantee. Moreover, the value of collateral supporting a financing may fluctuate, and there can be no assurance that collateral will retain its value or that any value assigned by Wafra Capital Partners can be realized in a liquidation event.

Moreover, a direct or indirect counterparty's failure to satisfy financial, operating or "key man" covenants imposed by a SF Fund or another provider of financing could trigger cross-defaults that jeopardize such counterparty's ability to make payments under financings made by a SF Fund.

Residual Value Risk: SF Fund performance may be affected by the market risks of residual values, over which neither the SF Fund nor Wafra Capital Partners have control. The market value of a SF Fund's equipment or other assets in which it may have exposure (*e.g.*, through a security interest in such equipment or other asset) may be lower than anticipated, resulting in a loss on a SF Fund's investment. At the time it enters into an equipment-related transaction, a SF Fund does not know what the remarketing price of the relevant equipment will be when the transaction ends. If the remarketing price is lower than anticipated, the SF Fund may experience a loss.

Additional Equipment-Related Risk: A SF Fund's contracts directly or indirectly may require direct or indirect counterparties to maintain, service and insure leased equipment. If such counterparty fails to maintain equipment in accordance with the terms of the relevant contract, the SF Fund may itself have to make unanticipated expenditures to repair the equipment. To the extent that a SF Fund purchases, or finances the purchase of, used equipment, there is no assurance that an inspection of such equipment prior to acquisition will reveal any or all defects and problems with the equipment. A SF Fund may incur losses associated with the investment, including legal costs, costs of repair and lost revenue from the delay in being able to sell or re-lease the equipment due to undetected problems or issues. Furthermore, certain types of equipment are subject to registration or other regulatory requirements, and a SF Fund (or its counterparty, as the case may be) may lose the ability to own or operate that equipment should it fail to comply with such requirements. In addition to impairing the SF Fund's (or its counterparty's, as the case may be) ability to earn rentals from that equipment, the Fund or counterparty may be subject to penalties or be forced into a sale of that equipment on unfavorable terms. Governmental agencies may require changes or improvements to equipment resulting in increased costs and loss of rental revenue while the changes are made, potentially adversely affecting the SF Fund's anticipated returns from that investment.

Real-Estate Finance: A SF Fund may have substantial exposure to real-estate finance or financial instruments. In particular, a SF Fund may have exposure to a one or more specialty finance companies that specialize in various forms of "hard-money" real-estate lending. Such underlying loans likely will be underwritten primarily on an asset basis rather than a credit basis. Asset based loans involve numerous risks, some of which include: (i) an increased risk of the non-availability of credit for a borrower to develop a property or to refinance its loan at maturity; (ii) an increased risk of foreclosures in the area surrounding the security property negatively affecting the value of the property securing an underlying

loan (iii) increased constraints on consumer credit affecting the ability of borrowers to sell residential property or construction projects; and (iv) increased risk of an abandonment of property by an underlying borrower due to other financial problems or general market decline. Counterparties to such underlying loans may be unable or unwilling to obtain financing from traditional sources, such as commercial banks. Loans made to such individuals or entities may entail a high risk of delinquency and loss. Rehabilitation loans and constructions loans, to which a SD Fund may have exposure, each involve additional risks which may not be prevalent in loans secured by fully improved real property, including the increased risk that a mechanics lien will have priority over the relevant underlying loan financed by the SF Fund. Additionally, a rehabilitation loan for the purpose of funding the remodeling of an existing home in a mature neighborhood, involves less risk of default upon maturity than a construction loan for the purpose of constructing a new residential development project on vacant land for sale to unidentified third parties (i.e., spec. home development).

Maritime Shipping: A SF Fund may have substantial exposure to shipping or shipping related investments. There are various risks associated with the maritime shipping industry, including:

The industry is both cyclical and volatile in terms of charter rates, the market value of vessels and profitability due to factors specific to the shipping industry as well as general economic factors. Charter rate volatility can be significant. Fluctuations in charter rates result from, among other things, changes in the supply and demand for vessel capacity and changes in the supply and demand for energy resources, commodities, semi-finished and finished consumer and industrial products transported by sea. The supply of vessels generally increases with deliveries of new vessels and decreases with the scrapping of older vessels, conversion of vessels to other uses, such as floating production and storage facilities, and loss of tonnage as a result of casualties. An over-supply of vessel capacity, combined with a decline in the demand for such vessels, may result in a reduction of charter hire rates. As a result of charter rate volatility, vessels associated with a SF Fund may only be able to be chartered at unprofitable rates or may not be able to be chartered at all, which could have a negative impact on a SF Fund's maritime shipping investments.

The market value of vessels can also fluctuate significantly depending on a number of factors, including: prevailing charter rates; market conditions affecting the shipping industry; types, sizes and ages of vessels; supply of and demand for vessels; cost of new buildings; governmental or other regulations; the need to upgrade secondhand and previously owned vessels as a result of charterer requirements, technological advances in vessel design or equipment or otherwise; competition within the shipping industry and the availability of other modes of transportation. If vessel values decline, impairments may need to be recorded for any vessels associated with a SF Fund, or if vessels associated with a SF Fund are sold when vessel values have fallen, but before a related impairment has been recorded, the sale may be at less than the vessel's carrying amount. Either of these situations could result in a loss, which could have a negative impact on a SF Fund's maritime shipping investments.

In addition, charter rates and the market value of vessels can fluctuate as a result of broader economic factors. The world economy continues to face a number of challenges, including turmoil and hostilities in the Middle East and other geographic areas and continuing economic

weakness in the European Union and Asia Pacific Region. There has historically been a strong link between development of the world economy and the demand for maritime shipping services. An extended period of deterioration in the outlook for the world economy could reduce the overall demand for maritime shipping services and have a negative impact on charter rates or vessel values. Further, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, and the overall stability of the Euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for maritime shipping services.

Any of the specific factors that impact charter rates or the market value of vessels as well as the general factors that impact the world and regional economies could have a material adverse effect on a SF Fund's maritime shipping investments. However, these factors are generally outside of a SF Fund's control, and the nature, timing and degree of changes in shipping industry conditions and general economic conditions are unpredictable.

The maritime shipping industry is a highly competitive market that is capital intensive and highly fragmented. Competition for maritime transportation of goods and products is intense and depends on charter rates and the location, size, age, condition and acceptability of vessels and their operators to charterers. Due in part to the highly fragmented market, competitors with greater resources could operate larger fleets than any fleet of vessels associated with a SF Fund and thus be able to offer lower charter rates and higher quality vessels.

As a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the availability and cost of obtaining money from the credit markets has become more difficult as many lenders, in certain cases, have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers, particularly in the maritime shipping industry due to the historically volatile asset values of vessels. Due to these factors, financing may not be available if needed and to the extent required on acceptable terms. If financing or refinancing is not available at the relevant time for a SF Fund's maritime shipping related investments, or is available only on unfavorable terms, a SF Fund may experience significant losses relating to its maritime shipping investments.

A SF Fund's shipping investments may involve (directly or indirectly) a counterparty that has other debt. If such counterparty fails to be in compliance with certain financial and other covenants in its relevant debt agreements, and is unable to remedy such breach, the relevant financing party could, among other actions, accelerate its debt and foreclose on the underlying asset. Such an action could have a material adverse effect on a SF Fund's maritime shipping investments.

A SF Fund may also enter into or otherwise has exposure to sale-leaseback transactions. To the extent a SF Fund enters into a sale-leaseback transaction, a SF Fund would purchase a vessel and then lease the same vessel back to the person from whom it purchased the vessel. In the event of the bankruptcy of the lessee, the transaction could be re-characterized as either a financing or a joint venture, either of which outcomes could adversely affect a SF Fund's shipping related investments. If the sale-leaseback were re-characterized as a financing, a SF Fund might not be considered the owner of the vessel, and as a result would have the status of

a creditor in relation to the lessee. In that event, a SF Fund would no longer have the right to sell or encumber its ownership interest in the vessel. Instead, it might have an unsecured claim against the lessee for the amounts owed under the lease. If the sale-leaseback were re-characterized as a joint venture, the lessee and a SF Fund could be treated as co-venturers with regard to the vessel. As a result, a SF Fund could be held liable, under some circumstances, for debts incurred by the lessee relating to the vessel. Either of these outcomes could materially adversely affect a SF Fund's cash flow and the amount available for distributions.

Maritime shipping is affected by extensive and changing international, national, state and local laws, regulations, treaties, conventions and standards in force in international waters, the jurisdictions in which vessels operate, and the country or countries in which vessels are registered, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, and water discharges and ballast and bilge water management. Compliance with these requirements can be costly. These requirements can also affect the resale value or useful lives vessels, require reductions in cargo capacity, vessel modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, vessel owners can incur material liabilities, including cleanup obligations, natural resource damages and third-party claims for personal injury or property damages, in the event that there is a release of petroleum or other hazardous substances from their vessels or otherwise in connection with their operations. Vessel owners can also incur substantial penalties, fines and other civil or criminal sanctions, including in certain instances seizure or detention of vessels, as a result of violations of or liabilities under environmental laws, regulations and other requirements. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which can subject vessel owners to liability without regard to whether they are negligent or at fault.

Maritime shipping is also affected by extensive and changing international, national, state and local laws, regulations and treaties related to the taxation of vessels and shipping services. Changes in tax laws, regulations or treaties or changes in factual circumstances that implicate tax laws, regulations or treaties, among other things, could have a material adverse effect on a SF Fund's maritime shipping investments.

Due to concern over the risk of climate change, a number of countries, U.S. states, the European Union and the International Maritime Organization have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emission from vessel emissions. These regulatory measures may include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Additionally, a treaty may be adopted in the future that includes restrictions on shipping emissions. Compliance with changes in laws and regulations relating to climate change could increase the costs of operating and maintaining vessels and could require significant financial expenditures by vessel owners.

From time to time on charterers' instructions, vessels associated with a SF Fund may call on ports located in countries subject to sanctions and embargoes imposed by the U.S. government,



the European Union or other jurisdictions and countries identified by the U.S. government, the European Union or other jurisdiction as state sponsors of terrorism. These sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. Any violation by vessels associated with a SF Fund could result in fines, penalties or other sanctions that could negatively impact a SF Fund's maritime shipping investments.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Acts of piracy could result in harm or danger to the crews that man vessels. In addition, if these piracy attacks occur in regions in which vessels are deployed that are characterized by insurers as "war risk" zones or by the Joint War Committee, a committee of underwriting representatives, as "war and strikes" listed areas, premiums payable for insurance coverage could increase significantly and such coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent onboard security guards are needed, could increase in such circumstances. Vessels associated with a SF Fund may not be adequately insured to cover losses from these incidents.

International shipping is subject to various security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. Inspection procedures can result in the seizure of the contents of vessels, delays in loading, offloading or delivery, and the levying of customs duties, fines or other penalties, which could have a material adverse effect on a SF Fund and its maritime shipping investments.

Vessels and their cargoes are at risk of being damaged or lost, due to events such as marine disasters, bad weather, mechanical failures, human error, environmental accidents, war, terrorism, piracy, political circumstances and hostilities in foreign countries, labor strikes and boycotts, changes in tax rates or policies, governmental expropriation and other operational risks. In the event of a casualty to a vessel or its cargo or other catastrophic event, applicable insurance policies may not adequately cover the related costs or insurers may refuse to pay particular claims. Further, it may not always be possible to obtain adequate insurance coverage at reasonable rates for vessels associated with a SF Fund in the future.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against vessels associated with a SF Fund for unsatisfied debts, claims or damages and such liens may have priority over the rights and interests of a SF Fund in such vessels. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more vessels could interrupt related cash flows and require the payment of a significant amount of money to have the arrest lifted. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same vessel owner.

A government could requisition vessels associated with a SF Fund for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes her owner,

while requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Although vessels owners are entitled to compensation in the event of a requisition of one or more of vessels, the amount and timing of payment could be materially less and later than the charter hire that would have been payable otherwise. In addition, vessel owners bear all risk of loss or damage to a vessel under requisition for hire.

In general, the costs to maintain a vessel in good operating condition increase as the vessel ages. Due to improvements in engine technology, older vessels are typically less fuel-efficient than more recently constructed vessels. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations, safety, environmental or other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment to older vessels to comply with safety or environmental laws or regulations that may be enacted in the future. These laws or regulations may also restrict the type of activities in that vessels may engage in or prohibit their operation in certain geographic regions.

The foregoing summarizes certain risks related to a SF Fund's maritime shipping investments, but there may be other factors related to the maritime shipping industry that could have a material adverse effect on a SF Fund and its investments.

Certain Equipment Leasing Considerations: The Funds will likely have direct or indirect exposure to leasing transactions. Leasing transactions generally rely primarily on the underlying equipment sub-leases or structured transactions as well as the residual value of the equipment to generate returns. Such returns may be negatively impacted by defaults by sub-lessees/end-users or a failure to realize residual value with respect to equipment. The equipment leasing industry, including financial institutions which provide asset-backed financing, is highly competitive, and Wafra Capital Partners may be unable to source appropriate or attractive investments. This may cause the Funds to experience returns that are lower than anticipated, or to accept greater levels of risk. Fund performance may be affected by the credit risks of the sub-lessees/end-users and the market risks of residual values, and other factors over which the Funds, the Fund Manager and Wafra Capital Partners have no control.

A leasing transaction may result in a loss in the event that a lease counterparty defaults. Such losses, which may not be recoverable, may include, but are not limited to, rental or other revenue; legal and other costs associated with taking enforcement action against the counterparty and storing and transporting the leased equipment; costs related to breaking financing arrangements associated with the lease, including costs associated with the early termination of financing or hedging arrangements and losses when selling equipment earlier than originally anticipated.

The Funds' leasing contracts may require counterparties to maintain, service and insure the leased equipment. If a counterparty fails to maintain equipment in accordance with the terms of its lease, the Funds may have to make unanticipated expenditures to repair the equipment. To the extent that the Funds purchase used equipment, there is no assurance that an inspection of such equipment prior to acquisition will reveal any or all defects and problems with the

equipment. The Funds may incur losses associated with the investment, including legal costs, costs of repair and lost revenue from the delay in being able to sell or re-lease the equipment due to undetected problems or issues. In addition, the market value of the equipment may be lower than anticipated, resulting in a loss on the Funds' investment. At the time it enters into a lease to rent equipment to a counterparty, the Funds do not know what the remarketing price of the leased equipment will be when the lease ends and the equipment is returned. If the remarketing price is lower than anticipated, which may occur as a result of a variety of factors over which the Funds have no control, the Funds (directly or indirectly) will either lose money or receive returns that are lower than anticipated, which may result in losses to the Funds' investors. Furthermore, certain types of equipment are subject to registration or other regulatory requirements, and the Funds or their counterparties may lose the ability to own or operate that equipment should they fail to comply with such requirements. In addition to impairing the Funds' ability to earn rentals from that equipment, the Funds (directly or indirectly) may be subject to adverse claims or be forced into a sale of that equipment on unfavorable terms. Governmental agencies may require changes or improvements to equipment resulting in increased costs and loss of rental revenue while the changes are made, potentially adversely affecting the Funds' anticipated returns from that investment.

In the event that a sub-lessee/end-user files for protection under bankruptcy laws, a bankruptcy court may reject, reduce the term or alter the provisions of the operating leases with that end user. If this happens, the Funds may not receive the full amount of rental payments contemplated by those lease. A leasing Fund may also experience difficulties, legal costs and delays in recovering equipment from a bankrupt end user that is involved in a bankruptcy proceeding. The sales proceeds the Funds ultimately may receive from disposing of recovered equipment may not cover their outstanding investment in that equipment.

U.S. state laws, as well as the laws of other jurisdictions may impose requirements and restrictions relating to foreclosure sales and on the obtaining of deficiency judgments following such sales. The application of those requirements and restrictions may result in losses for the Funds.

The Funds may have additional difficulty in terminating leases to permit resale of equipment or obtaining possession of movable equipment (such as aircraft and ships) that is located in jurisdictions with creditors' rights regimes less favorable to creditors than those in the United States.

The Funds may acquire equipment subject to substantial deferred purchase obligations. The sole source of payment for such obligations will be collections on the various leases or other financing arrangements, and payments on such leases or other financing arrangements will go first to satisfy the installment obligations, which, if insufficient, could result in the Funds losing the equipment subject to the deferred purchase obligations.

Aviation: A SF Fund may have substantial exposure to aviation or aviation related investments. There are various risks associated with the aviation industry, including:

Economic recessions, war, the price of petroleum, the availability of more attractively priced and/or more efficient aircraft, price discounting by manufacturers of new aircraft, obsolescence

(whether due to changes in technology or changes in regulation), and the occurrence or threat of terrorism can have a material effect on aircraft values, especially in the short term, but the effect may be permanent. Most of these circumstances either cannot be predicted or cannot be predicted with any degree of certainty, and these circumstances may adversely affect a SF Fund.

The commercial aircraft leasing and sales industry has periodically experienced cycles of aircraft oversupply and undersupply. The oversupply of a specific type of aircraft in the market is likely to depress aircraft values of that type of aircraft.

In addition to factors linked to the aviation industry, other factors that may affect the value of an aircraft include: (i) manufacturers merging or exiting the industry or ceasing to produce aircraft types; (ii) the particular maintenance and operating history of the aircraft and engines; (iii) the number of operators using that type of aircraft; (iv) whether the aircraft is subject to a lease; (v) any regulatory and legal requirements that must be satisfied before the aircraft can be operated, sold or re-leased, including airworthiness directives; (vi) compatibility of aircraft parts and layout of the aircraft amongst operators of particular aircraft; and (vii) any renegotiation of a lease on less favorable terms.

Any decrease in values of and rental rates for used commercial aircraft which may result from the above factors or other unanticipated factors may have a material adverse effect on a SF Fund's operations and cash flow and may adversely affect its investments and, consequently, the investment of Shareholders in a SF Fund.

The availability for sale or lease of new, technologically and/or more fuel efficient advanced aircraft and the imposition of stringent noise or emissions regulations or mandatory airworthiness directives may make certain aircraft or engine types less desirable in the marketplace and therefore may adversely affect a SF Fund's ability to lease or sell such aircraft or engines. Consequently, in some cases a SF Fund may have to contend with this when leasing or selling an aircraft, particularly as it gets close to the end of its economic useful life.

The maintenance and operation of aircraft and engines are strictly regulated by the Federal Aviation Administration in the United States and similar governmental authorities in foreign jurisdictions. These rules and regulations govern such matters as certification, registration, inspection, operation, and maintenance procedures, airworthiness directives ("ADs"), personnel certification and record keeping. The cost of compliance with such requirements is significant.

Fuel costs represent a major expense to companies operating within the airline industry, and fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events, currency exchange rates and natural disasters. A period marked by a continuing high cost of fuel will likely have a material adverse impact on airline profitability.

As a direct result of the September 11, 2001 terrorist attacks and subsequent terrorist attacks abroad, notably in the Middle East, Southeast Asia and Europe, and recent incidences of threatened but unsuccessful attacks, increased security restrictions have been implemented on air travel in the United States and many other parts of the world, the cost to airlines for aircraft and liability insurance and the enhanced security measures discussed below have increased.

War or armed hostilities or the fear of such events, could have a similar effect on the aviation industry.

Future terrorist attacks, war or armed hostilities, or the fear of such events, may further increase airline costs, depress air travel demand, cause certain aviation insurance to become available only at significantly increased premiums or not be available at all and could have a further adverse impact on the airline industry and on the financial condition and liquidity of airline lessees, aircraft values and rental rates, all of which could adversely affect a SF Fund's investments.

The global outbreak and transmission of Severe Acute Respiratory Syndrome or "SARS" in 2002-2003 was linked to air travel early in its development and as a result negatively affected passenger demand for air travel. SARS had a severe impact on the aviation industry evidenced in the sharp decline in passenger bookings and cancellation of many flights and employee layoffs. While these effects were felt most predominantly in Asia, SARS spread to other areas, including North America. Additional outbreaks of SARS or other diseases including the Avian Bird Flu, or the fear of such events could reasonably be expected to further negatively impact passenger demand for air travel, the aviation industry generally, including government imposed travel restrictions and ultimately the performance of a SF Fund's investments.

#### Certain Railroad Industry Considerations

Railroad Industry: A SF Fund may have substantial exposure to the railroad industry. There are inherent risks associated with investment in companies that operate railroads. If there is significant demand for a company's services that exceeds such company's designed network capacity, the company may experience network difficulties that could compromise service levels and overall operations. Alternatively, a decrease in demand for rail service could have a material adverse effect on a given company's overall operations, financial condition, and liquidity.

Further, many railroad companies transport hazardous materials. Any rail accident or other incident involving the release of hazardous materials could involve significant costs and claims for personal injury, property damage, and environmental penalties and remediation, which could have a material adverse effect on a company's operations, financial condition, and liquidity.

The railroad industry is also typically subject to governmental regulation by local and federal authorities covering a variety of health, safety, labor, environmental, economic, and other matters. Many laws and regulations require companies to obtain and maintain various licenses, permits and other authorizations. A company's failure to comply with applicable laws and regulations could have a material adverse effect on the company. Moreover, governments or regulators may change the legislative or regulatory frameworks within which a company operates without providing the company any recourse to address any adverse effects on its business. Any such legislation or regulations could result in increasing the cost of rail services, which in turn could have a material adverse effect on a company's operations, financial condition, and liquidity.

In addition, any labor stoppages, strikes or lockouts within a company could have a material adverse effect on the company's operations, financial condition, and liquidity.

The railroad industry as a whole is also subject to business interruptions and expenditures related severe weather conditions and other natural phenomena, including earthquakes, hurricanes, fires, floods, mudslides or landslides, extreme temperatures, and significant precipitation. Such weather-related events could cause significant business interruptions and have a material adverse effect on any given company's operations, financial condition, and liquidity.

Moreover, since many railroad companies operate in densely populated urban areas, such companies are exposed to the potential for various claims and litigation related to labor and employment, personal injury, property damage, environmental liability, and other matters. Any material changes to litigation trends in a given area or a catastrophic rail accident or series of accidents involving any or all of property damage, personal injury, and environmental liability could have a material adverse effect on a given company's operations, financial condition, and liquidity.

Fuel costs also generally constitute a significant portion of rail transportation expenses. Diesel fuel prices are subject to dramatic fluctuations, and significant price increases could have a material adverse effect on a company's operations and financial condition. International, political, and economic circumstances affect fuel prices and supplies. Weather can also affect fuel supplies and limit domestic refining capacity. If a fuel supply shortage were to arise, higher fuel prices could have a material adverse effect on a company's operations, financial condition, and liquidity.

Due to the significant capital expenditures required to operate and maintain a safe and efficient railroad, companies in the industry generally rely on the capital markets to meet capital requirements. Significant instability or disruptions of the capital markets, including the credit markets, or deterioration of a company's financial condition due to internal or external factors could restrict or prohibit a given company's access to, and significantly increase the cost of its financing sources and thus could have a material adverse effect on such company's operations, financial condition, and liquidity.

Rail lines, facilities, and equipment, including rail cars carrying hazardous materials, could be direct targets or indirect casualties of terrorist attacks. Terrorist attacks, or other similar events, any government response thereto, and war or risk of war may adversely affect a company's operations, financial condition, and liquidity.

Railcars: A SF Fund may have exposure to investments in railcars. Investments in railcars have a number of risks, including, but not limited to: (a) the inability to maintain assets on lease at satisfactory rates due to decreases in customer demand, oversupply of railcars in the market, or other changes in supply and demand; (b) weak economic conditions that may decrease customer demand to lease railcars and locomotives; (c) adverse changes in the price of, or demand for, crude oil or other commodities, which could reduce demand for railcars; (d) significant decrease in lease renewals by customers or a significant increase in the number of tank cars requiring compliance-based maintenance; (e) long-term railcar purchase commitments that could result

in material operational and financial risks; (f) soft market conditions and declines in asset values (which may reduce opportunities to generate remarketing income); (g) fluctuations in foreign exchange rates and profit or rates deemed as “interest rates” under relevant local laws; (h) the costs and effects of governmental or regulatory requirements, including environmental regulations, the costs of non-compliance and remediation, and regulatory responses to climate change; (i) future asset impairment charges; (j) various types of litigation, including personal injury and property damage claims and litigation, environmental claims, or other types of lawsuits, (k) inability to obtain cost-effective insurance; (l) the railcar assets may become obsolete; and (m) global political conditions, including acts or threats of terrorism or war.

In addition, railroad infrastructure investments that improve efficiency or declines in rail traffic due to decreased demand could increase the average speed at which railroads can operate their trains, which may reduce the number of railcars needed for railroads to haul the same amount of cargo. Adverse weather conditions, railroad mergers, and increases in rail traffic could result in slower transit times making rail transportation less attractive to shippers versus other modes of transport. In each case, these changes could reduce demand for railcars and negatively impact a SF Fund’s performance.

Furthermore, decreases in customer demand for railcars could increase the number of leases that are not renewed upon expiration and could cause some customers to default, resulting in the early return of railcars.

Railcars that are returned by customers often must undergo maintenance and service work before being leased to new customers. A significant increase in the number of railcars requiring maintenance may negatively affect a SF Fund’s performance and substantially increase maintenance and other related costs. In addition, low demand for certain types of railcars may make those railcars more difficult to lease to new customers if they are returned at the end of their existing leases or following a customer default, which could negatively affect a SF Fund’s performance.

Maintenance programs on full-service tank cars may be required based on their service time. These compliance programs are cyclical in nature, and as a result, there may be significant increases in the volume of tank cars requiring extensive maintenance in any given year. A significant increase in the number of tank cars requiring maintenance may negatively impact a SF Fund’s operations and substantially increase maintenance and other related costs.

In addition to changes in laws, rules, and regulations that may make assets obsolete, changes in the preferred method that railcar customers use to ship their products, changes in demand for particular products, or a shift by customers toward purchasing assets rather than leasing them may adversely impact a SF Fund. A reduction in customer demand or change in customers’ preferred method of product transportation could result in the economic obsolescence of the assets leased by those customers.

Certain Automotive Industry Considerations: A SF Fund may have substantial exposure to the automotive industry through investments in, including but not limited to, companies that manufacture, supply and/or wholesale automobiles, automobile parts and/or the materials used in the production of such automobiles. The automotive industry is highly cyclical and

volatile, dependent on the prices of raw materials and commodities, including steel, precious metals, aluminum, oil and gas. As a result, investments in the automotive industry may be subject to broad price fluctuations, reflecting the volatility of the price of energy and basic materials and possible instability of supply of various raw materials and commodities, as well as automobile parts and components. For example, automobile manufacturers are highly dependent on numerous suppliers, thus variable supply can greatly affect the chain of production. Other factors that affect the price of automobiles are sales and financing incentives and governmental regulations (including tariffs, import regulation and other taxes). Furthermore, the automotive industry is highly affected by trends and economic pressures, including fluctuations in currency and profits or rates deemed as “interest rates” under relevant local laws, as well as supply and demand. Demand for automobiles depends to a large extent on social, political and economic conditions in a given market and is often subject to great shifts in consumer demand.

A downturn in the world economy can greatly affect the automotive industry. Should the world economy suddenly deteriorate, a number of financial institutions and investors will face difficulties in providing capital to the financial markets at levels corresponding to their own financial capacity, and, as a result, there is a risk that companies may not be able to raise capital under terms that they would expect to receive with their creditworthiness. If such companies are unable to raise the necessary capital under appropriate conditions on a timely basis, such companies’ financial condition and results of operations may be adversely affected.

Furthermore, the worldwide automotive industry is subject to various laws and governmental regulations including those related to vehicle safety and environmental matters such as emission levels, fuel economy, noise and pollution. In particular, automotive manufacturers are required to implement safety measures, such as recalls for vehicles that do not or may not comply with the safety standards of laws and governmental regulations. Many governments also impose tariffs and other trade barriers, taxes and levies, or enact price or exchange controls. Moreover, new legislation or changes in existing legislation may also subject such automotive companies to additional expenses in the future. If such companies incur significant costs related to implementing safety measures or meeting laws and governmental regulations, their financial condition and results of operations may be adversely affected.

The automotive industry is also subject to various risks associated with conducting business worldwide, which include natural calamities; political and economic instability; fuel shortages; interruption in social infrastructure including energy supply, transportation systems, gas, water, or communication systems resulting from natural hazards or technological hazards; wars; terrorism; labor strikes and work stoppages, any of which can significantly affect the chain of production.

Certain Energy and Infrastructure Concerns: A SF Fund may have substantial exposure to hard assets, including global crude oil and refined petroleum products pipelines, terminals and other transportation and logistics assets.



The production and marketing of hard assets may be affected by actions and changes in governments. In addition, hard assets and hard asset securities may be cyclical in nature. During periods of economic or financial instability, hard asset securities may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various hard assets. In addition, hard asset companies may also be subject to the risks generally associated with extraction of natural resources, such as the risks of mining and oil drilling, and the risks of the hazards associated with natural resources, such as fire, drought, increased regulatory and environmental costs, and others. Hard asset securities may also experience greater price fluctuations than the relevant hard asset. In periods of rising hard asset prices, such securities may rise at a faster rate, and conversely, in time of falling hard asset prices, such securities may suffer a greater price decline.

Furthermore, the energy infrastructure – crude and natural gas pipelines, exploration and production rigs, natural gas processing plants, refineries, power plants, transmission lines, substations, petroleum depots and storage centers, coal mines, rail-systems etc. – are all vulnerable to earthquakes, hurricanes and numerous other weather systems and geological or environmental events. Pricing of commodities can fluctuate wildly on any event or major unexpected change in weather or climate which would effect the energy infrastructure.

Certain Alternative Energy Considerations: The Fund's investment program may involve investments in companies that develop and operate alternative energy power products, who face a variety of risks. Alternative energy refers to the generation of power through environmentally friendly, non-traditional sources. It includes power derived principally from bio-fuels (such as ethanol), bio-mass, wind, solar, hydro and geothermal sources and also includes the various technologies that support the production, use and storage of these sources. Technologies such as regenerative fuel cell, wind turbine and power electronics products and technologies are currently being developed or have only recently been made commercially available. Many of these new products and technologies are based on new and unproven design, and have not reached a level of maturity that allows for a predictable level of reliability. It is difficult to predict whether they will be commercially viable, at what rate the market will develop and whether there will be a sustainable market for them at all. Moreover, these companies may not be successful in developing product designs and manufacturing processes that permit the manufacture of hydrogen generators and fuel cell systems in commercial quantities at commercially acceptable costs while preserving quality. The prices of several types of competitive energy sources such as oil, gas or coal could be economically more attractive. As a result of any or all the foregoing, these companies may not be able to successfully develop and commercialize these products and technologies in order to recover investment made in their development. Additionally, the patent situation in the field of wind turbine, distributed generation and fuel cell technology is complex, and a large number of patents, including overlapping patents, relating to this technology have been granted. Third parties could claim infringement with respect to patent and other proprietary rights, and these companies may incur significant costs defending these claims; there is also no assurance these companies will prevail in such proceedings.

The alternative energy industry may be significantly affected by the competition from new and existing market entrants, obsolescence of technology, short product cycles, varying prices and profits, commodity price volatility, changes in exchange rates, imposition of import controls,

depletion of resources, technological developments and general economic conditions, fluctuations in energy prices and supply and demand of alternative energy fuels, energy conservation, the success of exploration projects and tax and other governmental regulations. Shares of companies involved in the alternative energy industry have been more volatile than shares of companies operating in more established industries. Certain valuation methods currently used to value companies involved in the alternative energy industries have not been in widespread use for a significant period of time. As a result, the use of these valuation methods may serve to further increase the volatility of certain alternative and transitional energy company share prices. In addition, changes in governmental policies towards alternative energy technology also may have an adverse impact on the Fund's performance. Furthermore, the Fund may invest in the shares of companies with a limited operating history, some of which may never have traded profitably. Investments in young companies with a short operating history are generally riskier than investment in companies with a longer operating history. The Fund will carry greater risk and may be more volatile than a portfolio composed of securities issued by companies operating in a wide variety of different industries.

Certain Solar Power Considerations: The Fund's investment program may involve investments in companies that develop and operate solar power products, who face a variety of risks. Materials and components used to develop solar power products are often procured from a limited number of third-party suppliers. A failure to develop or maintain relationships with these or other suppliers may lead to higher costs and delays, leading to order cancellations and loss of market share. Moreover, these companies often expect to derive their revenues from new solar power products that are still under development and not commercially available. There is a risk that these companies will not be able to recover losses incurred to develop these products and technologies and become profitable. In addition, failure by these companies to refine their technology and develop and introduce new solar power products could cause products to become uncompetitive or obsolete, causing sales to decline. While the market for solar power products is emerging and rapidly evolving, future success is uncertain, and widespread adoption or sufficient demand for solar power products could take longer to develop than anticipated, which would also cause a lack of profitability. These companies also face intense competition in a market that is rapidly evolving, and there is a possibility that competitors will attract and retain more customers and achieve more success in cost-cutting and will establish a market position that is more prominent.

Structured Finance Products: The Fund may invest in or have substantial exposure to structured finance instruments. Structured finance instruments may entail a variety of unique risks. Among other risks, structured finance instruments may be subject to prepayment risk. In addition, the performance of a structured finance instrument will be affected by a variety of factors, including its priority in the capital structure of the issuer or sponsor thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets. Furthermore, special risks may be associated with the Fund's investments in structured credit and finance products. For example, synthetic portfolio transactions may be structured with two or more classes of tranches that receive different proportions of the profit amounts or amounts deemed as "interest" under relevant local laws, and principal distributions on a pool of credit assets. The yield to maturity

of a tranche may be extremely sensitive to the rate of defaults in the underlying reference portfolio. A rapid change in the rate of defaults may have a material adverse effect on the yield to maturity. It is therefore possible that the Fund may incur losses on its investments in structured products regardless of their ratings by one of more credit rating agencies. Additionally, structured finance instruments and structured credit products may be subject to legal or contractual restrictions on their resale and may be thinly traded, if at all. Structured finance instruments and structured credit products subject to resale restrictions may sell at a price lower than similar instruments that are not subject to such restrictions.

Asset-Backed Securities: The Fund may have exposure to asset-backed securities (“ABS”). ABS are subject to interest rate risk and, to a lesser degree, prepayment risk. Asset-backed securities are subject to additional risks in that, unlike mortgage-backed securities, asset-backed securities generally do not have the benefit of a security interest in the related collateral. Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. Asset-backed securities typically experience credit risk. For example, there is an increasing supply of subordinated securities rated lower than AA (down to B or first loss) and senior securities that may be rated lower than AAA, as well. There is also the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities because of the inability to perfect a security interest in such collateral.

Subordinated Securities: The Fund may invest in or have exposure to subordinated or residual positions of certain structured finance instruments or transactions. These positions, while offering significant return potential, involve greater credit risk of default than the more senior classes of the issue, series or transaction. Such instruments therefore possess some of the attributes typically associated with equity investments and can add greater volatility to the Fund’s returns than if the Fund did not invest in such instruments.

Consumer Finance/Retail Lending Risks: A SF Fund may invest in companies that engage in consumer finance or retail finance in a Shari’ah compliant manner. There are inherent risks associated with investment in such companies. In particular, such companies may be detrimentally affected to the extent customers default on their obligations and they have insufficient collateral and/or there are extensive legal and other costs incurred in collecting on defaulted financings. In addition, certain finances or other financings may be supported, in whole or in part, by personal guarantees made by financing customers or relatives, or guarantees made by corporations affiliated with customers. The amount realizable with respect to any given finance or other financing may be detrimentally affected if a guarantor fails to meet its obligations under the guarantee. Moreover, the value of collateral supporting financings may fluctuate. There are also monetary, as well as a time costs involved in collecting on defaulted finances or other financings and, if applicable, taking possession of and subsequently liquidating various types of collateral.

The consumer finance/retail finance industry continues to be targeted by new laws or regulations in many jurisdictions that could restrict short-term consumer financing products and services. Governments at the national, state and local levels, as well as foreign governments, may seek to impose new laws, regulatory restrictions or licensing requirements that affect such products or services. Furthermore, in recent years, consumer

financing that include certain short-term financing products, have come under increased regulatory scrutiny that has resulted in increasingly restrictive regulations and legislation that makes offering such financings in certain states in the United States or foreign countries less profitable or unattractive. Any legislative or regulatory actions that affect the consumer finance/retail finance business at the national, state, foreign and local level could, if enacted or interpreted differently, have a material adverse impact on such investments.

Deferred Purchase Obligations: A SF Fund may acquire equipment subject to substantial deferred purchase obligations. The sole source of payment for such obligations will be collections on the various leases or other financing arrangements, and payments on such leases or other financing arrangements will go first to satisfy the installment obligations, which, if insufficient, could result in a SF Fund losing the equipment subject to the deferred purchase obligation.

Master Limited Partnerships: A SF Fund may invest in, or otherwise have exposure to an investment in, a MLP. The value of a SF Fund's investment in an MLP depends largely on the MLP being treated as partnerships for U.S. federal income tax purposes. If an MLP does not meet current law requirements to maintain partnership status, or if it is unable to do so because of tax law changes, it would be taxed as a corporation. In that case, the MLP would be obligated to pay income tax at the entity level and distributions received by the SF Fund would be taxed entirely as dividend income. As a result, there would be a material reduction in the SF Fund's after tax return.

Items of income, gains, losses and deductions of each MLP flow through to a SF Fund in its capacity as a partner of the MLP. Historically, a substantial portion of MLP income has been offset by tax deductions. If the amount of MLP income tax deductions that may be claimed by the SF Fund is less than anticipated, investors will incur greater current income taxes. A significant slowdown in acquisition activity by the MLPs in a SF Fund's portfolio also could accelerate investors' obligations to pay income taxes due in part to less accelerated depreciation generated by new acquisitions.

In the event that a SF Fund invests in, or has exposure to, any energy-related MLP, the investment in the MLP will be tied to the performance of the energy industry and subject to risks faced by energy companies, including, without limitation, the volatility of energy commodity prices, changes in global and domestic energy markets, general economic conditions, consumer demand and changes in energy usage, price and level of foreign imports, the impact of weather on demand, levels of domestic and worldwide supply, levels of production and imports, governmental regulation, political instability, embargoes, acts of war and terrorism, the success and costs of exploration projects, conservation and environmental protection efforts, alternative energy, taxation, the availability of local, intrastate and interstate transportation systems, depletion of energy reserves, production declines and volume decreases (including actions by the Organization of the Petroleum Exporting Countries), operating risk, equipment failure, safety problems, environmental risks, and natural disaster risk.

Bankruptcy, Operating Leases: In the event that a lessee or end-user of equipment files for protection under bankruptcy laws, a bankruptcy court may reject, reduce the term or alter the provisions of the operating lease with that end user. If this happens, a SF Fund may not

receive the full amount of rental payments contemplated by that lease. A SF Fund may also experience difficulties, legal costs and delays in recovering equipment from a bankrupt lessee or end-user that is involved in a bankruptcy proceeding or has been declared bankrupt by a bankruptcy court. The sales proceeds a SF Fund ultimately may receive from disposing of recovered equipment may not cover its outstanding investment in that equipment.

Additional Financing Risks, Generally: In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain potential SF Fund investments, a SF Fund could be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of the other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” Because of the nature of certain potential SF Fund investments, a SF Fund could be subject to claims from creditors of an obligor that the investments issued or otherwise entered into by such obligor that are held by a SF Fund should be equitably subordinated.

A SF Fund’s investments may involve investments in which the SF Fund would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting the SF Fund’s investments could arise without the direct involvement of the SF Fund.

Non-U.S. Transactions: It is likely that a SF Fund or Originator may enter into transactions with non-U.S. counterparties. In connection with such transactions, the relevant Assets may be permanently or temporarily located outside the U.S., and the relevant contracts may be governed by non-U.S. laws. These transactions involve a number of risks, including, but not limited to, the following: the SF Fund or the Originator, as applicable, may have difficulty repossessing Assets outside the U.S.; legal costs may be more expensive outside the U.S.; foreign governments may confiscate Assets, nationalize Assets, retrospectively change laws, impose new or changed fees, duties or taxes or impose foreign exchange restrictions which hamper the ability of the Originator or the SF Fund, as applicable, to receive payments; foreign courts may not recognize judgments obtained in U.S. courts; there may be documentary risks where contracts are written in a language other than English; complications may arise from interpretations of tax or legal codes and any regulatory registration requirements; and changes in, or interpretations of, foreign laws and regulations may adversely affect the ability of the SF Fund or the Originator, as applicable, to enter

into leases or other financings, sell Assets or repatriate profits. Furthermore, certain non-U.S. jurisdictions may be more prone to corruption, unsavory business practices, conflict, sanctions or civil unrest. All of these risks may impair the ability of the SF Fund or the Originator, as applicable, to receive amounts due or to remarket Assets, as applicable, in a satisfactory manner.

Exposure to investments in securities of, or transactions with respect to, non-U.S. governments and companies that are generally denominated in non-U.S. currencies and utilization of options on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with exposure to investments in securities of the United States government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, foreign government restrictions, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Exposure to emerging markets imposes risks different from, or greater than, risks of exposure to investments in U.S. securities or transactions or in non-U.S. developed countries. These risks include, without limitation: smaller market capitalization of securities markets, which may suffer periods of relative illiquidity; significant price volatility; and restrictions on foreign investment and possible repatriation of investment income and capital. In addition, investors may be required to register the proceeds of sales and future economic or political crises could lead to price controls, forced mergers, expropriation or confiscatory taxation, seizure, nationalization, or creation of government monopolies. The currencies of emerging markets countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investment in these currencies by the SF Fund. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging markets countries. Securities traded in certain emerging markets countries may be subject to risks in addition to risks typically posed by international investing due to the inexperience of financial intermediaries, the lack of modern technology, and the lack of a sufficient capital base to expand business operations.

Additional risks of exposure to emerging markets securities may include, without limitation: greater social economic and political uncertainty and instability; more substantial governmental involvement in the economy; less governmental supervision and regulation of securities trading and markets; unavailability of currency hedging techniques; companies that are newly organized and small; differences in auditing and financial reporting standards, which may result in unavailability of material information about issuers; and less developed legal systems. In addition, emerging securities markets may have different clearance and settlement procedures, which may be unable to keep pace with the volume of securities transactions or otherwise make it difficult to engage in such transactions. Settlement problems ultimately may cause the SF Fund to miss attractive investment opportunities, hold a portion of its assets in cash pending investment, or be delayed in disposing of an underlying portfolio security. Such a delay could result in possible liability to a purchaser of the security.

Emerging-Growth and Expansion-Stage Companies: A SF Fund's investment portfolio may have a substantial exposure to venture-capital funded, emerging-growth and/or expansion-stage privately-owned businesses, which may have relatively limited operating histories. Compared to larger established or publicly-owned firms, these companies may be more vulnerable to economic downturns, may have more limited access to capital and higher funding costs, may have a weaker financial position, and may need more capital to expand or compete. These businesses also may experience substantial variations in operating results. They may face intense competition, including from companies with greater financial, managerial, technical and marketing resources. Companies with new products or services could sustain significant losses if projected markets do not materialize. Furthermore, some of these companies do business in regulated industries and could be affected by changes in government regulation. Such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which may adversely affect the return on, or the recovery of, a SF Fund's investment in such businesses.

Technology-Related Companies: A SF Fund's investment portfolio may have a substantial exposure to technology-related companies, many of which have narrow product lines and small market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. The revenues, income (or losses) and valuations of technology-related companies can and often do fluctuate suddenly and dramatically. In addition, technology-related markets are generally characterized by abrupt business cycles and intense competition.

Additional Exposures—Fixed Income: A SF Fund's investment portfolio may have substantial direct or indirect exposure to fixed income securities and other like instruments (*e.g.*, indirectly in connection with a Murabaha transaction). Fixed income securities and other like instruments are obligations of an issuer or obligor to make payments of principal and/or interest on future dates, and include, among other securities and instruments: bank debt; loans, bonds (including "junk bonds"), notes, and debentures issued by corporations; debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or by a non-U.S. government or one of its agencies or instrumentalities; municipal securities; and mortgage-backed and asset-backed securities or derivatives. These securities and instruments may pay fixed, variable, or floating rates of interest, and may include zero coupon obligations.

Fixed-income securities and instruments are subject to the risk of the issuer's, obligor's or a guarantor's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer/obligor, and general market liquidity (*i.e.*, market risk). Fixed income investments may be subject to early redemption features, refinancing options, pre-payment options or similar provisions which, in each case, could result in the issuer/obligor repaying the principal on an obligation earlier than expected. This may happen when there is a decline in interest rates or when a borrower's performance allows the refinancing of certain classes of debt with lower cost debt. Fixed income securities with longer maturities tend to be more sensitive to interest rate movements than those with

shorter maturities. There may not be a liquid market for any of the debt instruments in which a SF Fund has direct or indirect exposure, which may negatively impact a SF Fund's performance.

The Fund may have exposure to subprime loans (including consumer and residential mortgage exposures), meaning loans made to borrowers with weakened credit histories or with a lower capacity to make timely payments on their loans. For these reasons, these loans have had, in many cases, higher default rates than those loans that meet government or otherwise more stringent underwriting requirements. The risk of non-payment is greater for such loans, but a level of risk exists for all loans.

Additional Exposures—Equities: A SF Fund's investment portfolio may have substantial direct or indirect exposure to equity and equity-related securities and instruments, such as convertible securities and warrants (*e.g.*, such instruments may serve as collateral and/or an expected source of repayment upon disposition for a financing provided by a SF Fund). The value of equity securities and related instruments varies in response to many factors. Factors specific to an issuer, such as certain decisions by management, lower demand for its products or services, or even the loss of a key executive, could result in a decrease in the value of the issuer's securities. Factors specific to the industry in which the issuer participates, such as increased competition or costs of production or consumer or investor perception, can have a similar effect. The value of an issuer's stock can also be adversely affected by changes in financial markets generally, such as an increase in interest rates or a decrease in consumer confidence, that are unrelated to the issuer itself or its industry. In addition, certain options and other equity-related instruments may be subject to additional risks, including liquidity risk, counterparty credit risk, legal risk, and operations risk, and may involve significant economic leverage and, in some cases, be subject to significant risks of loss. These factors and others can cause significant fluctuations in the prices of these securities and instruments and can result in significant losses.

### *Risks – Real Estate*

Industry Risk: RE Funds are subject to certain risks associated with the ownership of real estate-related assets and the real estate industry in general. A RE Fund's performance or underlying value may be adversely affected by changes in economic or market conditions, compliance with environmental and zoning laws, litigation, increases in financing costs and property taxes, availability of financing, overbuilding, tenancy and vacancy issues, construction delays, cost overruns, limited insurance coverage for losses, market competition and other factors that neither the RE Fund nor the Firm can control.

Recessionary Environment Risk: Real estate has historically experienced substantial fluctuations and cycles in value and market conditions which may cause reductions in the value of real property interests. All real estate-related investments are subject to the risk that a general downturn in the relevant national and/or local economy will depress real estate prices. Economic events and circumstances in recent years have adversely affected, and may continue to adversely affect, real estate-related investments. Such events and circumstances include: a significant decline in the value of real estate and securities associated with real estate, which decline may continue for a prolonged period and result in a highly volatile and



uncertain business environment for investors in real estate and real estate-related securities; limited credit availability; limited confidence in the financial sector; and less business activity. Wafra Capital Partners may not be able to timely anticipate or manage these and other risks, contingencies or developments relating to a recessionary environment.

Renovation, Expansion or Development Risk: To the extent that a RE Fund's investments relate to the renovation, expansion and/or development of real estate, the RE Fund will be exposed to particular risks associated with such properties, including the risks that favorable financing terms may not be available, construction may not be completed on a timely basis, to the agreed specification or within budget (thereby causing increases in debt-related expenses, construction costs, leasing delays and cash flow generation delays). Although construction contracts may require construction contractors to pay liquidated damages, a RE Fund will be exposed to the risk that certain losses may not be covered by such provisions, and the risk that the contractor's business may fail.

In addition, renovation, expansion and/or development activities may involve risks relating to the inability to obtain (or delays in obtaining) requisite zoning, land use, occupancy, land use and other governmental permits and/or authorizations, and, upon completion, the properties may perform below anticipated levels. To the extent that any renovation, expansion or development activities are financed through construction loans, there is a risk that, upon completion of construction, permanent financing may not be available on advantageous terms or at all.

Concentration Risk: Geographic concentration of a RE Fund's real-estate or real-estate related investments may increase the risk that adverse economic or other developments or natural or man-made disasters affecting a particular region of a country could increase the frequency and severity of losses. Other regional factors—*e.g.*, earthquakes, floods, hurricanes, changes in governmental rules or fiscal policies or terrorist acts—also may adversely affect a RE Fund's investments.

Environmental Risks: A RE Fund's operations are subject to numerous statutes, rules and regulations relating to environmental protection ("Environmental Regulation"). Such Environmental Regulation subject current or previous owners or operators of real property to potential liability, including liability for the costs of investigation, monitoring, removal or remediation of hazardous materials, and changes in Environmental Regulation or in the environmental condition of a RE Fund's investments may create liabilities that did not exist at the time of acquisition of the investment, and that could not have been foreseen. The presence of hazardous materials on a property could also result in personal injury, property damage or similar claims by private parties. Furthermore, a RE Fund's investments may be located in earthquake zones or be subject to risks associated with other natural disasters.

Political Risks: A RE Fund's assets are located in numerous foreign jurisdictions, which may include emerging markets. Foreign governments may confiscate or nationalize assets belonging to a RE Fund, retrospectively change laws, impose new or changed fees, duties or taxes or impose foreign exchange restrictions or there may be changes in, or interpretations of, foreign laws and regulations which may adversely affect the RE Fund's ability to receive payments or repatriate profits. In addition, foreign courts may not recognize

judgments obtained in courts of another country, there may be documentary risks where contracts are written in a language other than English, complications may arise from interpretations of tax of legal codes and any regulatory registration requirements and certain jurisdictions may be more prone to corruption, unsavory business practices, conflict, sanctions or civil unrest. All of these risks may impair a RE Fund's ability to receive amounts due and achieve its investment objectives.

Emerging market countries can pose additional risks, including greater social, economic or political uncertainty or instability, more substantial governmental involvement in the economy, or political crises that could lead to price controls, forced mergers, expropriation or confiscatory taxation, seizure, nationalization or creation of government monopolies. The currencies of emerging markets countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investment in assets denominated or otherwise pegged to the local currency or economy.

General Real Estate Risks: An investment in a RE Fund entails substantial exposure to the real estate industry. Accordingly, such RE Fund will be subject to the risks incident to ownership and development of real estate, including risks, some of which are mentioned above, associated with changes in the general economic climate, changes in the overall real estate market, local real estate conditions, dependency on management skill, heavy cash flow dependency, overbuilding, extended vacancies of properties, increased taxes and operating expenses, changes in zoning laws, losses due to costs and liability resulting from the clean-up of environmental problems, casualty or condemnation losses, limitations on rents, changes in neighborhood values and the appeal of properties to tenants, the financial condition of tenants, supply of or demand for competing properties in an area, accelerated construction activity, technological innovations that dramatically alter space requirements, the availability of financing, changes in profit or rates deemed as "interest rates" under relevant local laws, competition based on rental rates, energy and supply shortages, various uninsured and uninsurable risks (including possible terrorist activity) and government regulations.

Further, the real properties to which a RE Fund may have exposure may be subject to environmental laws, regulations and administrative rulings of the applicable jurisdiction which, among other things, may establish standards for the treatment, storage and disposal of solid and hazardous waste. Real property owners are subject to federal and state environmental laws which impose joint and several liability on past and present owners and users of real property for hazardous substance remediation and removal costs. For instance, certain laws or regulations may impose strict liability, often regardless of fault, on various parties (jointly and severally), including owners and operators, associated with real estate affected by a release of a regulated environmental contaminant. It is possible that certain properties in which a RE Fund invests could be contaminated with regulated environmental contaminants, that such RE Fund could be subject to strict liability because of such contaminants, and that insurance may not be available to protect the RE Fund from such exposure or, if available, is unduly cost prohibitive for the RE Fund to obtain.

A RE Fund may have exposure to projects in all stages of development, from "greenfield" projects on undeveloped sites, to "brownfield" projects on derelict industrial and

commercial sites, to late stage conversion, renovation and operating projects. Each such stage has its own particular risks. While later stage projects are often considered less risky than earlier stage investments, that is by no means always the case, and the risk/reward profiles of earlier stage projects may be materially greater than later stage transactions.

In addition, exposures to real estate or interests in real estate are illiquid and subject to industry cycles, downturns in demand, market disruptions and the lack of available capital from potential financiers or investors. Accordingly, there can be no assurance that a RE Fund's investment adviser will be able to dispose of its investments in a timely manner and/or on favorable terms. Furthermore, there can be no assurance that there will be tenants or purchasers for the office or commercial space or residential units ultimately developed.

A RE Fund may employ or incur financing in connection with any of its real estate-related investments. The use or incurrence of financing involves a high degree of financial risk and may increase such RE Fund's exposure to factors such as rising profits or rates deemed as "interest rates" under relevant local laws, downturns in the economy or deterioration in the condition of the properties underlying such investments.

Real estate development and repositioning is a highly competitive business which involves significant risks. In particular, because of the long lead-time between the inception of a project and its completion, a well-conceived project may, as a result of changes in the real estate market, economic and other conditions prior to its completion (including as a result of the construction of competing projects), become an economically unattractive investment. It is possible that a RE Fund may make a commitment prior to obtaining all necessary entitlements, approvals or consents and may not obtain or may incur significant costs to obtain such items. In addition, real estate development involves the risk that construction may not be completed within budget or on schedule because of cost overruns, unforeseen construction difficulties, work stoppages, shortages of building materials, the inability of contractors to perform their obligations under construction contracts, defects in plans and specifications, failure to obtain necessary entitlements, or other factors. Any delay in completing a project may result in increased costs, the potential loss of purchasers or tenants, increased competition from other projects and the possibility of defaults under project financings. In addition, the demand for quality real estate projects is largely dependent upon the continued economic growth of the markets and submarkets in which these projects are located. There can be no assurance that such economic growth or demand for such projects will continue in the markets in which a RE Fund makes its investments or that the actual occupancy and/or rental rates for the real property underlying the RE Fund's investments will not be less than the projected occupancy and/or rental rates used in determining whether to make such investments. Furthermore, increased real estate development in such markets may lead to periods of oversupply and result in vacancies, lower rentals and lower sale prices for real estate projects.

Furthermore, investments in real estate-related debt securities will involve special risks relating to the particular issuer of the securities, including the financial condition, liquidity, results of operations, business and prospects of the issuer.

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

A RE Fund may invest in subprime assets, specifically many of the mortgage loans that the RE Fund may purchase have underwriting exceptions and other attributes, such as prior delinquent payments, that may increase the risk of loss to such RE Fund. In the event that there are foreclosures on subprime mortgages and a RE Fund takes physical possession of real estate properties, the RE Fund will have the added expense of administering or selling such properties rather than having an indirect interest, in addition to being subject to risks associated with the direct ownership of real estate including, but not limited to, decreases in real estate values, overbuilding, increased competition and other risks related to local or general economic conditions, increases in operating costs and property taxes, changes in zoning laws, casualty or condemnation losses, possible environmental liabilities, regulatory limitations on rent and fluctuations in rental income. The borrowers under the mortgage loans that a RE Fund will purchase may have low credit scores as a result of poor credit or no credit history. Historically, there is a higher risk of default on loans by borrowers with low credit scores. The pools of prime, Alt A and subprime mortgage loans that a RE Fund may purchase include mortgage loans that are either currently delinquent or have been delinquent in the past. Mortgage loans with a history of delinquencies are more likely to experience delinquencies in the future, even if these mortgage loans are current at the time of purchase.

Recent Developments in the Subprime Residential Mortgage Lending Market May Adversely Affect the RE Fund: Investors should note that the residential mortgage market has recently encountered difficulties which may adversely affect the performance or market value of a RE Fund. Therefore, although a RE Fund's investment adviser may believe that the dislocation in the subprime residential mortgage market has created an attractive environment for finding value in securities, loans and other instruments, there is no assurance that such RE Fund will be able to do so.

Delinquencies, defaults and foreclosures on residential mortgage loans have increased and may continue to increase, which may affect the performance of CDO securities, asset backed securities and other securities, in particular subprime residential mortgage securities

which are backed by subprime mortgage loans. Subprime mortgage loans are generally made to borrowers with lower credit scores and are generally made with higher loan-to-value ratios than mortgage loans made to more creditworthy home buyers. Accordingly, mortgage loans backing subprime residential mortgage securities are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities. A portion of CDO and asset backed securities' collateral may consist of subprime residential mortgage securities. A deterioration in the assets collateralizing the CDO, asset backed or other securities held by a RE Fund would negatively affect the cash flows of the collateral securities, and consequently the performance or market value of the RE Fund. Therefore, a RE Fund will be sensitive to the same economic factors that affect subprime residential mortgage securities. Further, a portion of the collateral securities may consist of securities which include or have significant exposure to subprime residential mortgage securities which were originated or are serviced (or both) by subprime mortgage companies which are currently in bankruptcy proceedings or which are experiencing financial difficulties or regulatory enforcement actions which have restricted the ability of the lender or its affiliates to originate mortgage loans and may affect its ability to service or subservice mortgage loans.

Lending: A RE Fund may invest in or otherwise have exposure to a variety of real estate related debt investments, including sub-performing or non-performing debt. In addition to the risks of borrower default, these investments will be subject to a variety of risks, including the risks of mismanagement or a decline in value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on contractual remedies for defaults on such investments.

Distressed Mortgage Loans: A RE Fund may invest in non-performing and sub-performing mortgage loans, as well as mortgage loans that have had a history of delinquencies or defaults. These mortgage loans may be in default or may have a greater than normal risk of future defaults, delinquencies, bankruptcies or fraud losses, as compared to a pool of newly originated, high-quality loans of comparable type, size and geographic concentration. Returns on an investment of this type depend on the borrower's ability to make required payments and, in the event of default, the ability of the loans' servicer to foreclose and liquidate the mortgage loan.

Residential Whole Loan Mortgages: A RE Fund may invest in or otherwise have exposure to residential whole loan mortgages (including related structured transactions in which the underlying credit risk is based on such whole loans). Such whole loan mortgages may include subprime, non-performing and sub-performing mortgage loans which are subject to increased risks as opposed to prime whole loan mortgages. A whole loan mortgage is directly exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower, and the priority and enforceability of the lien are each of great importance. To the extent that the value of the property underlying these mortgage loans decreases and there is a foreclosure on such property following a borrower default, the proceeds of such property may be insufficient to cover the outstanding balance on such loan. There can be no assurance as to the adequacy of the protection of the terms of the loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted that might interfere with enforcement of the rights of the Fund. In the event of a foreclosure,

the Fund would bear the risk of loss. Real estate assets generally experience periods of illiquidity and this lack of liquidity might result from general economic conditions impacting the real estate and credit markets, low occupancy rates, high operating expenses, the early stage of development, the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale. The liquidation proceeds upon sale of such real estate may not be sufficient to recover the Fund's cost basis in the loan, resulting in a loss to the Fund. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Real Estate Investment Trusts ("REITs"): A RE Fund may invest in REITs. Such REITs may be affected by changes in underlying real estate values, which may have an exaggerated effect to the extent that REITs in which the RE Fund invests may concentrate investments in particular geographic regions or property types. Additionally, rising interest rates may cause investors in REITs to demand a higher annual yield from future distributions, which may in turn decrease market prices for equity securities issued by REITs. Rising interest rates also generally increase the costs of obtaining financing, which could cause the value of a RE Fund's investments to decline. During periods of declining interest rates, certain mortgage REITs may hold mortgages that the mortgagors elect to prepay, which prepayment may diminish the yield on securities issued by such mortgage REITs. In addition, mortgage REITs may be affected by the ability of borrowers to repay when due the debt extended by the REIT and equity REITs may be affected by the ability of tenants to pay rent.

Certain REITs have relatively small market capitalizations, which may tend to increase the volatility of the market price of securities issued by such REITs. Furthermore, REITs are dependent upon specialized management skills, have limited diversification and are, therefore, subject to risks inherent in operating and financing a limited number of projects. REITs depend generally on their ability to generate cash flow to make distributions to investors.

## **ITEM 9- Disciplinary Information**

Not applicable.

## **ITEM 10 - Other Financial Industry Activities and Affiliations**

Certain management persons of Wafra Capital Partners or WIAG are registered representatives of a registered broker-dealer, Wafra Securities Corporation, a member of the Financial Industry Regulatory Authority, Inc.

Wafra InterVest Corporation and Wafra Capital Partners, L.P., non-U.S. affiliates of Wafra Capital Partners, provide to, together with certain of their affiliates, from time to time, Wafra Capital Partners, its affiliates and Funds services outside of the United States, which may include corporate advisory, management, business consulting, strategic planning, placement or similar services, as well as administration services and other services, which may be considered material to Wafra Capital Partners' business or the Funds.

Wafra Capital Partners forms part of a joint venture with Watani Investment Company K.S.C.C., an entity organized under the laws of Kuwait (“NBK Capital”) under the trade name WCP Investments LP (“WCPI”). NBK Capital, or an affiliate thereof (“the Distributor”), generally purchases Fund shares and distributes underlying beneficial ownership interests in Fund shares to investors and receives a fee from such investors pursuant to agreements and/or arrangements between them. Further, a portion of the collected fee is ultimately paid by the Distributor to WCPI. Additionally, for the provision of its services, the Distributor also receives a portion of the management fee that is paid to WCPI. Please see also “Advisory Business” in Item 4 for information about WCPI.

The respective relationships with respect to, and services provided (if any) to, Wafra Capital Partners and/or any Fund are disclosed to potential Fund investors and are described in the relevant offering documents. To the extent that any of the Firm’s related persons receive fees either from the Firm or a Fund as compensation for its or their services to the Firm or the Fund, as applicable, such compensation arrangements are generally in writing and disclosed in the relevant agreements and/or offering documents. Agreements may provide that a portion of fees otherwise payable to Wafra Capital Partners will be paid or allocated to such affiliated entities. To the extent that a Fund directly engages an affiliate to perform non-advisory services for the Fund, any fees associated with such services will be separate from, and in addition to, the advisory fees paid to Wafra Capital Partners. Please see also Item 5 above, which includes important information and disclosures regarding fees and other compensation.

Wafra Capital Partners, and/or any affiliate, officer, director and/or employee of Wafra Capital Partners or WIAG (together, the “Wafra Owners”) own(s) financial interests in one or more companies or entities in which or with which a Fund likely will enter into business transactions, and or may provide to equity or other financing, in seeking to achieve its investment objective. In the event that a Fund transacts with or invests in such a company or entity, the Firm negotiates the transaction terms on behalf of the Fund. A conflict of interest may exist with respect to such negotiations, as the Wafra Owners would benefit from the counterparty company or entity receiving favorable terms, which could be at the expense of the Fund. The Firm has adopted policies and procedures designed to ensure that, based on all of the factors and circumstances involved, the terms of such transactions are equitable to the Funds. Nevertheless, such transactional and/or financial terms may not be derived through “arm’s-length” negotiations; no assurance can be provided that the consideration and/or other financial benefits that the Wafra Owners receive due to their role on either side of such transactions is comparable to the consideration and/or other financial benefits that other parties in similar situations would receive.

Please see also “Conflicts of Interest” in Item 8 for information about investments made by related persons of the Firm in investment opportunities in which the Funds may participate.

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

Wafra Capital Partners has adopted a code of ethics (the “Code”) as required by Rule 204A-1 under the Advisers Act. The Code also reflects the Firm’s standards for the conduct of its business and for the performance of the Firm’s duties to Funds. All officers, directors, partners and employees of Wafra Capital Partners and any other person who provides advice on behalf of Wafra Capital Partners and is subject to the Firm’s control and supervision (referred to as “Supervised Persons”) are required to adhere to the Code, and to conduct themselves at all times in compliance with the following standards:

- The Firm has a strict policy of complying with all applicable laws, rules and regulations, including but not limited to federal securities laws; the Foreign Corrupt Practices Act of 1977, and applicable laws of foreign jurisdictions;
- As a fiduciary to the Funds, it is the Firm’s policy to act in the interests of the Funds and adhere to the highest ethical standards in its dealing with the Funds; and
- The Firm and its Supervised Persons will disclose all material facts relating to the advisory relationship.

Wafra Capital Partners has appointed a Chief Compliance Officer (the “CCO”) to administer the Code and Wafra Capital Partners’ compliance program. Supervised Persons must be alert for any potential conflicts of interest between Wafra Capital Partners’ interests and the interests of each Fund, and for any improper activity on the part of other Supervised Persons, and promptly report any violations to the CCO. Supervised Persons must give prior notice of, and under certain circumstances receive written approval for, certain outside activities in which they wish to engage. This includes outside business interests, receipt of gifts beyond certain threshold values, personal trading of securities, and maintenance of personal brokerage accounts.

Wafra Capital Partners and its related persons have a material financial interest with respect to fees paid by the Funds and investments made for or on behalf of the Funds. As discussed above, a Fund may transact with companies or other entities in which the Wafra Owners hold financial interests. These and other factors could create an incentive for the Firm to make investment decisions that are different from those that would be made in the absence of such interests and arrangements. The offering documents relating to each Fund, which are provided to investors prior to their making an investment, provide disclosure about these investments and conflicts of interest.

Items 5, 6 and 10 include important information regarding, and disclosures about, the Firm’s and its related persons’ and affiliates’ participation or interests in Fund transactions and agreements. The Firm may engage in principal, agency cross or similar transactions with respect to the Funds. The Firm is aware of the potential conflicts of interest created by



principal, agency cross or similar transactions. To the extent that the Firm engages in such transactions with respect to a Fund, it has established, in addition to other practices, a policy against self-dealing in order to prevent “dumping” of unwanted securities into Fund accounts and placing earning additional compensation ahead of a Fund’s interests. Any employee who plans to arrange a principal or agency cross transaction for or with a Fund must promptly notify the CCO and include a description of the proposed transaction. No principal or agency cross transaction may be effected without the prior written approval of the CFO. To the extent the Firm does engage in such transactions, it will do so in compliance with Section 206(3) of the Advisers Act.

The Firm has adopted policies designed to prevent insider trading activities. The policies restrict or otherwise address certain practices and activities of Supervised Persons, including trading activities for or on behalf of a Supervised Person’s immediate family members.

Under the Code and compliance program all employees are designated as “Access Persons” or “Access Exempt Persons”. Access Persons must generally seek and receive approval from the Firm’s Compliance Department prior to purchasing or selling in any of the following scenarios for their personal accounts other than: (i) all transactions involving private, 144a, or other limited opportunity, excluding WCP related co-investments that take place alongside clients or investors or otherwise associated with WCP or client investments; (ii) purchasing an investment from a client or affiliate thereof; (iii) selling an investment to a client or affiliate thereof; (iv) loaning money to a client, investor, or any affiliate thereof; and (v) hiring themselves or any affiliate or related party as a service provider on behalf of WCP or any client or affiliate thereof. However, all transactions in securities (except those noted above) occurring in all employees’ accounts are regularly monitored and reviewed.

Access Persons are required to submit reports detailing their personal securities holdings of reportable securities as defined in the Code on an initial basis and an annual basis and to report transactions quarterly typically through submitting brokerage account statements and trade confirmations.

If you would like a copy of Wafra Capital Partners’ Code of Ethics, please forward your written request via facsimile at (212) 377-0033 or to:

Attn: Chief Compliance Officer  
Wafra Capital Partners Inc.  
350 Park Avenue, 16<sup>th</sup> Floor  
New York, New York, 10022

## **ITEM 12 - Brokerage Practices**

Not applicable.

## **ITEM 13 - Review of Accounts**

Under the supervision of the Firm’s Chief Investment Officer, investment personnel at Wafra Capital Partners review and evaluate accounts to ensure compliance with each

Fund's investment objectives, policies and restrictions. Additionally, accounts are periodically reviewed for asset diversification, other requirements and performance.

In addition to ongoing informal monitoring and reviewing of accounts, members of Wafra Capital Partners also meet regularly and on an as-needed basis to review new transaction prospects and to discuss current holdings to the extent there is recent or new news or factors requiring assessment.

Wafra Capital Partners' Funds' investors or their representatives receive written reports from the Funds pursuant to the terms of each Fund's offering memorandum or as otherwise described in the applicable offering documents.

#### **ITEM 14 - Client Referrals and Other Compensation**

Not applicable.

#### **ITEM 15- Custody**

The determination of whether or not Wafra Capital Partners maintains custody with respect to any particular client is dependent on its agreement with such client and location and control of a client's funds and securities. Wafra Capital Partners has custody of certain clients' funds and securities, and for others it is not deemed to have custody. As applicable, clients which receive statements from us should compare their account statements against statements received directly from their qualified custodian. Generally, all of Wafra Capital Partners' funds are audited annually by a public accounting firm; investors in a fund should carefully review the fund's annual audited financial statements.

#### **ITEM 16 - Investment Discretion**

Terms with respect to the Funds are set out in the relevant offering documents.

#### **ITEM 17- Voting Client Securities**

Not applicable.

#### **ITEM 18- Financial Information**

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations. Wafra Capital Partners has no such financial circumstances to report.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

Wafra Capital Partners has not been the subject of a bankruptcy petition at any time during the past ten years.