

SANDTON CAPITAL PARTNERS, L.P.

PART 2A OF FORM ADV: FIRM BROCHURE

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This brochure provides information about the qualifications and business practices of Sandton Capital Partners, L.P. (“Sandton” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at (212) 444-7200. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Sandton is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This brochure serves as the annual update for the year ending December 31, 2018 per the Form ADV Part 2A instructions.

Item 3: Table of Contents

	Page
Item 1: Cover Page.....	1
Item 2: Material Changes.....	2
Item 3: Table of Contents	3
Item 4: Advisory Business	4
Item 5: Fees and Compensation.....	5
Item 6: Performance-Based Fees and Side-by-Side Management.....	7
Item 7: Types of Clients.....	7
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	8
Item 9: Disciplinary Information	35
Item 10: Other Financial Industry Activities and Affiliations	35
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	36
Item 12: Brokerage Practices	37
Item 13: Review of Accounts	38
Item 14: Client Referrals and Other Compensation.....	39
Item 15: Custody.....	39
Item 16: Investment Discretion.....	39
Item 17: Voting Client Securities	39
Item 18: Financial Information	40
Item 19: Requirements for State Registered Advisers	40

Item 4: Advisory Business

Item 4.A.

Sandton Capital Partners, L.P. (“**Sandton**” or the “**Firm**”), a Delaware limited partnership, was founded in June 2010 by Rael Nurick and Thomas Wood. Rael Nurick and Thomas Wood are the principal owners of Sandton.

Item 4.B.

Sandton is a private investment fund manager focused on special situation investments. Sandton provides its services to privately offered domestic and offshore investment vehicles, some of which are co-investment vehicles (the “**Funds**” or “**clients**”), pursuant to investment management agreements (“**IMAs**”) under which Sandton is granted investment discretion subject to the policies and restrictions imposed by the relevant IMAs and limited partnership agreements (each, an “**LPA**”) for such Funds.

Historically, Sandton has not begun investing on behalf of a Fund until its predecessor Fund has invested substantially all its capital. As a result, Sandton typically does not need to address allocation decisions as between or among the Funds, other than co-investment vehicles, as discussed below. Although it has occurred very infrequently in the past, Sandton may be required to make allocation determination decisions between Funds with respect to certain “follow on” investments. If such “follow on” investment consists of an additional purchase of an instrument held by an existing Fund from a different seller, such purchase opportunity will generally be allocated to the Fund that is currently in its investment period. However, if such “follow on” investment takes the form of a cash infusion into a company or issuer that is the subject of debt or equity held by an existing Fund, then such “follow on” investment will be allocated to the Fund that initially made such investment. Sandton is responsible for sourcing and identifying new investments. Pursuant to certain of the Funds’ governing documents, if an investment that is a viable opportunity for a Fund exceeds a certain size, it is submitted to the Fund’s advisory committee (“**Advisory Committee**”) for additional review. When a potential investment exceeds the Fund’s capacity for such investment, such investment may be considered as a potential co-investment opportunity. When an eligible co-investment opportunity arises, the Firm will typically offer the opportunity to participate to certain investors in its discretion through a collective investment vehicle. Historically, co-investors have included (i) certain key large investors in the relevant Fund, (ii) the investors who provided seed capital (the “**Seed Investors**”) to the Firm at the time of its founding, and (iii) the Fund for which that opportunity was originally sourced. (See Items 10.C. and 11.A.)

Item 4.C.

The Firm tailors its advisory services to each Fund or co-investment vehicle it manages in accordance with the terms of the relevant offering memorandum or mandate for such co-investment vehicle, as applicable.

Item 4.D.

Sandton does not participate in, nor does it sponsor, wrap fee programs.

Item 4.E.

As of December 31, 2018, Sandton managed approximately \$890,453,292 in regulatory assets under management on a discretionary basis. Sandton does not manage client assets on a non-discretionary basis.

Item 5: Fees and Compensation

Item 5.A.

Sandton's management fees are set forth in each Fund's relevant offering memorandum or LPA, in the case of a co-investment vehicle.

Sandton is compensated for its advisory services based on a percentage of its investors' capital commitment prior to the expiration of the investment period for such Fund and the lesser of its capital account balance or total investors' contributions thereafter. Sandton, in its discretion, may waive or reduce the management fees for certain investors

Additionally, Sandton charges a monitoring fees to certain portfolio companies. The monitoring fee enables the portfolio companies to have access to special skills and management advisory services in connection with the portfolio companies' general business operations. In accordance with the Fund's relevant offering documents, management fees will be reduced by monitoring fees charged to the relevant fund.

The Funds are offered only to "qualified purchasers," as defined in 2(a)(51)(A) of the Investment Company Act of 1940, as amended (the "**Investment Company Act**"). The Funds qualify under 3(c)(7) exemption from the Investment Company Act.

Item 5.B.

Pursuant to the terms of each Fund's LPA, the Firm is authorized to deduct management fees from each investor's capital account on a quarterly basis.

Item 5.C.

Each of the Funds is generally responsible for all of its own organizational, initial offering and operating expenses (collectively, the "**Organizational and Operating Expenses**"), whether incurred prior to or following the initial closing date of the Fund, including, but not limited to, expenses related to, or incurred in connection with any investment (or proposed investment that is not consummated), including, without limitation, due diligence-related and sourcing-related fees and expenses, including sourcing fees and sourcing retainers, third party retainers and fees for sourcing services, finders fees, referral fees, appraisal fees and costs, third party research expenses, research related subscription costs, background checks, credit checks, title searches, legal database searches and subscriptions, travel, investment-related and/or sourcing-related travel, including expenses of members of the sourcing team for travel to and from the Firm's offices, meeting, deal sourcing, networking, conference, research and other expenses related to investments and prospective investments (including those that are not consummated) and other related expenses (including, without limitation, meals); monitoring fees and expenses, including, without limitation, custodial fees, initial and variation margin, interest expense, legal fees and professional fees (including, without limitation, expenses of consultants' and experts' fees relating to particular investments); costs and expenses related to Hedges (as defined below); brokerage commissions, broker subscription fees, acquisition fees, expenses relating to short sales, clearing and settlement charges, loan servicing fees and expenses and initial and variation margin; costs and fees of outside counsel, accountants, consultants, experts and other third party service providers (including, without limitation, third party valuation and pricing services); and costs and expenses incurred in connection with organizing, maintaining and operating entities controlled by the Firm or an affiliate, including in non-U.S. jurisdictions, for the purpose of facilitating one or more Portfolio Investments (as defined below) in certain jurisdictions (including rent, salaries and ancillary costs of such entities, and costs and expenses of administering such entities); costs and expenses relating to the operation

of the Fund, including, without limitation, expenses relating to the offer and sale of the Fund's limited partnership interests ("**Interests**"), including, but not limited to, travel, printing and mailing fees; costs and expenses related to transfers of Interests; the management fees; the Additional Fee (as defined below); costs and expenses incurred in connection with indebtedness of the Fund and its subsidiaries, including, without limitation, the costs of establishing such other indebtedness, the costs of monitoring compliance therewith (including, without limitation, the costs of purchasing, licensing or developing any computer software used for such purposes); certain entity level taxes (but without duplication of any such taxes withheld by the Fund and deemed to be a distribution or payment to a partner) and governmental filing fees and related costs; expenses related to FATCA Compliance; costs and expenses incurred in complying with the rules of any self-regulatory organization or any federal, state or local laws; compliance expenses relating to the operation of the Fund or its investments including, without limitation, expenses relating to regulatory filings (or portions thereof) that the Firm, the Fund's general partner ("**General Partner**") or their respective affiliates are required to make in connection therewith (including, Form PF expenses, expenses in connection with Commodity Futures Trading Commission ("**CFTC**") reporting and expenses in connection with Alternative Investment Fund Manager Directive reporting (if applicable)), Fund audits and expenses of compliance consultants relating to the Fund; legal expenses, fees of the administrator, internal and external accounting, loan-monitoring and other portfolio tracking software, portfolio reporting software and licensing costs; audit and tax preparation expenses; appraisal and valuation fees; expenses associated with any Advisory Committee or the Fund's conflicts committee ("**Conflicts Committee**") meetings and the reasonable out-of-pocket expenses of the members of an Advisory Committee or Conflicts Committee in connection with their services; premiums for directors' and officers', errors and omissions and lender liability insurance and fidelity bonds and other operational expenses; indemnification amounts payable to persons entitled to indemnification under the Fund's organizational documents; expenses associated with reporting (including, without limitation, reporting software license expenses) and providing information to limited partners; costs and expenses associated with any litigation, threatened litigation or governmental or regulatory inquiry (including, without limitation, any judgments, settlements or other amounts paid in connection therewith) and all other extraordinary expenses; and all other costs and expenses incurred that are authorized under the Fund's organizational documents or approved by its General Partner and with the consent of a majority of the Fund's limited partners or consent from its Advisory Committee.

The Organizational and Operating Expenses of a Fund described above are generally shared by all of the Fund's partners on a pro rata basis based on their respective commitments, including its General Partner; the Fund's General Partner may, however, allocate operating expenses of the Fund that are solely in respect of a particular Portfolio Investment (such as due diligence and travel expenses) to only the partners participating in such Portfolio Investment on a pro rata basis based on such partners' participation in such Portfolio Investment. Moreover, certain types of expenses of a Fund will be borne by the Firm (through a reduction of its management fee) instead of the Fund if such expenses exceed the cap specified in the Fund's organizational documents.

Affiliates of Sandton may charge each Fund an additional fee in connection with the management and servicing of certain positions of such Fund's loan portfolio (the "**Additional Fee**"). The Additional Fee is in addition to the management fee already payable by such Fund and will be used to facilitate Sandton or its affiliates in engaging personnel and incurring other overhead costs to manage these loans in lieu of hiring an unaffiliated third-party service provider to provide these services. The total fee charged to the Funds corresponds to a portion of the overhead costs, including salary, bonus, and benefits, of the employees engaged in performing such loan servicing.

Any Additional Fee payable by each Fund to the Firm or its affiliates will be reasonably based on the service being provided and the profits received by Sandton and its affiliates in connection with the provision of these services and will not exceed a specified amount, as outlined in such Fund's LPA.

Co-investors participating in a co-investment may be required to pay amounts to Sandton or its affiliates, including management fees, administration fees and other fees, carried interest or other incentive

compensation, and operating expenses and other expenses reimbursements associated with any co-investment vehicle through which they invest. Sandton and its affiliates may elect to reduce or waive any or all such fees and other amounts for the benefit of one or more co-investors without offering such reduction or waiver to other co-investors. In addition, a co-investor (other than the Fund for which such opportunity was sourced) will not receive a share of any topping, break up or broken deal fees received in connection with an unconsummated co-investment.

In general, a Fund will bear 100% of all out of pocket expenses associated with any investment that is not consummated, including any portion thereof that may or would have been allocated to potential co-investors had such investment been consummated. Sandton believes this approach is fair and reasonable because: (i) the amount of broken deal expenses associated with an investment is expected to be the same, or substantially similar, regardless of whether co-investors participate in such investment; (ii) in most cases, it is impracticable to charge broken deal expenses to co-investors since such expenses are typically incurred prior to the time when a co-investor becomes contractually committed to participate in such investment; and (iii) the participation of co-investors can often provide material benefits to a Fund, including facilitating Sandton's efforts to diversify such Fund's portfolio and allowing the Fund to participate in larger, and potentially attractive, investments with co-investors whose interests are more likely to be aligned with the interests of the Fund than third-party co-investors not selected by Sandton.

Item 5.D.

Each Fund pays Sandton a management fee on a quarterly basis commencing on each Fund's specified closing date, in respect of the limited partners therein. Fees are not reimbursable in the event of an early termination of either a Fund or an investor's participation in Fund.

Item 5.E.

None of Sandton or any of its supervised persons participate in the sale of securities or other related investment products.

Item 6: Performance-Based Fees and Side-by-Side Management

A carried interest allocation (equivalent to a performance fee) is made in respect of each investor in a Fund to such Fund's general partner, as outlined in the respective LPA. All accounts managed by Sandton are subject to a carried interest allocation.

Item 7: Types of Clients

Sandton provides investment advice to Funds domiciled in Delaware and the Cayman Islands. The minimum investment amount is generally \$2,500,000. This amount may be higher or lower depending on each Fund's offering memorandum and management discretion and the relevant general partner retains the right to waive such minimum amount.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Item 8.A.

The investment objective of Sandton is to generate superior risk-adjusted returns by acquiring a diversified portfolio of special situation investments.

Subject to the limitations and risks listed below and subject to the offering memorandum for each Fund and LPA for each co-investment vehicle, Sandton seeks to achieve its investment objective by investing, directly or indirectly, on an opportunistic basis in the following asset classes and instruments: (i) performing and non-performing debt instruments such as senior debt, secured debt, second lien debt and structured finance products such as collateralized debt obligations (“**CDOs**”) and collateralized loan obligations (“**CLOs**”); (ii) niche asset classes including, without limitation, financial claims, insurance policies, trade claims, consumer assets, leases, litigation claims, receivables, aircraft, equipment, merchant cash advances, working interests, intangible assets, including, without limitation, licenses and intellectual property, royalties, cash flow participations, personal property and real property; (iii) opportunistic loans and privately negotiated instruments in real estate and corporate entities structured as, among other things, senior secured debt, junior secured debt, unsecured mezzanine financing, preferred equity, equity, debtor-in-possession (DIP) financing, bridge loans or structured letters of credit; (iv) liquidations, corporate restructurings, in / post bankruptcy equity / assets and litigation; (v) distressed assets (equity or debt, including, distressed debt with an equity participation and distressed debt that may be converted to equity); (vi) various derivative instruments such as options, futures, commodities, swaps and swaptions, for hedging purposes (each such position, a “**Hedge**”); and (vii) other investment instruments related to the assets set forth in clauses (i) through (v) above (collectively, “**Portfolio Investments**”).

Item 8.B. and Item 8.C.

An investment in a Fund entails substantial risks, including but not limited to, these listed below, and a prospective investor should be prepared to bear the risk of a loss and carefully consider the following factors, among others, in determining whether an investment in the such Fund is suitable for them.

General Investment and Trading Risks. An investment in a Fund involves risks, including the risk that the entire amount invested may be lost. A Fund will invest in Portfolio Investments using investment techniques with risk characteristics, including risks arising from the volatility of the credit markets, the risks of borrowings and short sales, the potential illiquidity of Portfolio Investments and the risk of loss from counterparty defaults. No guarantee or representation is made that such Fund’s investment objective will be achieved. A Fund may utilize such investment techniques as option transactions, margin transactions, short sales, limited diversification and derivatives trading, which practices can, in certain circumstances, increase the adverse impact to which such Fund may be subject.

Illiquid Portfolio Instruments. Each Fund expects to invest in Portfolio Investments that are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such Portfolio Investments tend to be volatile and may not be readily ascertainable, and such Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid Portfolio Investments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Portfolio

Investments eligible for trading on national securities exchanges or in the over-the-counter (“OTC”) markets. Restricted Portfolio Investments may sell at a price lower than similar Portfolio Investments that are not subject to restrictions on resale.

Investments in Distressed Securities. A Fund may invest in “below investment grade” securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, or facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although these securities and obligations may offer the potential for correspondingly high returns, they involve a substantial degree of business and financial risk. 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. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies’ securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Fund’s investment in any instrument, and a significant portion of the obligations and securities in which the Fund invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Firm will correctly evaluate the value of the assets collateralizing such Fund’s loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which such Fund invests, such Fund may lose its entire investment, may be required to accept cash or securities with a value less than such Fund’s original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from such Fund’s investments may not compensate investors adequately for the risks assumed.

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

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

Bankruptcy Claims. A Fund may invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by federal securities laws or the Securities and Exchange Commission (the “SEC”). Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

Defaulted Securities. A Fund may invest in the securities of, and trade claims against, companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject such Fund to litigation risks or prevent such Fund from disposing of securities. In a bankruptcy or other proceeding, such Fund as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors.

While such Fund will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that such Fund will be able to successfully defend against them. Other investors may purchase the securities of these companies for the purpose of exercising control or management, and such Fund may be at a disadvantage to the extent that such Fund's interests differ from the interests of these other investors.

Risks Associated with Bankruptcy Proceedings. There are a number of significant risks when investing in companies involved in bankruptcy proceedings, including the following:

- Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of a Fund.
- A bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment.
- The duration of a bankruptcy proceeding is hard to predict. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and such Fund; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. A creditor's return on investment can be impacted adversely by delays while the plan of reorganization is being negotiated, approved by creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Although each Fund intends to invest primarily in debt, the debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.
- U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that such Fund's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class.
- Certain claims, such as claims for taxes, wages and certain trade claims, may have priority over the claims of certain creditors.
- The administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors.
- Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where a Fund, by virtue of such action, is found to exercise "domination and control" of a debtor, the Fund may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by such Fund.

- The Firm or the general partner, on behalf of a Fund, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the Fund's position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Firm or the general partner, as applicable, concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to such Fund or otherwise outweigh the advantages of such membership, it will not seek membership in, or will resign from, that committee or group, and such Fund may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if a Fund is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

A Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Changes in bankruptcy or other applicable laws may have a material adverse effect on such Fund. In addition, investments in debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing, and the classification, seniority and treatment of claims.

Litigation. Litigation, including with respect to work-outs, restructuring and reorganizations, contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The Firm anticipates that during the term of each Fund, its general partner, the Firm and perhaps certain of its larger investors may be named as defendants in civil proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Fund and would reduce net assets or could require investors to return to the Fund distributed capital and earnings.

Debt Instruments. The Firm expects that a portion of Portfolio Investments may consist of investments in debt securities or debt instruments. These types of investments are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), 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 (market risk). With bonds and other fixed income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. The risk of debt securities varies significantly depending upon factors such as the issuer and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise becomes unable to honor a financial obligation. Debt investments in some companies may be riskier than investments in the stocks of others.

Cross-collateralization. Certain of the loans may be cross-collateralized. Cross-collateralization arrangements may be subject to challenge, which could result in the subordination of a Fund's interest in the collateral or the loan itself. Cross-collateralization arrangements involving more than one borrower could be challenged as fraudulent conveyances by creditors of the related borrower in an action brought outside a bankruptcy case or, if the borrower were to become a debtor in a bankruptcy case, by the borrower's representative (or the borrower as debtor-in-possession). If a court were to conclude that the granting of the liens to cross-collateralize a loan was a voidable fraudulent conveyance, such court could (i) subordinate all or part of the pertinent loan to existing or future indebtedness of that borrower; (ii) recover payments made under that loan; or (iii) take other actions detrimental to such Fund, including, under certain circumstances, invalidating the loan or such Fund's interest in the collateral securing the cross-collateralized loan. Any of these actions could impair, delay or eliminate payments by the borrower of a

loan that is cross-collateralized, which would adversely affect the returns expected by the investors with respect to any such loan.

Contingent Liabilities. A Fund may from time to time incur contingent liabilities in connection with an investment. For example, a Fund may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, such Fund would be obligated to fund the amounts due. A Fund may also enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third-party, and may, on the other hand, enter into agreements through which third-parties offer default protection to such Fund. In addition, a Fund may purchase investments in issuers that are subject to contingent liabilities, including in connection with any ongoing litigation at the issuer level.

Fraud. Of paramount concern in lending is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of a Fund to perfect or effectuate a lien on the collateral securing the loan. A Fund will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to such Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans and other debt underlying certain of a Fund's investments will be affected by a variety of factors including, but not limited to, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "premium" financial instruments (*i.e.*, financial instruments whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments, and "discount" financial instruments (*i.e.*, financial instruments whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since such Fund's investments may include discount financial instruments when interest rates are high, and may include premium financial instruments when interest rates are low, such investments may be adversely affected by prepayments in any interest rate environment.

Agency Provisions. Agency provisions in the loans acquired by a Fund may impair enforcement actions against the collateral and expose such Fund to losses on the loans. The loans may consist of agented loans. Under the underlying loan agreement with respect to agented loans, the loan originator or another financial institution may be designated as the administrative agent and/or collateral agent. Under these arrangements, the borrower grants a lien to such agent on behalf of the lenders and directs payments to such agent, which, in turn, will distribute payments to the lenders, including such Fund. The agent is responsible for administering and enforcing the loan and generally may take actions only in accordance with the instructions from lenders holding a specified percentage in commitments or principal amount of the loan. In the case of loans that are part of a capital structure that includes both senior and subordinated loans, the agent may take such action in accordance with the instructions of one or more senior lenders without consultation with, or any right to vote (except in certain limited circumstances) by, the subordinated lenders. The loans held by such Fund may represent less than the amount sufficient to compel such actions or may represent subordinated debt which is precluded from acting and, under such circumstances, such Fund would only be able to direct such actions if instructions from such Fund were made in conjunction with other lenders that together comprise the requisite percentage of lenders then entitled to take or direct the agent to take action. Conversely, if the required percentage of lenders other than such Fund desire to take or direct the agent to take certain actions, such actions may be taken even if such Fund did not support such actions. Furthermore, if a loan held by a Fund is subordinated to one or more senior loans made to the borrower, the ability of such Fund to exercise such rights may be subordinated to the exercise of such rights by the senior lenders. However certain actions, such as amendments to the material payment terms of the loans, typically may not be taken without consent of all lenders, including such Fund. If the loan is a

syndicated revolving loan or delayed draw term loan, other lenders may fail to satisfy their full contractual funding commitments for such loan, which could create a breach of contract resulting in a lawsuit by the borrower against the lenders (including such Fund even if it did not default) and adversely affect the fair market value of such loan.

There is a risk that an agent may become subject to insolvency proceedings. Such an event could delay, and possibly impair, the ability of the lenders for such agent loan to take any enforcement action against the related borrower or the collateral securing a loan and may require the lenders to take action in the agent's insolvency proceeding to realize on proceeds or payments made by borrowers that are in the possession or control of the agent.

In addition, it is expected that agent loans will allow for the agent to resign. Agent loans may or may not contain provisions for lenders to remove the agent. If an agent resigns or is removed, the lenders may be required to find, and the required percentage thereof agree to appoint, a successor agent that may be difficult to find or cost more than the predecessor agent.

Non-Performing Nature of Debt. It is anticipated that certain debt instruments purchased by a Fund will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Investments in Junior Securities. Certain of the securities in which a Fund may invest may be among the most junior in the issuer's capital structure and, thus, subject to the greatest risk of loss. In such cases, there may be no collateral to protect such Fund's investment once made.

Lender Liability Considerations and Equitable Subordination. 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 a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. While believed to be unlikely, because of the nature of certain of the Fund's 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 lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer; (ii) engages in other inequitable conduct to the detriment of such other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). None of Funds intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, a Fund may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated. Accordingly, it is possible that lender liability or equitable subordination claims affecting the Fund's investments could arise without the direct involvement of such Fund.

Bank Loans. A Fund's investment program may include investments in bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Fund to directly enforce its rights with

respect to participations. In analyzing each bank loan or participation, the Firm compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by such Fund.

General Credit Risks of Loan Origination. A meaningful portion of a Fund's investment portfolio may consist of newly originated loans. Such Fund may be exposed to losses on such loans resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. A Fund cannot guarantee the adequacy of the protection of such Fund's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, a Fund cannot assure that claims may not be asserted that might interfere with enforcement of such Fund's rights. In the event of a foreclosure, such Fund or an affiliate of the Fund may assume direct ownership of the underlying asset. The liquidation proceeds upon a sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to such 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.

Overconcentration in Loans and Other Assets Intended to Be Sold to Other Accounts. Certain of the Funds may originate or otherwise acquire loans and other assets with the intention of earning income on them for some period of time and thereafter selling them to other funds or accounts managed by the Firm. However, any such other funds or accounts will not be bound to purchase these loans and other assets from such Fund, and will undertake an independent analysis and decision to purchase these loans and other assets. Accordingly, these other funds or accounts may reject a Fund's offer to sell the loans and other assets, or may reject the price at which the Fund offers to sell the loans and other assets. Prior to the sale of these loans and other assets to these other funds or accounts, or if a Fund and the other funds or accounts cannot agree on the terms for a sale of these loans and other assets, and such Fund cannot find another buyer at an acceptable price, such Fund's concentration of these assets may be greater than would otherwise have been optimal.

Loan Participations. A Fund may invest in secured and unsecured loans, factoring agreements or other investments acquired through assignment or participations. In purchasing participations, a Fund may have a contractual relationship only with the selling institution, and not necessarily the borrower. A Fund may have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor necessarily the right to object to certain changes to the loan agreement agreed to by the selling institution. A Fund may not directly benefit from the collateral supporting the related secured loan and may not be subject to any rights of set-off the borrower has against the selling institution.

In addition, in the event of the insolvency of the selling institution, under the laws of the United States, a Fund may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the secured loan. Consequently, such Fund may be subject to the credit risk of the selling institution as well as of the borrower. Certain of the secured loans or loan participations may be governed by the law of a jurisdiction other than the United States which may present additional risks as regards the characterization under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

Bridge Financings. From time to time, a Fund may invest in or originate loans made to companies, single-purpose or limited-purpose entities or natural persons on a short-term, senior or subordinated basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other financing or syndication. Such bridge loans would typically be convertible into or refinanced by a more permanent, long-term financing. However, for reasons not always in such Fund's control, such long-term securities issuance or other financing or syndication may not occur and such bridge loans and interim investments may remain outstanding. In such event, economic provisions of such

loans or the terms of such interim investments may not adequately reflect the risk associated with the position by such Fund.

Investing in High Yield Securities. A Fund may invest in high-yield securities. Such securities are generally not exchange traded and, as a result, these instruments trade in a smaller secondary market than exchange-traded bonds. In addition, the Fund invests in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. Investing in high yield debt securities involves risks which are greater than the risks of investing in higher quality debt securities. These risks include: (i) changes in credit status, including weaker overall credit conditions of issuers and risks of default; (ii) industry, market and economic risk; (iii) interest rate fluctuations; and (iv) greater price variability and credit risks of certain high yield securities such as zero coupon and payment-in-kind securities. While these risks provide the opportunity for maximizing return over time, they may result in greater upward and downward movement of the value of such Fund's portfolio. Furthermore, the value of high yield securities may be more susceptible to real or perceived adverse economic, company or industry conditions than is the case for higher quality securities. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Adverse market, credit or economic conditions could make it difficult at certain times to sell certain high yield securities held by such Fund.

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities; (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics; and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

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

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

Investments in Secured Loans. The assets of the portfolio of a Fund will include secured debt, which involve various degrees of risk of a loss of capital. The factors affecting an issuer's secured leveraged loans, and its overall capital structure, are complex. Some secured loans may not necessarily have priority over all other debt of an issuer. For example, some secured loans may permit other secured obligations (such as overdrafts, swaps or other derivatives made available by members of the syndicate to the company), or involve secured loans only on specified assets of an issuer (*e.g.*, excluding real estate). Issuers of secured loans may have two tranches of secured debt outstanding each with secured debt on separate collateral. Furthermore, the liens referred to herein generally only cover domestic assets and non-U.S. assets are not included (other than, for example, where a borrower pledges a portion of the stock of first-tier non-U.S. subsidiaries). In the event of Chapter 11 filing by an issuer, the Bankruptcy Reform Act of 1978, as amended, authorizes the issuer to use a creditor's collateral and to obtain additional credit by grant of a priority lien on its property, senior even to liens that were first in priority prior to the filing, as long as the issuer provides what the presiding bankruptcy judge considers to be "adequate protection" which may but need not always consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of priority liens on such Fund's collateral would adversely affect the priority of the liens and claims held by the Fund and could adversely affect such Fund's recovery on the affected loans. Any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. Moreover, underlying assets are subject to credit, liquidity, and interest rate risk.

Collateralized Loan Obligations. CLOs are pools of loans, the debt service on which is repackaged into cash flows payable on different tranches of debt collateralized by each pool. Payments on such debt are dependent on payments on the underlying loans. The CLOs in which a Fund may participate involve substantial organizational, syndication and ancillary fees. Such Fund's investments in CLOs (if any) may be subordinate in right of payment to other securities sold by the CLO and not readily marketable. Depending upon the default rate on the collateral of the CLO, the Fund may incur substantial losses on their CLO investments. CLO structures are complex, and such Fund may be subject to a number of as yet unanticipated risks in participating in CLOs.

CLO securities are subject to various structural risks, including risks relating to the capital structure of the issuer thereof and the collateral management arrangements relating thereto. The capital structure will be highly leveraged (which will affect the CLO securities of different seniorities in different ways), and the underlying instruments will generally contain various triggers and remedies, which may adversely affect such Fund.

CLO securities are secured primarily by loans (including commercial loans and eligible synthetic securities whose reference obligations consist of commercial loans), which are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. These risks could be exacerbated to the extent that the loans are concentrated in one or more particular types of loans.

Collateralized Debt Obligations. CDO securities generally have underlying risks such as interest rate mismatches, trading and reinvestment risk and tax considerations. Each CDO security, however, involves risks specific to the particular CDO security and its underlying portfolio. The value of the CDO securities generally fluctuates with, among other things, the financial condition of the obligors on or issuers of the underlying portfolio, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

CDOs are subject to credit, liquidity and interest rate risks. The performance of CDOs will also be adversely affected by macroeconomic factors, including: (i) general economic conditions affecting capital markets and participants therein; (ii) the economic downturns and uncertainties affecting economies and capital markets worldwide; (iii) the effects of, and disruptions and uncertainties resulting from, terrorist attacks; (iv) recent concern about financial performance, accounting and other issues relating to various publicly traded companies; and (v) recent and proposed changes in accounting and reporting standards and

bankruptcy legislation.

There may not be an established, liquid secondary market for many of the CDO securities the Fund may purchase. The lack of such an established, liquid secondary market may have an adverse effect on the market value of such CDO securities and the Fund's ability to sell them. Further, CDOs will be subject to certain transfer restrictions that may further restrict liquidity. Therefore, no assurance can be given that if the Fund wished to dispose of a particular CDO, it could dispose of such an investment at the previously prevailing market price.

The risks associated with investing in CDO securities may in addition depend on the skill and experience of the managers of the CDOs' underlying portfolios, particular with respect to active trading.

Insolvency of Issuers of CDOs and CLOs. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a U.S. issuer of a CDO or a CLO, 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 constituting the CDO or CLO, as applicable, and, 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 matured, 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 the issuer or to recover amounts previously paid by the issuer in satisfaction of such indebtedness. The measure of insolvency for this purpose varies. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. 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 constituting the CDO or CLO, as applicable, 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 a CDO or a CLO, payments made on such CDO or CLO 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 a CDO or a CLO are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured.

ABS and MBS. The investment characteristics of asset-backed securities ("ABS") and mortgage-backed securities ("MBS") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBS and ABS will be affected by a variety of factors, including the prevailing level of interest rates as well as the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the mortgage loans, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors. In general, any factors that increase the attractiveness of selling a mortgaged property or refinancing a mortgage loan, enhance a borrower's ability to sell or refinance or increase the likelihood of default under a mortgage loan would be expected to cause the rate of prepayment in respect of a pool of mortgage loans to accelerate. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Also, particular investment may underperform relative to hedges that a portfolio manager may have constructed for these investments, resulting in a loss.

In contrast, any factors having an opposite effect would be expected to cause the rate of prepayment of a pool of mortgage loans to slow. At any one time, a portfolio of MBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states

or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Mortgage loans on commercial properties underlying MBS often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property.

Especially in the case of a mortgage-backed security related to commercial mortgage loans, the rate of principal payments on the loans in the related pool will also be affected by the nature and extent of any restrictions on prepayments that are set forth in the mortgage loans, and the extent to which such provisions may be enforced. Such restrictions may include a prohibition on prepayments for specified periods of time and/or requirements that principal prepayments be accompanied by the payment of prepayment penalties or be subject to yield maintenance premiums.

The rate of prepayment on a pool of mortgage loans is likely to be affected by prevailing market interest rates for mortgage loans of a comparable type, term and risk level. When the prevailing market interest rate is below a mortgage coupon, a borrower generally has an increased incentive to refinance its mortgage loan. Even in the case of adjustable rate mortgage loans, as prevailing market interest rates decline, and without regard to whether the mortgage rates on such loans decline in a manner consistent therewith, the related borrowers may have an increased incentive to refinance for purposes of either (i) converting to a fixed rate loan and thereby "locking in" such rate or (ii) taking advantage of a different index, margin or rate cap or floor on another adjustable rate mortgage loan. Therefore, as prevailing market interest rates decline, prepayment speeds would be expected to accelerate.

In the case of a mortgage-backed security related to multifamily or commercial loans, prevailing market interest rates, the outlook for market interest rates and economic conditions generally may cause some borrowers to sell their properties in order to realize their equity therein, to meet cash flow needs or to make other investments. In addition, some borrowers may be motivated by U.S. federal and state tax laws (which are subject to change) to sell their properties prior to the exhaustion of tax depreciation benefits.

ABS which represent an interest in a pool of assets such as credit card receivables, automobile loans or home equity loans, have yield and maturity characteristics corresponding to their underlying assets. The risk of each ABS depends both on the underlying assets and the legal structure of such security. (For example, credit card receivables are generally unsecured and the debtors entitled to the protection of a number of state and federal consumer credit laws.) Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures. Through CDOs, a Fund may invest in these and other types of ABS that may be developed in the future. ABS present certain risks that are not presented by MBS.

Primarily, these securities do not have the benefit of the same security interest in the related collateral. There is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. Further, unlike traditional debt securities, which may pay a fixed rate

of interest until maturity when the entire principal amount comes due, payments on certain ABS include both interest and a partial payment of principal. This partial payment of principal may be comprised of a scheduled principal payment as well as an unscheduled payment from the voluntary prepayment, refinancing or foreclosure of the underlying loans. As a result of these unscheduled payments of principal, or prepayments on the underlying securities, the price and yield of ABS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and such Fund would be required to reinvest the proceeds at the lower interest rates then available. Prepayments of loans that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest-bearing securities, the values of ABS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment option.

The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

Mezzanine Debt Securities. Mezzanine debt securities are generally unrated or below investment grade rated investments that have greater credit and liquidity risk than more highly rated debt obligations. Mezzanine debt securities are typically issued in traditional private placements or in connection with acquisitions and other business combinations and have no trading market. Moreover, mezzanine debt securities are generally unsecured and subordinate to other obligations of the obligor and are subject to many of the same risks as those associated with high yield debt securities. Adverse changes in the financial condition of the obligor of mezzanine debt securities or in general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Issuers of mezzanine debt securities may be highly leveraged, and their relatively high debt to equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations.

Real Estate Risk. Investing in real estate-related instruments is subject to cyclicalities and other uncertainties. There can be no assurance as to a Fund's performance in a weaker market or weakened economy. The cyclicalities and leverage associated with real estate related investments have historically resulted in periods, including significant periods of adverse performance, including performance that may be materially more adverse than the performance associated with other investments. Such Fund's real estate-related investments are secured by or otherwise relate to properties of varying types, geographic locations, owners, tenants and other factors which could make such investments susceptible to particular types of risks relating to such factors, including local economy, real estate market conditions, special hazards and competition.

The value of the real estate which underlies certain of a Fund's investments is subject to market conditions. Changes in the real estate market may adversely affect the value of the collateral and thereby lower the value to be derived from a liquidation or foreclosure. In addition, adverse changes in the real estate market increase the probability of default, as the equity in the property declines. Furthermore, many of the properties which will secure loans purchased by such Fund or its affiliates may be suffering varying degrees of financial distress or may be located in economically distressed areas. Loans may become non-performing for a wide variety of reasons, including, without limitation, because the mortgaged property is too highly leveraged (and, therefore, the property is unable to generate sufficient income to meet its debt service payments), the property is poorly managed or because the mortgaged property has a high vacancy rate, has not been fully completed or is in need of rehabilitation. Such non-performing loans may require

a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that upon maturity of such loan, replacement “take-out” financing will not be available.

A Fund’s real estate-related investments are subject to various risks, including credit, liquidity and interest rate risks, general economic conditions, developments or trends in a particular industry and structural risks, that can adversely affect such Fund’s assets and performance. A portion of such Fund’s investments may be effectively subordinated to one or more senior interests. The rate of payment shortfalls, liquidations and losses on such Fund’s investments will be subject to risks relating to investments generally and real estate investments in particular. Such risks include general and regional economic conditions, the condition of financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

Risks of Real Estate Ownership. A Fund’s performance is subject to risks incident to the ownership of residential and commercial real estate, including without limitation, (i) the burdens of ownership of real property; (ii) inability to collect rents from tenants due to financial hardship (including bankruptcy); (iii) changes in local real estate conditions in the markets in which such Fund invests; (iv) changes in consumer trends and preferences that affect the demand for products and services offered by the relevant tenants; (v) inability to lease or sell properties upon expiration or termination of existing leases; (vi) environmental risks related to the presence of hazardous or toxic substances or materials on the relevant properties; (vii) the subjectivity of real estate valuations and changes in such valuations over time; (viii) the illiquid nature of real estate compared to other financial assets; (ix) changes in laws and governmental regulations, including those governing real estate usage and zoning; (x) changes in interest rates and the availability of financing; and (xi) changes in the general economic and business climate. The occurrence of any of the risks described above may cause the value of such Fund’s real estate investments to decline, which could materially and adversely affect such Fund.

Risks of Acquiring Real Estate Loans and Participations. Real estate loans acquired by a Fund may be at the time of their acquisition, or may become after their acquisition, nonperforming for a wide variety of reasons. Such nonperforming real estate loans may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial writedown of the principal of such loan. However, even if a restructuring were successfully accomplished, a risk exists that, upon maturity of such real estate loan, replacement “takeout” financing may not be available. Purchases of participations in real estate loans raise many of the same risks as investments in real estate and also carry risks of illiquidity and lack of control. It is possible that the Firm may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by such Fund. The foreclosure process varies jurisdiction by jurisdiction and can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims, and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure process. In some states or other jurisdictions, foreclosure actions can take up to several years or more to conclude. During the foreclosure proceeding, a borrower may have the ability to file for bankruptcy, potentially staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

Investments in Loans Secured by Real Estate. A Fund may invest in loans secured by real estate (other than mortgage-backed securities) and may, as a result of default, foreclosure or otherwise, hold real estate assets. Special risks associated with such investments include change in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants and changes in operating costs. Real estate values are also affected by such factors as governmental regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of

financing and potential liability under changing environmental and other laws. Of particular concern may be those mortgaged properties which are, or have been the site of manufacturing, industrial or disposal activities. Such environmental risks may give rise to a diminution in the value of property (including real property securing any portfolio investment) or liability for cleanup costs or other remedial actions, which liability could exceed the value of such property or the principal balance of the related portfolio investment. In certain circumstances, a lender may choose not to foreclose on contaminated property rather than risk incurring liability for remedial actions.

Equipment Leasing. A Fund may engage in equipment leasing, which may expose such Fund to considerable risk. In cases of a non-performing lessee, there are considerable costs associated with terminating leases and retrieving hard assets that can disrupt and reduce cash flow. These risks may be exacerbated in the case of lessee bankruptcy. Further, it may be difficult to re-lease or sell retrieved equipment, depending on market conditions, especially if such equipment is outdated or has been misused.

Lending Against Equipment. In a loan against equipment transaction, also known as a sale leaseback, equipment is sold on paper by the seller and leased back. The seller obtains working capital and keeps the equipment on their property. As with equipment leasing, there are considerable costs associated with terminating such loans and retrieving hard assets if a borrower fails to make timely payments on the loan. Further, the value of the subject equipment will decline over time as a result of use by the borrower, reducing the value of the collateral backing the loan and increasing the risk that a Fund will lose money in the event of borrower default. Such Fund may also engage in equipment leasing, which may expose the Investors to considerable risk. In cases of a non-performing lessee, there are considerable costs associated with terminating leases and retrieving hard assets that can disrupt and reduce cash flow. These risks may be exacerbated in the case of lessee bankruptcy. Further, it may be difficult to re-lease or sell retrieved equipment, depending on market conditions, especially if such equipment is outdated or has been misused.

Trade Claims. A Fund may purchase trade claims, often in connection with the restructuring or bankruptcy of a debtor company over which the Fund is trying to exercise influence. Such Fund might also acquire trade claims as a means of obtaining control over a debtor that is in the process of emerging from Chapter 11, with an intent to push for a Chapter 11 plan that converts debt to equity or to block acceptance of any Chapter 11 plan it opposes. By purchasing trade claims in connection with a bankrupt company, such Fund could use this leverage to negotiate a more favorable Chapter 11 plan. Alternatively, such Fund could retain the claim, anticipating that the present value of any distribution at the conclusion of the case will exceed the purchase price. Although trade claims may result in significant returns to such Fund, they involve a substantial degree of risk. In order to make successful decisions regarding the objective in connection with the acquisition of trade claims, the level of analytical sophistication, both financial and legal, necessary to such decision-making is unusually high. In addition, if such Fund has acquired trade claims with the objective of exercising influence over a distressed company or in a bankruptcy action, the expected timing can only be estimated and there may be significant delays which may affect the returns on such trade claim investments for such Fund.

Merchant Cash Advances. For a variety of reasons, many small- and medium-sized merchants, retailers and businesses may have difficulties securing loans from traditional lenders. Companies that have gone through bankruptcy or have had their debt “charged-off” by creditors may also have difficulty in securing financing. These difficulties are due in part to the fact that, when a bank makes a loan, it tends to focus on the credit history of the borrower and the past performance of the business, together with the value of a business’ total assets. In contrast, merchant cash advances are made largely based on factors such as the value of a business’ account receivables. A Fund may provide merchant cash advances in exchange for a share of a business’ future sales and/or a fixed fee. Such Fund’s remittances from the borrower will generally be drawn from the borrower’s customer debit- and credit-card purchases until the advance is repaid. Such cash advances come with the additional risks associated with small business lending, which may lead to significant losses to such Fund.

Since the cash advances are technically sales of future assets, rather than direct loans or credit, when making such advances such Fund is currently not subject to state usury laws or any of the restrictions under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“**Dodd-Frank**”). However, there have been discussions of increasing regulation of merchant cash advances and other alternative lending. Any such increased regulation may have a material adverse effect on such Fund by increasing the cost of executing merchant cash advances, or making the strategy economically unfeasible or unlawful.

Account Receivables Relating to Consumer Loans/Factoring Arrangements. A Fund may invest in, or lend against, portfolios of accounts receivables relating to consumer loans, including credit cards, automobile loans, healthcare, and student loans and other types of consumer obligations (such as leases). The performance of such assets will be affected by general economic conditions. Recent changes in economic conditions have adversely affected the performance and market value of such assets. The ability to collect on consumer obligation accounts receivables is dependent on the performance of a servicer. The servicer may be able to commingle funds relating to a transaction (such as collections from the loans and proceeds from the disposition of any repossessed collateral, such as repossessed vehicles) with its own funds for a period of time. Commingled funds may be used or invested by the servicer at its own risk and for its own benefit. If the servicer were unable to remit those funds or the servicer were to become a debtor under any insolvency laws, delays or reductions in the receivables may occur.

Additionally, servicers may be subject to regulation by certain government agencies, including the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. If a servicing arrangement or activities were found to constitute unsafe or unsound banking practices, such government agencies may take regulatory action against the servicer, which could result in losses or delays in payment.

Furthermore, consumer obligations are subject to various consumer protection laws which regulate the creation and enforcement of such obligations. The violation of such laws by lenders, originators and their affiliates may permit borrowers to reduce their obligation to pay the amount of receivables they owe or require lenders to pay certain penalties. Similarly, if a borrower were to seek protection under U.S. federal or state bankruptcy or debtor relief laws, a court could reduce or discharge completely the borrower’s obligations to repay amounts due on its receivable. Certain student loans may be guaranteed by the U.S. federal government; a guarantee agency may reject a loan for claim payment due to a violation of the Federal Family Education Loan Program due diligence collection and servicing requirements. Certain laws such as the Service Members Civil Relief Act of 2004 and, in respect of student loans, the Higher Education Relief Opportunity for Students Act of 2003, restrict the ability of lenders and servicers to collect on outstanding obligations of borrowers on active military duty or subject to national emergencies. The College Cost Reduction and Access Act, which went in effect on July 1, 2008, may negatively impact the returns in respect of student loans.

In 2009, the United States enacted the Credit CARD Act of 2009, which limits the ability of credit card companies to, among other things, increase interest rates on existing credit card balances and limits the practice of universal defaults. Additionally, in March 2010, the United States enacted legislation which revised the U.S. federal student loan program, which, among other things, eliminated fees paid to banks which serve as intermediaries to students, permits borrowers to cap repayments at 10% of their income (above a basic living allowance) and provides for loan forgiveness for students who enter certain professions. Both of these new laws may have an adverse impact on the value of the accounts receivable acquired by such Fund.

Regulation of Consumer Loans. New laws and regulations adopted in various jurisdictions in the United States may significantly impact consumer loans and lenders of consumer loans. In addition, there has been additional scrutiny by governmental authorities and other interest groups regarding consumer loans and consumer loan lenders. It is impossible to predict what, if any, changes in regulations and the enforcement and regulatory/political climates relating to consumer loans and consumer loan lenders will be applicable to a Fund, the general partner, Firm, the markets in which they trade and invest or the counterparties with

which they do business may be instituted in the future. Any such laws or regulations could have a material adverse impact on the profit potential of such Fund, as well as require increased transparency as to the identity of such Fund's investors.

Litigation Claims. A Fund may purchase, or may make loans based on, anticipated future payments to be received as the result of favorably determined litigation or mass tort claims. The results of pending litigation are inherently uncertain. Purchasing or lending against pending litigation entails unique risks because there is no guarantee that the relevant litigation will be favorably determined, and consequently that such Fund's investment objective will be achieved. If the relevant litigation is determined (in a court or in an out-of-court settlement) in a manner that is adverse to such Fund's interest, such Fund may lose some or all of its investment.

Insurance Products. A Fund may invest in niche asset classes such as the insurance capital markets, which include insurance-linked securities, insurance securitizations, catastrophe bonds, life insurance/life annuity combination bonds, structured settlements, insurance reserve financing, mortality/longevity swaps, life settlements, premium finance loans and other similar asset-backed securities or instruments. These are specialized asset classes with unique risks, any of which could have an adverse effect on such Fund's performance.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect a Fund's investments in certain insurance-linked instruments and in some instances, these changes may not become apparent until these instruments are affected by these changes. As a result, the full extent of liability as a result of these changes may not be known for many years following such Fund's investments in such instruments. In addition, recently, the insurance and reinsurance regulatory framework has been subject to increased scrutiny in the United States and various states within the United States.

In the past, there have been Congressional and other initiatives in the United States regarding increased supervision and regulation of the insurance industry. It is not possible to predict the future impact, if any, of changing law or regulation on the operations of such Fund. For example, many regulators, lawmakers and other governmental authorities, as well as many insurance companies and insurance industry organizations, are hostile to, or otherwise concerned about certain aspects of, the life settlement and premium finance markets. The life settlement industry and some of its participants have also been, and may continue to be, portrayed negatively in a number of widely read publications and other forms of media. These opponents regularly contend that life settlement and premium finance transactions are contrary to public policy by promoting financial speculation on human life and often involve elements of fraud and other wrongdoing. Continued public opposition to the life settlement and premium finance industries, as well as actual or alleged wrongdoing by participants in the industries, could have a material adverse effect upon such Fund its limited partners, including upon the value and/or liquidity of the Fund's Portfolio Investments.

Aviation Investments. Airline business and results of operations are significantly impacted by general economic and industry conditions. The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of the U.S. and global economies. Robust demand for air transportation services depends on favorable economic conditions, including the strength of the domestic and foreign economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. In addition, airlines are subject to extensive regulatory oversight. Compliance with U.S. and international regulations imposes significant costs and may have adverse effects on an airline.

In addition to factors linked to the aviation industry, other factors that may affect the value of an aircraft at any time include: (i) the particular maintenance and operating history of the related airframe and engines; (ii) manufacture and type or model of aircraft or engines, including the number of operators using such type or model; (iii) whether the aircraft is subject to a lease and, if so, whether the lease terms are favorable to

the lessor; (iv) the age of the aircraft; (v) the advent of newer models of such aircraft or aircraft types competing with such aircraft; (vi) any tax, customs, regulatory and legal requirements that must be satisfied when an aircraft is purchased, sold or re-leased; (vii) compatibility of aircraft configurations or specifications with other aircraft operated by operators of that type of aircraft; (viii) regulatory actions, including mandatory grounding of the aircraft; (ix) any renegotiation of a lease on less favorable terms; (x) decreases in creditworthiness of lessees; and (xi) the availability of spare parts. Any decrease in values of and lease rates for used commercial aircraft which may result from the above factors or other unanticipated factors may have a material adverse effect on a Fund's investments.

Working Interests. A Fund may invest in working interests in the mining and oil and energy exploration industries, which are subject to the risks associated with the underlying operations. Potential operating risks include, without limitation, (i) adverse geological conditions; (ii) environmental hazards; (iii) equipment failures and other mechanical difficulties; (iv) fires, explosions and other accidents; (v) natural disasters or other force majeure events; and (vi) seismic activities, ground failures, rock bursts or structural cave-ins or slides. The foregoing risks may adversely impact an operation's ability to conduct its operations, or result in substantial losses to the operation, as a result of (i) injury or loss of life; (ii) damage to and destruction of property, natural resources and equipment; (iii) pollution and other environmental damage; (iv) regulatory investigations and penalties; (v) potential legal liability and monetary losses; (vi) suspension of operations; and (vii) repair and remediation costs. As the owner of such working interests, such Fund will be responsible for its proportionate share of any losses and liabilities arising from uninsured and underinsured events. Such Fund may elect not to obtain insurance if it believes that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of an event that is not fully covered by insurance could have a material adverse affect on the Fund's assets and performance.

Investments in working interests are also subject other factors such as declines in the demand for and prices of the underlying commodity. Demand variability can be based on various factors, including, without limitation, the strength of the economy, the level of stockpiles in their customer base and the prices of competing commodities. They are also subject to supply variability based on geological conditions that reduce the productivity of operations, the availability of regulatory permits and the application of various regulatory requirements and limitations, which may reduce demand for the applicable commodity. Certain companies could face declining revenues if they are unable to acquire additional reserves that are economically recoverable.

Investments in Intellectual Property and Licenses. A Fund may invest in intangible assets, such as intellectual property and licenses, and royalties associated therewith. In many cases, the perceived value of such Portfolio Investments is dependent upon protecting proprietary rights with respect to one or more products ("Portfolio Products"). In many cases, a party's ability to pay the required royalty (such party, a "Royalty Obligor"), or such Fund's ability to realize a positive increase in the value of a Portfolio Investment with respect to a Portfolio Product, depends on obtaining and maintaining patent and trade secret protection of Portfolio Products, their use and the methods used to manufacture them, as well as successfully defending those intellectual property rights against third-party challenges. The degree of future protection to be afforded to Portfolio Products is uncertain because legal means afford only limited protection and may not adequately protect the rights of the entities with an interest in the Portfolio Product (an "Interested Party") or permit them to gain or keep their competitive advantage. It is difficult and costly to protect the proprietary rights associated with Portfolio Products, and their protection cannot be ensured. There can be no assurance that any issued patents underlying Portfolio Products will provide sufficient protection to allow Interested Parties to conduct their business in the ordinary course. Interested Parties may incur substantial costs as a result of result of litigation or other proceedings relating to patent and other intellectual property rights related to Portfolio Products and they may be unable to protect their rights to, or commercialize, the applicable Portfolio Products. Moreover, there can be no assurance that Interested Parties will remain free from intellectual property infringement claims by third parties. If a third-party claims that an Interested Party is using inventions covered by the third-party's intellectual property rights,

that third-party may go to court to stop the Interested Party from engaging in its business in the ordinary course, which would likely adversely impact the value of such Fund's related Portfolio Investment. Intellectual property infringement lawsuits are costly, would likely affect the results of operations of the Interested Party and divert the attention of their management.

In addition, certain of such Fund's Portfolio Investments may relate to Portfolio Products which are still in development or have not otherwise received the required regulatory approvals (if any). A failure to gain such required regulatory approval would materially and adversely affect those Portfolio Investments. Regulatory approval processes may be extensive, time consuming and uncertain and may prevent Interested Parties from obtaining approvals for the commercialization of some Portfolio Products.

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

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

OTC Derivatives Markets. Dodd-Frank includes provisions that comprehensively regulate the OTC derivatives markets for the first time. Dodd-Frank will ultimately mandate that a substantial portion of OTC derivatives must be executed in regulated markets and be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as margin requirements mandated by the CFTC, SEC and/or federal prudential regulators. OTC derivatives dealers also typically demand the unilateral ability to increase a Fund's collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral such Fund is required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before Dodd-Frank. This has increased and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, such Fund will not face a clearinghouse directly but rather will do so through an OTC derivatives dealer that is registered with the CFTC or SEC and that acts as a clearing member. Such Fund may face the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. Such scenario could arise due to a default by the clearing member on its obligations to the clearinghouse triggered by a customer's failure to meet its obligations to the clearing member.

The CFTC also now requires certain derivative transactions that were previously executed on a bi-lateral basis in the OTC markets to be executed through a regulated futures or swap exchange or execution facility.

The SEC is also expected to impose similar requirements on certain security-based derivatives in the near future, though it is not yet clear when these parallel SEC requirements will go into effect. Such requirements may make it more difficult and costly for investment funds, including such Fund, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Fund might otherwise engage impossible or so costly that they will no longer be economical to implement. If such Fund decides to execute derivatives transactions through such exchanges or execution facilities—and especially if it decides to become a direct member of one or more of these exchanges or execution facilities—such Fund would be subject to the rules of the exchange or execution facility, which would bring additional risks and liabilities, and potential requirements under applicable regulations and under rules of the relevant exchange or execution facility.

OTC derivative dealers are now required to register with the CFTC and will ultimately be required to register with the SEC. Registered swap dealers will also be subject to new minimum capital and margin requirements and are subject to business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of Dodd-Frank on a Fund remains highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

Swap Agreements. The Fund from time to time enters into various swap agreements (“**Swaps**”) as part of its investment program. A Swap is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, indices or prices, with payments generally calculated by reference to a principal (“notional”) amount or quantity. Swaps and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, a Fund is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which such Fund trades. Swaps may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swaps can take many different forms and are known by a variety of names. A Fund is not limited to any particular form of Swap if its use is consistent with such Fund’s investment objectives and policies, and the Investment Adviser anticipates that such Fund will invest in interest rate swaps, credit default swaps, total return swaps, variance swaps and other types of Swaps.

Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio. The most significant factor in the performance of Swaps is the change in the specific interest rate, currency, equity index or other factors that determine the amounts of payments due to and from the Fund. If a Swap calls for payments by a Fund, such Fund must be prepared to make such payments when due. In addition, if a counterparty’s creditworthiness declines, the value of a Swap with such counterparty can be expected to decline, potentially resulting in losses by such Fund.

Credit Default Swap Agreements. A Fund may invest in credit default swaps. The typical credit default swap contract requires the seller to pay to the buyer, if a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. A Fund may also sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, a Fund will be subject to certain risks in addition to those described elsewhere herein. In addition, credit default swaps are OTC transactions subject to regulation under Dodd-Frank. When investing in credit default swaps, in addition to the risks of the underlying investments, a Fund usually has a contractual relationship only with the counterparty of such credit default swaps, and not with the reference obligor of the reference obligation. Consequently, such Fund is subject to the credit risk of the counterparty as well as that of the reference obligor. As a result, concentration of credit default swaps and other derivatives with any one counterparty may subject such securities to an additional degree of risk with respect to defaults by such counterparty as well as by the reference obligor. In circumstances in which a Fund does not own the debt securities that are deliverable under a credit default swap, such Fund will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze”. While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. The determinations of the International Swaps and Derivatives Association, Inc. Credit Derivatives Determinations Committees (the “**Determinations Committees**”) are intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determinations Committees will not be able to reach a resolution or do so on a timely basis. In either of these cases, such Fund may not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, a Fund will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, such Fund will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to such Fund following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of such Fund.

Counterparty risk is always present in credit default swaps. The market for credit default swaps on distressed securities is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities). If current interest rate spreads over LIBOR (or over the applicable United States Treasury Benchmark) widen or the prevailing credit premiums on credit default swaps increase, the amount of a termination or assignment payment upon a termination or assignment of a transaction due from the Fund to the credit default swap counterparty could increase by a substantial amount.

In addition, the proper tax treatment of credit default swaps and other derivatives may not be clear. Investors generally are required to treat any such derivatives for U.S. federal income tax purposes in the same manner as they are treated by the relevant Fund. The tax environment for derivatives is evolving and changes in the taxation of derivatives may adversely affect the value of derivatives held by such Fund.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact a Fund’s ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Certain governmental entities have indicated that they intend to regulate the market in credit default swaps. It is difficult to predict the impact of any such regulation on any Fund, but it may be adverse (including making the Fund ineligible to be a “seller” of credit default swaps).

Futures Trading. A Fund may trade futures contracts, including stock index futures. Futures prices are highly volatile, with price movements being influenced by a multitude of factors such as changing supply

and demand relationships, government trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events and speculative frenzy and the emotions of the marketplace. In addition, governments from time to time intervene in certain markets, particularly currency and interest-rate markets.

The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to the investor.

There can be no assurance that a liquid market will exist at a time when such Fund seeks to close out an option position, future or Swap. Most U.S. commodity exchanges limit fluctuations in futures contract prices during a single day by regulations referred to as “daily limits”. During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract has increased or decreased to the limit point, positions can be neither taken nor liquidated. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent such Fund from promptly liquidating unfavorable positions and subject the Fund to substantial losses. In addition, certain of these instruments are relatively new and are without a significant trading history. As a result, there is no assurance that an active secondary market will develop or continue to exist. Lack of a liquid market for any reason may prevent such Fund from liquidating an unfavorable position and such Fund would remain obligated to meet margin requirements until the position is closed.

The CFTC and the United States commodities exchanges impose limits referred to as “speculative position limits” on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on United States commodities exchanges. For example, the CFTC currently imposes speculative position limits on a number of agricultural commodities (*e.g.*, corn, oats, wheat, soybeans and cotton) and United States commodities exchanges currently impose speculative position limits on many other commodities. Dodd-Frank significantly expands the CFTC’s authority to impose position limits with respect to futures contracts and options on futures contracts, swaps that are economically equivalent to futures or options on futures, and certain swaps that perform a significant price discovery function. In response to this expansion of its authority, in 2015 the CFTC proposed (i) a series of new speculative position limits with respect to futures, options on futures and swaps on twenty-eight (28) so-called “exempt commodities” (which includes most energy and metals contracts) and agricultural commodities and (ii) aggregation requirements with respect to positions across accounts with common ownership or control. The CFTC’s proposals are not yet finalized (or effective). If the CFTC is successful in these proposals, the counterparties with which a Fund deals may further limit the size or duration of positions available to such Fund. All accounts owned or managed by the Firm are likely to be combined for speculative position limit purposes. The size or duration of positions available to a Fund may be severely limited, such Fund could be required to liquidate positions it holds in order to comply with such limits, or may not be able to fully implement trading instructions generated by its trading models, in order to comply with such limits.

Options Trading. When purchasing or selling an option, the risks associated with the transaction will vary depending on the type of option (*i.e.*, put or call). When purchasing an option, it is necessary to calculate the extent to which the value of the underlying security must increase (in the case of a call) or decrease (in the case of a put) in order for a Fund’s position to become profitable, taking into account the premium and all transaction costs. The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased option expires worthless, such Fund will suffer a total loss of the amount invested in the option that will consist of the option premium plus transaction costs.

Selling (“writing” or “granting”) an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option, and, upon such exercise, the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest, depending on the terms of the option. If the option is on a future, upon exercise by the purchaser of the option, the seller will acquire a position in a future with associated liabilities for margin. If the option is “covered” by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. In the case of an option on a future, certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

Forward Contracts. A Fund may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result of Dodd-Frank, the CFTC now regulates non-deliverable forwards (including many deliverable forwards where the parties do not take delivery). Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to Dodd-Frank might limit such forward trading to less than that which the Firm would otherwise recommend, to the possible detriment of such Fund.

Equity Securities. Issuers of equity securities are subject to various market risks. Consequently, an equity security’s value may fluctuate depending on the markets in which its issuer operates. The price of an equity security can rise or fall sharply due to factors specific to that equity security and its issuer, such as price volatility; earnings; financial conditions; corporate, industry and regulatory developments; management changes and decisions; and by general market factors, such as general equity volatility and levels, interest rates and economic and political conditions.

Publicly Traded Securities. A Fund’s investment portfolio may consist of securities issued by publicly held companies. Such investments may subject such Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of such Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies’ board members, which may include partners, members or employees of the Firm, such Fund’s general partner or their respective affiliates or designees, and increased costs associated with each of the aforementioned risks.

Investments in Restricted Securities. A Fund may be prevented from buying or selling certain publicly traded securities if the Firm or the Fund acquires material, non-public information with respect to such securities. In addition, if such information is acquired with respect to a publicly traded security that such Fund already holds, such security will be placed on a “restricted securities list” maintained by the Firm and will not be traded until the material, non-public information becomes public or is no longer material. Accordingly, the Fund may be disadvantaged due to its inability to participate in investments that would otherwise be suitable for such Fund or to liquidate existing investments during favorable market conditions.

Investments in Privately Held Companies. A Fund may invest in securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

Minority Investments. A Fund may make minority investments. In these situations, there is a possibility that the company in which such Fund invests or other investors in such company may have economic or business interests or goals that are inconsistent with those of such Fund, and such Fund may have a limited ability to protect or influence the value of or exit the Fund's investment in the entity.

Control Investments. A Fund may be a lead, control or a significant investor in the companies in which it invests. Such Fund may not, however, have the right to participate in the day-to-day management, control or operations of the companies in which it invests, nor may it have the right to remove the managers thereof. Nonetheless, such Fund (alone, or together with other investors) may be deemed to have a control position with respect to companies in which it invests, which could expose such Fund to liabilities not normally associated with minority equity investments, such as additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability general characteristic of business operations may be ignored.

Non-U.S. Investments. A Fund may invest in securities of non-U.S. corporations and non-U.S. countries. Investing in the securities of companies (and, from time to time, governments) of non-U.S. countries involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. Government, including possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. In addition, there may be less publicly available information about issuers in non-U.S. countries than would be the case for comparable issuers in the United States. Furthermore, some of the securities may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by such Fund from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by such Fund will reduce its net income or return from such investments. While the Firm will take these factors into consideration in making investment decisions for a Fund, no assurance can be given that the Firm will be able to fully avoid these risks.

Additional costs could be incurred in connection with a Fund's international investment activities. Non-U.S. brokerage commissions generally are higher than in the United States. Expenses also may be incurred on currency exchanges when the Firm changes investments from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of non-U.S. laws to non-U.S. custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

Currency and Exchange Rate Risks. A Fund may invest in securities denominated in currencies other than the U.S. Dollar and in securities which are determined with references to currencies other than the U.S. Dollar. The Fund may or may not try to hedge its currency exposure. Such Fund, however, will generally value its assets in U.S. Dollars. To the extent unhedged, the value of such Fund's assets will fluctuate with U.S. Dollar exchange rates as well as with price changes of their investments in the various local markets and currencies. Thus, an increase in the value of the U.S. Dollar compared to the other currencies in which such Fund may make investments will reduce the effect of increases and magnify the U.S. Dollar equivalent of the effect of decreases in the prices of such Fund's Portfolio Investments in their local markets. Conversely, a decrease in the value of the U.S. Dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the Fund's non-U.S. Dollar securities. A Fund may also utilize various Hedges, including forward currency contracts and options, to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Use of Leverage. A Fund may borrow money (i) on a short-term basis in order to reduce its need to hold cash or in order to invest in Portfolio Investments, pending the receipt of required Capital Contributions, or

(ii) for other purposes, in each case in an aggregate amount up to 50% (measured at the time of incurrence only) of the net asset value of the Fund as determined as of the last fiscal quarter-end. To the extent that such Fund borrows funds, the rates at which it can borrow will affect the operating results of such Fund.

Notwithstanding the foregoing, gross exposure may exceed 100% of a Fund's net asset value as certain Portfolio Investments may be inherently leveraged.

Valuation. Portfolio Investments which the Firm believes are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and/or within the time frame the Firm anticipates. In particular, purchasing Portfolio Investments at prices which the Firm believes to be distressed or below fair value is no guarantee that the price of such Portfolio Investments will not decline even further. The valuations of Portfolio Investments are made in good faith, but may or may not reflect the realizable value of any given position which may be materially lower than the Firm's calculations.

As market dynamics shift over time, what may have been a highly successful valuation model may become outdated or inaccurate. There can be no assurance that the Firm will be successful in maintaining effective valuation models, and the necessity of continuously updating these models demonstrates that the Firm's past successful results may not be representative of a Fund's future performance.

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

Reverse Repurchase Agreements. A Fund may enter into reverse repurchase agreements. In a reverse repurchase transaction, such Fund "buys" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by such Fund, plus interest at a negotiated rate. The use of reverse repurchase agreements by the Fund involves certain risks. For example, if the seller of securities to a Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, such Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, such Fund's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that a Fund may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, such Fund may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Short Selling. A Fund's investment portfolio may include short positions. A short sale involves the sale of a security that the Fund does not own in order to hedge related risks. To make delivery to the buyer, such Fund must borrow the security, and such Fund is obligated to pay the lender of the security any dividend or interest payable on the security until it returns the security to the lender. When a Fund makes a short sale in the United States, it must leave the proceeds thereof with the lender as collateral. If short sales are effected on a non-U.S. exchange, such transactions will be governed by local law. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which a Fund engages in short sales depends upon the Firm's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a Fund of buying those securities to cover the short position. There can be no assurance that a Fund will be able to maintain the ability to borrow securities sold short. In such cases,

such Fund can be “bought in” (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, the occurrence of a “short-squeeze” (the inability to maintain a “borrow” on securities) could force a Fund to cover a short position and realize an investment loss at an inopportune time. As a result of the financial disruptions which began in the second half of 2008, it appears likely that there may be significant additional restrictions imposed on short-selling (at least of certain issuers’ securities). It cannot be determined how future regulations may limit any Fund’s ability to engage in short selling and how such limitations may impact such Fund’s performance.

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

The Firm is not required to attempt to hedge portfolio positions in a Fund and, for various reasons, may determine not to do so. Furthermore, the Firm may not anticipate a particular risk so as to hedge against it. While a Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for such Fund than if it has not engaged in any such hedging transaction. For a variety of reasons, the Firm may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent such Fund from achieving the intended hedge or expose such Fund to risk of loss. The success of the hedging strategy of a Fund is subject to the Firm’s ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a Fund’s hedging strategy is also subject to the Firm’s ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties), “liquidity risk” and “widening” risk.

To the extent any hedging strategies involve the use of OTC derivative transactions, such a strategy would be affected by implementation of the various regulations adopted pursuant to Dodd-Frank.

Market Disruptions; Governmental Intervention; Dodd-Frank. The global financial markets have in the past few years gone through pervasive and fundamental disruptions that have led to extensive and unprecedented governmental intervention. Such intervention has in certain cases been implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition—as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action—these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

A Fund may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to a Fund from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction

may result in substantial losses to such Fund. Market disruptions may from time to time cause dramatic losses for a Fund, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

In response to the financial crises of 2008-2009, Dodd-Frank was enacted in July 2010. Dodd-Frank established a comprehensive framework for the regulation of markets, market participants and financial instruments that were previously unregulated and substantially alters the regulation of many other markets, market participants and financial instruments. Because many provisions of Dodd-Frank require rulemaking by applicable regulators before becoming fully effective and Dodd-Frank mandates multiple agency reports and studies (which could result in additional legislative or regulatory action), it is difficult to predict the ultimate impact of Dodd-Frank on any Fund, the Firm, and the markets in which they trade and invest. Dodd-Frank could result in certain investment strategies in which such Fund engages or may have otherwise engaged becoming non-viable or non-economic to implement. Dodd-Frank and regulations adopted pursuant to Dodd-Frank could have a material adverse impact on the profit potential of a Fund.

The “Volcker Rule” component of the Dodd-Frank materially restricts proprietary speculative trading by banks, “bank holding companies” and other regulated entities. As a result, there has been a significant influx of new portfolio managers into private investment funds who had previously traded institutional proprietary accounts. Such influx can only increase the competition for a Fund from other talented portfolio managers trading in such Fund’s investment sector.

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

Trading and Investing Affiliates. A Fund may affect certain investments through limited partnerships, limited liability companies, corporations or other vehicles sponsored or managed by the Fund’s general partner, the Firm or third parties. A creditor having a claim that relates to a particular investment held by any such vehicle may be able to satisfy such claim against all assets of such vehicle, without regard to the participation rights of such Fund and other investors of such vehicle in the assets of such vehicle.

Counterparty Risk. Institutions, such as brokerage firms, banks and broker-dealers, generally have custody of each Fund’s portfolio assets and may hold such assets in “street name”. Each Fund is subject to the risk that these firms and other brokers, counterparties or clearinghouses with which the Fund deals may default on their obligations to such Fund. Any default by any of such parties could result in material losses to such Fund. Bankruptcy or fraud at one of these institutions could also impair the operational capabilities or the capital position of such Fund. In addition, securities and other assets deposited with custodians or brokers may not be clearly identified as being assets of such Fund, causing such Fund to be exposed to a credit risk with regard to such parties. The Fund generally will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of such counterparties. In some jurisdictions, a Fund may also only be an unsecured creditor of its brokers in the event of bankruptcy or administration of such brokers. Each of the Funds generally attempt to limit its brokerage and custody transactions to well capitalized and established banks and brokerage firms in an effort to mitigate such risks, but the collapse in 2008 of the seemingly well capitalized and established Bear Stearns and Lehman Brothers demonstrates the limits on the effectiveness of this approach in avoiding counterparty losses.

A Fund may affect transactions in “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to the same level of credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes such Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the

contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing such Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where such Fund has concentrated its transactions with a single or small group of counterparties. A Fund is not restricted from dealing with any particular counterparty or in the size of the exposure which such Fund may provide to a given counterparty. The inability to make complete and “foolproof” evaluations of the financial capabilities of a Fund’s counterparties and the absence of a regulated market to facilitate settlement increases the risk to such Fund.

While Dodd-Frank is intended to bring more stability and lower counterparty risk to derivatives market by requiring central clearing of certain standardized derivatives trades, not all of a Fund’s trades will be subject to a clearing requirement because the trades are grandfathered or because they are bespoke, or because they are within a class that is not currently subject to mandatory clearing. Furthermore, it is yet to be seen whether Dodd-Frank will be effective in reducing counterparty risk or if such risk may actually increase as a result of market uncertainty, mutuality of loss to clearinghouse members, or other reasons.

Third-Party Involvement. A Fund may co-invest with third parties through partnerships, joint ventures or other entities. Such investments involve risks not present in investments where a third party is not involved, including the possibility that a third party coventurer or partner may at any time have economic or business interests or goals which are inconsistent with those of such Fund, or may be in a position to take action contrary to the investment objective of such Fund. In addition, the Fund may in certain circumstances be liable for actions of its third-party coventurer or partner.

Interest Rate Risk. The price of most fixed-income securities moves in the opposite direction of the change in interest rates. For example, as interest rates rise, the price of fixed-income securities falls. Consequently, the longer the maturity of a fixed-income security, the risk that interest rates will rise and thus the price of the security will fall will be greater than it would have been for a security with a shorter maturity. If a Fund holds a fixed-income security to maturity, the change in its price before maturity will have little impact on such Fund’s performance; however, if such Fund has to sell the fixed-income security before the maturity date, an increase in interest rates may result in a loss to such Fund.

Inability to Refinance. A Fund may seek to finance, refinance or dispose of one or more of its Portfolio Investments to obtain liquidity, leverage the return on its equity or to reduce potential losses with respect to non-performing Portfolio Investments. Under such circumstances, there may be no established trading or lending market for the Portfolio Investments. Although such Fund intends to enter into any such financings on then current market terms on an arm’s length basis, such financings may contain mark-to-market or other leverage ratio maintenance provisions, as well as other covenants and will contain default provisions. A change in the market or deterioration of specific Portfolio Investments could result in margin or capital call, if applicable. If such Fund is not able to pay or refinance any such financing, to dispose of its portfolio assets if necessary to do so or to met a margin call, if applicable, or otherwise defaults on such financing, the Limited Partners could suffer losses.

Competition and Availability of Suitable Investments. In recent years, there has been a marked increase in the number of, and flow of capital into, investment vehicles established in order to implement alternative asset investment strategies, including strategies similar to the strategies that may be implemented by a Fund. While the precise effect cannot be determined, such increase may result in greater competition for investment opportunities, or may result under certain circumstances in increased price volatility or decreased liquidity with respect to certain positions. Prospective investors should understand that a Fund may compete with other investment vehicles, as well as investment and commercial banking firms, which have substantially greater resources, in terms of financial wherewithal and research staffs, than may be available to such Fund. The competing entities and individuals may drive up the prices of prospective investments, potentially lowering returns.

Cybersecurity. Investment advisers, including Sandton, must rely in part on digital and network technologies (“cyber networks”) to maintain substantial computerized data about activities for client accounts and otherwise conduct their businesses. Such cyber networks might in some circumstances be subject to a variety of possible cybersecurity incidents or similar events that could potentially result in the inadvertent disclosure of confidential computerized data or client data to unintended parties, or the intentional misappropriation or destruction of data by malicious hackers seeking to compromise sensitive information, corrupt data, or cause operational disruption. Cyber-attacks might potentially be carried out by persons using techniques that could range from efforts to electronically circumvent network security or overwhelm websites to intelligence gathering and social engineering functions aimed at obtaining information necessary to gain access. Sandton maintains policies and procedures on information technology security, it has certain technical and physical safeguards intended to protect the confidentiality of its internal data, and takes other reasonable precautions to limit the potential for cybersecurity incidents, and to protect data from inadvertent disclosure or wrongful misappropriation or destruction. Nevertheless, despite reasonable precautions, the risk remains that cybersecurity incidents could potentially occur, and such incidents, in some circumstances, might result in unauthorized access to sensitive information about Sandton, the funds or their investors, and/or cause damage to client accounts or Sandton’s activities for the funds or their investors.

Item 9: Disciplinary Information

There are no material legal or disciplinary events related to the Firm.

Item 10: Other Financial Industry Activities and Affiliations

Item 10.A. and Item 10.B.

Sandton and its management persons are not registered and do not have any application pending to register as a broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, or an associate of the foregoing entities. Sandton and the general partners of the Funds are exempt from registration as a commodity pool operator and commodity trading adviser with the Commodity Futures Trading Commission (“CFTC”). Sandton and the general partners have claimed an exemption in respect of each Fund, as applicable, from registration as a commodity pool operator under applicable requirements of the CFTC.

Item 10.C.

Sandton Credit Opportunities I GP, LLC is an affiliate of Sandton and serves as the general partner to the following funds: Sandton Co-Invest Fund I, LP; Sandton Co-Invest Off-Shore I, LP; Sandton Credit Opportunities Fund I, LP; and Sandton Credit Opportunities Off-Shore I, LP. It should be noted that although Sandton Credit Opportunities I GP, LLC served as the general partner to Sandton Credit Opportunities Fund I, LP and Sandton Credit Opportunities Off-Shore I, LP, these entities had minimal activity throughout 2018 and were ultimately dissolved as of January 2019.

Sandton Credit Opportunities II GP, LLC is an affiliate of Sandton and serves as the general partner to the following funds: Sandton Credit Opportunities Master Fund II, LP, Sandton Credit Opportunities On-Shore Fund II, LP, and Sandton Credit Opportunities Off-Shore II, LP.

Sandton Credit Solutions III GP, LLC is an affiliate of Sandton and serves as the general partner to the following funds: Sandton Credit Solutions Master Fund III, LP, Sandton Credit Solutions On-Shore Fund III, LP, Sandton Credit Solutions Off-Shore III, LP, and the Lonehill Fund, LP.

Sandton Credit Solutions IV GP, LLC is an affiliate of Sandton and serves as the general partner to the following funds: Sandton Credit Solutions Master Fund IV, LP, Sandton Credit Solutions Master Fund IV (Delaware), LP, Sandton Credit Solutions Offshore IV (Cayman), LP, Sandton Credit Solutions Offshore IV (Delaware), LLC, Sandton Credit Solutions Onshore Fund IV, LP and Sandton Credit Solutions Offshore IV, LP.

Sandton Capital Advisors, LLC is a general partner of Sandton and serves as the sub-advisor of Corbin Opportunity Fund, L.P. (“**Corbin**”). Corbin is a large investor in other Sandton managed funds. In addition, Corbin, from time to time, is invited to co-invest in certain investments side by side with other Sandton funds and certain anchor investors, as described below. This relationship can create the appearance of a potential conflict among the interests of Corbin, other fund investors, the Firm and the relevant Fund’s general partner by giving the appearance of favoring Corbin over other investors in co-investment opportunities.

Sandton has entered into letter agreements with the Seed Investors. The Seed Investors have certain preferential rights that are further disclosed to prospective investors in each of the Funds’ private placement memoranda. In addition, the Seed Investors have non-voting ownership interests in the general partners and the Firm for the Funds to which they appear as investors and have the right to participate in asset-based and performance-based compensation (carried interest). The existence of this relationship, as well as their participation in co-investment opportunities, can give rise to potential conflicts among the interests of the Seed Investors, other Fund investors, each Fund’s general partner and Investment Manager, as these Seed Investors constitute the current members of the Advisory Committees for each Fund.

The potential conflicts that can arise from these immediately above-mentioned relationships are mitigated in a number of different ways. The principals of Sandton control each Fund’s general partner by way of retaining 100% of the voting interests of the general partner, and are also Advisory Committee members.

Furthermore, the Firm’s Chief Compliance Officer is involved in all Advisory Committee decisions that are implicated by the Firm’s compliance program, in accordance with its policies and procedures designed to address these types of potential conflicts. However, the Chief Compliance Office does not have a separate vote as an Advisory Committee member. The policies and procedures composing the Firm’s compliance program, including with respect to the allocation of co-investment opportunities, are designed to ensure that no one client account or investor is systematically advantaged.

Item 10.D.

Sandton does not recommend other investment advisers for the Funds.

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

Item 11.A.

Sandton has adopted a Code of Ethics (the “**Code**”) under Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) designed to provide that Sandton employees comply with applicable federal securities laws. The Code addresses, among other things, Sandton’s standard of business conduct, requirements and restrictions relating to personal securities trading, policy regarding political contributions, policy regarding gifts and entertainment and confidentiality. Sandton employees must

acknowledge, both initially upon employment and annually thereafter, in writing having received and read a copy of the Code.

The Code requires all employees to report personal securities holdings (initially and annually) and certify quarterly personal trading activity. The Code restricts employees, through the use of a restricted list, from transacting in the same investments as Sandton's clients. There are certain large key and special investors who participate in co-investing, which are client investments. Since all co-investing takes place through a Fund or vehicle managed by Sandton that includes Sandton clients, in accordance with their pre-determined and fully disclosed investment terms, strategy and objectives, we do not believe this type of investment activity represents a conflict of interest. All investment vehicles are designed to align the interests of clients (including investors) with those of Sandton, including any of its affiliates, as all investor assets bear the equivalent risk of investing. Where Seed Investors approve fund investments over a predetermined size in their capacity as such, they provide the Chief Compliance Officer with a separate certification that their decisions throughout the year that could have had an impact on Sandton's decision to make certain investments were free of any actual or potential conflicts of interest.

The Code is monitored by Sandton's Chief Compliance Officer and any exceptions to the Code need prior approval by Sandton's Chief Compliance Officer.

Please refer to the Code for additional information. Sandton's Code of Ethics is available to investors and prospective investors upon request.

Item 11.B. to Item 11.D.

Sandton may enter into transactions and invest in securities, currencies or other instruments (including other forms of financing) on behalf of a Fund in which Sandton, the general partner or their affiliates, acting as principal or as agent for its customers, serves as the counterparty. Sandton may and has also entered into cross transactions where an affiliate acts as agent on behalf of the Fund and the other party to the transaction. The relevant affiliate may have a potentially conflicting division of responsibilities to both parties of the cross transaction. A Fund will consider engaging in a principal or cross transaction with an affiliate of Sandton or such Fund's general partner only to the extent it is consistent with such Fund's, who are party to the transaction, investment objectives and the Advisers Act. The potential conflict that can arise from this type of transaction is mitigated by the Firm's compliance procedures that form a part of its compliance program which, as previously mentioned, require the Chief Compliance Officer to review any cross transaction and review any principal transaction and ensure Client consent has been obtained in connection with such principal transaction. In addition, Sandton may engage third-party valuation agents to determine the amount to be used for executing the transaction. At times, Sandton may enter into a transaction in its own name on behalf of a Fund with the capital of such Fund for administrative convenience (e.g., where a counterparty prefers not to enter into an agreement with a Cayman Island domiciled Client), with such investment transferred to the name of the relevant Fund shortly thereafter. However, such transaction is not treated as a principal transaction for purposes of Sandton's compliance program.

Item 12: Brokerage Practices

Item 12.A.

A.1.

With the exception of investments over which the Advisory Committee has certain approval rights, Sandton has full discretion to determine which investments to purchase and sell on behalf of its clients, such as

private debt, equity, real estate restructuring, warrants, as well as working interests and forward currency. Therefore, Sandton does not engage in general securities trading activities with brokers for the types of investments where traditionally commissions (including mark ups or mark downs) are charged for the execution of client transactions. However, when closing certain investments, the legal fees and other expenses incurred to consummate transactions may be considered to be conceptually equivalent. All client accounts share in these costs pro-rata to their amount invested.

Sandton convenes a brokerage committee (consisting of Mr. Nurick and Mr. Wood, the Chief Compliance Officer, and Controller) meeting periodically for consideration of counterparty credit risk and currency risk. The brokerage committee always seeks to enhance investment performance through the effective management of costs impacting investments held in Funds.

Sandton does not make use of soft dollar arrangements (third-party or proprietary).

A.2 and A.3.

Sandton does not recommend broker-dealers to its clients.

Item 12.B.

The Firm may be deemed to aggregate an order when it acquires an investment that is too large for the intended Fund, and the investment can be allocated to another vehicle for co-investing. When this occurs, the terms of the transaction do not change and there is no execution cost to share among the participating clients. However, closing and legal costs, which may be considered execution costs, and other fees are shared pro-rata in proportion with the amount allocated to each client account.

Item 13: Review of Accounts

Item 13.A. and 13.B.

The Funds and their holdings are reviewed on a regular basis to determine their conformity with their risk parameters, investment objectives, and guidelines. Sandton continuously monitors the portfolio companies of the Funds. Sandton convenes periodic investment committee meetings, consisting of portfolio managers, the CFO and the Controller to evaluate each position's compliance with the relevant Fund's offering memorandum.

Item 13.C.

Investors in the Funds receive quarterly Schedules of Partners' Capital indicating their capital balances and performance for the quarter within 45 days of each quarter-end. Additionally, U.S. investors are generally issued Schedule K-1's after the close of a fiscal year-end. Audited financial statements are generally provided to investors within 120 days of a financial year-end. The reports discussed above are in written form.

Item 14: Client Referrals and Other Compensation

Item 14.A and B.

The Firm does not retain third-party marketers or solicitors. We also do not receive a benefit from anyone who is not a client for providing advisory services to clients.

Item 15: Custody

Client assets are held at qualified custodians. The Funds receive monthly account statements directly from the Funds' qualified custodians, and Sandton, as investment adviser to the Funds, carefully reviews those statements.

Additionally, to confirm compliance with Rule 206(4)-2 under the Advisers Act, Sandton has also appointed an independent certified public accounting firm that is both registered with, and subject to regular inspection by, the Public Companies Accounting Oversight Board that distributes audited financial statements to investors of the Funds within 120 days of the fiscal year-end. The Funds are audited annually and financial statements of the Funds are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). These reports are in written form and investors should carefully review those statements.

Item 16: Investment Discretion

Sandton has full discretion to manage assets on behalf of the Funds. This authority is granted in accordance with an IMA between Sandton and each of the Funds. Individual investors grant authority to the Funds to enter into an IMA with Sandton by signing a subscription agreement.

Item 17: Voting Client Securities

Sandton does not currently engage in trading on behalf of the Funds, as such, proxy voting is not applicable at this time. If Sandton were to engage in trading, Sandton would be responsible for voting proxies for portfolio securities consistent with the best economic interests of its clients. Sandton's authority to vote proxies for the Funds is established by its IMA with each Fund. Sandton understands and appreciates the importance of proxy voting. The Firm will vote all proxies in the best interests of its clients and investors (as applicable) and in accordance with the procedures outlined below (as applicable), unless otherwise mandated by an investment management agreement or applicable law (e.g., ERISA).

- All proxies that are received by any employee (to vote on behalf of the clients) are given to the Portfolio Manager covering the subject portfolio security.
- Prior to voting any proxies, the Chief Compliance Officer will determine if there are any conflicts of interest related to the proxy in question. If a conflict is identified, the Chief Compliance Officer will then make a determination (which may be in consultation with outside legal counsel) as to whether the conflict is material or not.

- If no material conflict is identified pursuant to these procedures, the lead research analyst covering the subject security will make a decision on how to vote the proxy in question in accordance with the guidelines in put forth below.

Voting Guidelines: In the absence of specific voting guidelines mandated by a particular Fund, Sandton will endeavor to vote proxies in the best interests of each client. Sandton has adopted the proxy voting policies and procedures set forth in its Compliance Manual. Under the proxy voting policy, Sandton will generally vote proxies in accordance with the recommendation of the issuing company's management on routine and administrative matters unless Sandton has a particular reason to vote to the contrary. Non-routine matters will be voted on a case-by-case basis in a manner that serves the clients' best interest. Under certain circumstances, we may abstain from voting specific proxies if we believe that doing so is in the best interests of our clients. Furthermore, under our proxy voting policy, we may not vote proxies issued by companies if our clients no longer have any economic exposure to the issuer of the proxy or if we believe that the subject matter of the proxy has no material impact on our clients.

Sandton would not permit clients or investors to direct how the Firm would vote specific proxies. Each investor in the Funds may request information on how Sandton voted with respect to the securities of such Fund and obtain a copy of Sandton's policies and procedures, which are set forth in its Compliance Manual, by contacting the Chief Compliance Officer, at (212) 444-7205, or by email at dkorvyakov@sandtoncapital.com.

Item 18: Financial Information

Item 18.A.

Sandton does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

Item 18.B.

There are no conditions that impair Sandton's ability to meet its contractual and fiduciary commitments to its clients.

Item 18.C.

The Firm has not been subject to a bankruptcy petition, past or pending.

Item 19: Requirements for State Registered Advisers

Not Applicable.