

# Silver Rock Financial LP

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Form ADV Part 2A

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This Brochure provides information about the qualifications and business practices of Silver Rock Financial LP (“Silver Rock”). If you have any questions about the content of this Brochure, please contact Patrick Hunnius, Silver Rock’s Chief Compliance Officer and General Counsel, at [phunnus@silver-rock.com](mailto:phunnus@silver-rock.com). Silver Rock is an investment adviser registered with the U.S. Securities & Exchange Commission (“SEC”). Registration as an investment adviser does not imply any level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

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

## Item 2. Material Changes

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This Brochure contains material changes since Silver Rock's last annual amendment filing on March 31, 2018, as summarized below, as well as certain changes that Silver Rock does not consider to be material, but for informational purposes has included below in connection with this filing:

- Silver Rock updated this Brochure to reflect a change in its policy regarding cross trades of loan positions.
- Silver Rock updated its regulatory assets under management and net assets under management.
- Silver Rock expanded on the Brochure's discussion of general investment risks and risks relating to particular activities and types of investments.
- Silver Rock also made certain clarifying amendments to this Brochure.

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## Item 4. Advisory Business

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Silver Rock Financial LP (“Silver Rock” or the “Firm”) was legally formed in December 2015 and began accepting outside capital in May 2016. The Firm’s headquarters is located in Los Angeles, California. Silver Rock is majority owned by limited partnerships ultimately controlled by Carl Meyer. As the Chief Executive Officer and Chief Investment Officer of the Firm, Mr. Meyer is ultimately responsible for all investment decisions and directs the Firm’s investment strategies. For further detail on Silver Rock’s ownership structure, please refer to Schedule A of Part 1 of our ADV.

Silver Rock is the investment adviser to the Silver Rock Opportunistic Credit Fund LP and its Delaware onshore and Cayman offshore feeder funds (the “Opportunistic Credit Fund”), Silver Rock Opportunities Fund I LP and its Cayman offshore feeder fund, Silver Rock Opportunities Fund II LP, Silver Rock Credit Fund LP, and additional funds as may be formed and/or managed from time to time (each, a “Fund” and collectively, the “Funds”). In addition to the Funds, Silver Rock also serves as investment adviser or sub-adviser to separately managed accounts (“Managed Accounts”). Investors in the Funds and Managed Accounts include entities owned by high net worth individuals, family investment vehicles, pension and U.S. tax exempt organizations, sovereign wealth funds, and others. The Funds and Managed Accounts are collectively referred to as the “Clients” herein.

Silver Rock generally pursues an opportunistic, credit-focused investment strategy (the “Silver Rock Opportunistic Credit Strategy” or the “Strategy”) and may offer complementary strategies through additional Funds or Managed Accounts. For information about the Strategy, please see the discussion under “*Methods of Analysis, Investment Strategies and Risks of Loss*”. Further details regarding the specific investment objectives of each Client can be found in their respective offering memoranda and other governing documents, including organizational documents and investment management agreements (the “Investment Management Agreements”). In addition to their investments through the Funds and Managed Accounts, investors also may make contributions through commitments to the Strategy through the “Dislocation Accordion.” The Dislocation Accordion enables Silver Rock, on behalf of committed investors, to make tactical, additional investments to the Strategy during periods of market dislocation, by calling committed capital, including on an intra-month basis, during periods of market dislocation with set market triggers. Each such committed capital contribution will be invested as an additional contribution to an investor’s existing investment in the Strategy (e.g., via a Fund or a Managed Account). Thus, an investor’s committed capital contribution will participate in the entire portfolio of the relevant Fund or Managed Account alongside all other investors in the relevant Fund or Managed Account (including investors who did not make a capital commitment through the Dislocation Accordion).

Shares or limited partnership interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”); nor are they registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests or shares in the Funds are offered and sold exclusively to limited partners satisfying the applicable eligibility and suitability requirements, either in private transactions within the United States or in offshore transactions.

Silver Rock does not accept investor-imposed investment restrictions in the Opportunistic Credit Fund. When deemed appropriate, Silver Rock has in the past and may in the future enter into additional side letters

with certain investors in the Opportunistic Credit Fund that provide such investors with different terms, such as fees, transparency rights and additional reporting details.

Silver Rock has in the past and may in the future establish one or more customized investment funds or separately managed accounts, which (i) tailor their investment objectives, including by limiting the investments the Fund or Managed Account may make (including, for example, excluding certain types or issuers of securities or investments relating to certain industries) and/or (ii) may be subject to terms and arrangements (including fees, expense reimbursement, liquidity rights, transparency rights, and termination rights) different from those of the Opportunistic Credit Fund. Such investment objectives and terms are individually negotiated and may be dependent on the nature of the advisory relationship, and it should be noted that any such future customized investment fund or separately managed account relationships generally are expected to be subject to significant account minimums.

As of December 31, 2018, Silver Rock managed approximately \$3.1 billion in regulatory assets under management on a discretionary basis, and its net assets under management were approximately \$2.8 billion. Silver Rock does not currently manage any client assets on a non-discretionary basis.

## **Item 5. Fees and Compensation**

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### Funds

Silver Rock charges a management fee plus an incentive fee in accordance with the Funds' Limited Partnership Agreements ("LPAs"). The information provided in this Brochure regarding fees and expenses is not intended to be complete or final and is qualified in its entirety by the LPAs for each Fund. Fund Limited Partners should read and review the governing documents of the respective Fund to fully understand the types of fees and expenses that are paid for by that Fund and/or its Limited Partners.

For example, under the terms of the relevant LPAs, the Opportunistic Credit Fund, as to each Limited Partner, pays Silver Rock a monthly management fee calculated at an annual rate of 1.5% based on the net assets attributable as to each Limited Partner as of the last day of each calendar month. The management fee is adjusted for contributions and withdrawals made during the month. Silver Rock does not charge a management fee on capital commitments to the Dislocation Accordion until such capital is actually contributed at which point the monthly management fee is calculated at the same rate.

Except as noted below, the Funds, as to each Limited Partner, also pay a performance-based fee based on the net profits (including unrealized gains and losses, if any) allocated to each Limited Partner's capital account each year, subject to a high-water mark. For example, for the Opportunistic Credit Fund, the performance-based fee is 20%. When calculating the performance-based fee, net profits are reduced by the management fee and losses and expenses incurred by the Funds, as more particularly described in the LPA of each Fund.

Silver Rock reserves the right to vary the fees as to particular Fund Limited Partners by separate agreement and to reduce or waive any fees at any time. Silver Rock charges a reduced fee for the capital of the Funds' respective general partners, seed investors, and certain of its affiliates, employees, and family members of the foregoing.

As noted above, Silver Rock may in the future form and/or manage other funds or collective investment vehicles for similar or other strategies or for individual investors. The management and incentive fees and expense reimbursement provisions for such other funds or collective investment vehicles are individually negotiated and may be dependent on the nature of the advisory relationship and, therefore, fees and expenses charged to the Client may be higher or lower than the fees and expenses charged to the Opportunistic Credit Fund.

### Expenses

In addition to the fees noted above, the Funds' Limited Partners also indirectly bear the costs and expenses charged to the Funds. The Funds bear certain costs in connection with their organization, as more particularly described in the LPA of each Fund.

Silver Rock is responsible for its own general operating and overhead costs including salaries, employee benefits, office rent and other general overhead costs. The Funds, however, generally bear their own operating costs. Such fees and expenses vary but generally include the following: commissions and other trading-related costs (discussed further in the *Brokerage Practices* section); interest and borrowing charges on securities sold short and margin and other borrowings; clearing and settlement charges; costs of systems, facilities, and third-party services for order placement, order management, and related functions; certain costs related to the researching, acquiring, holding, valuing and/or monitoring of assets and potential investments (including, among other things, costs arising out of such activities as third party investigative, analytical, valuation and/or reporting services, systems that conduct portfolio analytics, and participation in creditors' or equity-holders committees, both formal and informal); travel and lodging costs related to investment activities; costs of quotation, computerized news, pricing and/or statistical services/software; audit, accounting, tax preparing and reporting, valuation, third-party administration, and other professional fees and expenses; legal fees (including fees paid to Silver Rock's external counsel for services for the Funds' benefit); fees and costs in connection with litigation or potential litigation; transfer, withholding, income, stamp, and other taxes and duties; custodial and bank service fees; costs of reporting to Limited Partners; costs of Fund meetings and other governance activities; reimbursable expenses of the members of any Advisory or Governance Committee; registration, filings, and licensing costs by governmental and self-regulatory organizations and costs of compliance with regulatory or reporting requirements applicable to a Fund (including Schedules 13D or 13G, Forms D, and Forms 3 and 4 and filings relating to a Fund required by non-US jurisdictions or applicable law); a Fund's allocable share of the costs of directors and officers, errors and omissions, and other types of insurance maintained by Silver Rock or the Funds; and fees and expenses paid or reimbursed to the Administrator; and all other reasonable expenses related to a Fund's operations or the purchase, sale or transmittal of assets.

Since Silver Rock manages multiple Funds and Managed Accounts, if a particular cost relates to more than one Fund and/or those other Managed Accounts, Silver Rock allocates the cost between the appropriate Funds/Managed Accounts in a manner it considers equitable to the relevant Clients and that is consistent with the relevant Clients' governing documents. For example, Clients will be charged only their respective proportionate share of reimbursable expenses, and Silver Rock will bear the cost of any portion attributable to a Client who is not charged for a reimbursable expense in accordance with its governing documents.

The Funds may pay their costs directly, or Silver Rock may advance costs and be reimbursed by the Funds. Silver Rock may bear any of those costs out of its own assets or revenues, but its decision to do so as to

some costs or for some periods does not obligate it to do so as to any other costs or to continue doing so for any other periods.

Fund Limited Partners should refer to the respective Fund's governing documents for a detailed discussion of the fees and expenses paid by the Fund.

### Managed Accounts

While Managed Accounts are charged management fees and generally pay performance-based fees, which may be subject to a high-water mark and in certain cases a stated hurdle rate, the fee terms are negotiated on an individual basis and may be dependent on the nature of the advisory relationship. In addition, while Managed Accounts clients generally pay or reimburse Silver Rock for expenses similar to the Funds, as described above, Silver Rock has in the past and may in the future agree with certain Clients to impose a cap on certain categories of expenses and others where Silver Rock agreed that it would not charge for a certain type of expense. In each case, to the extent a reimbursable expense is not charged to a Client, Silver Rock (not other Clients) bears such cost. The fees and expenses that are borne by a Client with respect to such Client's Managed Account are described in and governed by the Managed Account's Investment Management Agreement.

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

As mentioned above, in addition to the management fee for portfolio management, Silver Rock also charges an annual performance-based fee, subject to a high-water mark and in certain cases a stated hurdle rate, from the Funds and certain Managed Accounts. Silver Rock has and may in the future agree to reduce or waive such performance-based fee or for the capital of the Funds' respective general partners, seed investors, certain limited partners, and certain of its affiliates, employees, and family members of the foregoing.

The fact that Silver Rock is compensated based on trading profits may create an incentive for Silver Rock to make investments on behalf of Clients that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance-based fees received by Silver Rock are based both on realized and unrealized gains and losses. As a result, the performance-based fees earned could be based on unrealized gains that Clients may never realize.

The Investment Advisers Act of 1940 restricts the payment of performance-based fees to investment advisers registered under such act. However, SEC Rule 205-3 permits the payment of performance-based compensation to registered investment advisers provided that the clients (including limited partners in investment vehicles such as the Funds) meet certain financial qualifications.

The offerings of interests in the Funds have been structured to comply with this rule and accordingly the Funds only accept subscriptions from persons who meet the qualifications set forth in Rule 205-3. Limited Partners in the Funds should refer to the respective Funds' governing documents for complete information on the corresponding fees charged by Silver Rock.

Managed Accounts should refer to their Investment Management Agreement with Silver Rock for complete information on the corresponding fees charged by Silver Rock.

In addition, it is important to note that a conflict of interest may exist as Silver Rock has an economic incentive to allocate potentially more favorable investment opportunities to Clients that have a performance-based fee structure. To address that risk, Silver Rock has adopted policies and procedures to ensure the fair allocation of investment opportunities among all of its Clients.

## **Item 7. Types of Clients**

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As previously described, Silver Rock provides investment advice to private investment funds and separately managed accounts.

Generally, a Fund Limited Partner must be a “qualified purchaser” within the meaning of the Investment Company Act of 1940 and an “accredited investor” within the meaning of Regulation D of the Securities Act of 1933.

Generally, a Fund Limited Partner is required to open an account with a minimum of USD \$5 million. The minimum investment may be, and has been, raised, reduced, or waived by a Fund’s General Partner.

Generally, Silver Rock’s minimum investment size for a Managed Account is USD \$250 million. However, Silver Rock may, in its discretion, based upon its total client relationship and other circumstances, accept or continue to advise smaller Managed Accounts from time to time.

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

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### **METHODS OF ANALYSIS**

Silver Rock’s investment professionals focus on applying the Silver Rock Opportunistic Credit Strategy, as further described below in the *Investment Strategies* section. Carl Meyer oversees the full investment team. Each research analyst is responsible for covering multiple sectors (based on industry and/or asset type) to ensure broad opportunities for investment throughout the credit cycle and relative value perspective. The sector-specific research analysts are grouped by related sectors into two investment committees. Research analysts also have dedicated capital markets coverage responsibility across sponsors, banks and financial and restructuring advisors. The investment committee structure facilitates speed, efficiency and a constant flow of communication.

Each of the two investment committees is co-led by two experienced senior research analysts. Each investment committee confers daily and maintains a detailed log of the investment ideas considered. Detailed investment memos or other consolidated analyses, which incorporate fundamental research, quantitative screens, models, as well as a recommendation to buy or sell, are presented to the investment committee heads as well as the Chief Investment Officer for evaluation. These memos and consolidated analyses inform the investment decisions and lead to detailed discussions with the Chief Investment Officer regarding potential inclusion in a broader portfolio. Position sizing is based on a bottom-up consideration



and assessment of the position's risk versus potential reward, especially in the context of the current credit cycle. Silver Rock maintains a disciplined buy / sell target list that is a primary driver in the investment team's decision-making process.

In addition to daily investment committee discussions, the full investment team meets weekly to discuss investment ideas and credit market trends. On a monthly basis, the four investment committee heads meet to discuss the portfolio report internally generated by Silver Rock's Quantitative and Risk Analytics team as well as the risk report provided by Silver Rock's fund administrator. These reports include a thorough analysis of the overall portfolio, including portfolio weightings, loan-to-value analysis, yield analysis, sector exposures, security exposures, concentration levels, the equity book upside / downside analysis, bridge and revolving credit exposures, and the distressed and stressed names in the portfolio. The reports also include scenario analysis based on credit spread changes, interest rate changes and beta shocks for the various asset classes to which we are exposed.

The Chief Investment Officer is ultimately responsible for all buy / sell investment decisions for both the long and short positions in the portfolio, as well as the risk management of the Strategy.

Silver Rock focuses on traditional valuation techniques for fixed income and equity securities and evaluates potential investments through a fundamentally based research approach. For example, Silver Rock engages in a thorough analysis of a company to understand and appreciate how the company operates in different environments. This oftentimes includes an understanding of the industry structure, competitors, suppliers, customers, and end markets of any given business.

Silver Rock also focuses on the capital structure of a company to determine if it fits with the company's financial profile. In addition, to protect against downside risks, Silver Rock generally analyzes how the capital structure and its components would withstand a reorganization or liquidation.

Silver Rock also maintains a dialogue with company management and business owners to understand their motivations and goals for the company both in the short and long term. Silver Rock focuses on situations where a Fund's interests are aligned with that of the ownership group to maximize the probability of success.

Certain of the Clients' portfolios also have guidelines regarding position concentration, leverage, geographic exposure, industries, asset types, specific issuers and equity risks which Silver Rock monitors. In addition, Silver Rock manages portfolio investments for tax efficiency when appropriate.

## **INVESTMENT STRATEGY**

The core of the Silver Rock Opportunistic Credit Strategy is the preservation of capital through a disciplined, bottom-up investment approach focused on generating strong risk-adjusted returns throughout the credit cycle. Silver Rock focuses on rigorous fundamental research and seeks to take advantage of

market opportunities through active credit rotation to capture relative and absolute value across the full capital structure.

Silver Rock's core tenet is to be dynamic in its investment approach and be positioned to generate attractive risk-adjusted returns in every investment environment by actively rotating in credits throughout different periods of the credit cycle.

The Strategy employs a global approach to stressed, distressed and performing credit investing across the full capital structure primarily in leveraged loans, high yield bonds and related structured products. Silver Rock invests in both private and public equities when they are attractive relative to credit. Allocations will vary based on the current stage of the credit cycle and may also depend on a particular Client's investment objective or the terms of a Client's governing documents (e.g., an Investment Management Agreement).

In addition, Silver Rock maintains a diversified portfolio where cash is used offensively to monetize market dislocations and select shorts (when permitted under a Client's governing documents) are used opportunistically to generate alpha. Cash balances for the Funds and Managed Accounts may vary significantly over time, depending on Silver Rock's investment outlook, its ability to find investments that meet Silver Rock's criteria and/or a Client's ability to participate in certain investments. Cash is typically held in short term money market funds and may be invested in yield-to-call bonds that provide attractive returns relative to Silver Rock's perception of risk. Generally speaking, throughout the investment time horizon, Silver Rock strives to manage individual investments to maximize the return for its investors. This management may, when appropriate, include holding positions with capital gains until they become eligible for more favorable long-term tax treatment or selling positions to harvest capital losses.

Although Silver Rock intends to pursue the Strategy and processes described above, neither the Funds' organizational documents nor their Investment Management Agreements expressly require it to do so. For example, the Opportunistic Credit Fund's governing documents grant Silver Rock wide discretion with respect to the types of securities or other instruments in which it may invest, the types of positions it may take, the concentration of investments (by country, sector, industry, company, or asset class) or the amount of leverage it may employ, including through short selling, margin borrowing, derivatives transactions, and otherwise.

There may be times when the Clients' portfolios either include instruments not specified above or do not include all of the instruments listed above. Depending on conditions and trends in securities markets, Silver Rock may pursue other strategies or employ other techniques it considers appropriate and in its Clients' best interests. Client assets at times may be fully invested in securities and, at other times, may include a high percentage of cash or cash equivalents.

### **RISK OF LOSS**

Securities investments risk the loss of capital; there can be no assurance that the Funds or Managed Accounts will not incur losses.

Investments in the Funds are suitable only for investors who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investments and who meet the conditions set forth in the Funds' offering documents. There can be no assurance that the Funds will achieve their

investment objectives. Investment in the Funds will involve significant risks and while the following summary of certain of these risks must be carefully evaluated before making an investment in the Funds, the following does not intend to describe all possible risks of such an investment. Fund Limited Partners should refer to the respective Fund's offering documents for further information.

### **GENERAL INVESTMENT RISKS AND RISKS ASSOCIATED WITH PARTICULAR ACTIVITIES OR TYPES OF INVESTMENTS**

The descriptions contained below are a brief overview of different risks related to Silver Rock's investment strategy; however, it is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operation of the Funds or Managed Accounts. Fund Limited Partners and Managed Account investors should refer to their respective governing documents for further information.

**Reliance on Key Personnel.** Silver Rock's operations and Clients' portfolio management are substantially dependent upon the skill, judgment and expertise of Carl Meyer and other investment personnel. The death, disability, departure, or other unavailability of Mr. Meyer or any other key personnel could have a material and adverse effect on Silver Rock and its Clients.

**Changes in Investment Strategies.** Silver Rock has broad authority to expand, contract, or otherwise change activities of the Funds and Managed Accounts without notice to, or the consent of, Fund Limited Partners or the Managed Account holders (subject to the terms of a Client's Investment Management Agreement). Over time, the strategies Silver Rock implements could be expected to expand, evolve, and change, perhaps materially. Silver Rock will not be required to implement any particular strategies and may discontinue employing any particular strategy, whether or not that strategy is specifically described in the Investment Management Agreements or a Client's governing documents and without notice to investors. Any change in strategies could expose Clients' capital to additional risks.

**Concentration of Investments.** The Funds and Managed Accounts will not be as diversified as many investment funds. While Silver Rock intends to limit investments that could create excessive concentration in a particular company or industry, the Investment Management Agreements generally do not so require, nor will the Funds or Managed Accounts always divest positions when appreciation (or other positions' depreciation) causes them to comprise an outsized portion of their respective portfolios. Clients may at times have a relatively large portion of their capital exposed to a relatively small number of positions and/or a particular industry. Losses in one or more large positions, or a downturn in an industry in which the Funds and Managed Accounts are concentrated, could materially adversely affect performance and could have a materially adverse effect on the overall financial condition of the Funds and Managed Accounts.

**Idle Funds.** While Silver Rock endeavors to keep Clients' assets invested, there may be periods when Clients have a significant portion of Client assets in cash or cash equivalents. The investment return on such "idle funds" is not expected to meet the overall return objective Silver Rock seeks through its Clients' investment programs.

**Inside Information; Substantial Positions.** Silver Rock personnel may receive material nonpublic information about or relating to issuers of securities in which Clients invest or in which Silver Rock proposes to invest on their behalf. Under various securities laws (or Silver Rock's internal policies), this

could restrict Silver Rock's ability to cause a Client to buy or sell securities of a company for substantial periods when doing so could generate a profit or avoid a loss. If the Client were to acquire more than certain percentages of the outstanding securities of some companies (determined, under certain circumstances, in combination with amounts held by other Clients' accounts), Silver Rock and/or the Client could become subject to public reporting requirements and, in some cases, legal and regulatory limits on disposition of those securities. Limits of those kinds could prevent the Client from disposing of those securities when it otherwise would or at favorable prices.

**Distressed Investments.** Clients may invest in "distressed" securities – claims and obligations of issuers that are experiencing significant financial or business difficulties. Investments may include loans, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts, and options or participations therein not publicly traded. Clients may lose a substantial portion or all of their investment in a distressed situation or may be required to accept cash or securities with a value less than its investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of the issuers. These investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate, or disenfranchise particular claims. The market prices of distressed entity investments are subject to abrupt and erratic market movements and above average price volatility and the spread between the bid and asked prices of these investments may be greater than normally expected. In trading distressed securities, litigation is sometimes required, which can be time-consuming and expensive and can frequently lead to unpredicted delays or losses. To the extent a Client invests in distressed sovereign debt obligations, it will be subject to additional risks and considerations not present in private distressed securities, including the uncertainties involved in enforcing and collecting debt obligations against sovereign nations, which may be affected by world events, changes in U.S. foreign policy and other factors outside of Silver Rock's control.

**Special Situations.** Silver Rock expects that among its distressed securities investments will be investments in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving these types of special situations, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security with a value less than the Client's purchase price for the security or other financial instrument in respect of which the distribution is made. Similarly, if an anticipated transaction does not occur, the Client may be required to sell its investment at a loss. As with other distressed company investments, a Client could lose its entire investment in special situation investments.

**Limited Liquidity of Investments.** Many of the Clients' investments may be relatively illiquid. An investment may be illiquid because it is thinly traded or because the Client's position in it is large in relation to the overall market for the security. The Client may own (or have a short position in) securities that are relatively liquid when acquired (or sold short) but that later become illiquid. The Client may not be able to liquidate illiquid positions if the need were to arise; rapid sales of such securities could depress the market value of those securities, reducing the Client's profits, or increasing its losses, in the positions (and rapid purchases to cover short positions could have the corollary effect). In addition, a Client may buy securities that are not immediately saleable in the public markets.

Redemptions funded out of the most liquid portion of the Client's assets could cause the illiquid portion to be a greater percentage of the Client's portfolio than would otherwise be optimal.

The value assigned to illiquid securities (including thinly traded securities) and large blocks of securities for purposes of determining NAV Account sharing percentages and determining net profit and net loss may differ from the value a Client is ultimately able to realize on those securities.

Certain of the Funds may, but are not required to, designate one or more illiquid investments as Designated Investments. Doing so would reduce the amount of capital a Fund Limited Partner may withdraw until the related Designated Investments are liquidated or deemed liquidated.

Debt Instruments. Clients invest significantly in debt or other fixed-income instruments, including bonds and debentures. Particular types of debt instruments are subject to various risks that are specific to the ways in which they are structured, the industries and markets in which their issuers participate, the assets underlying the instruments, the impact of applicable tax or regulatory factors, and numerous other specific factors. But the values and prices of all debt instruments are subject, in substantially the same way (albeit with differing levels of sensitivity), to credit risk, market risk, and interest rate risk. In addition, some of the debt instruments that Clients may invest or trade may involve particular risks, as discussed below:

- *Investments in Secured Loans.* Clients may invest in 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 more than one tranche of secured debt outstanding each with secured debt on separate collateral. In the event of Chapter 11 filing by an issuer, the Bankruptcy Reform Act of 1978, as amended (the "*Bankruptcy Code*") 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 the Client's collateral would adversely affect the priority of the liens and claims held by the Client and could adversely affect the Client'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.
- *Bank Loans and Participations.* Bank loans, participations in bank loans, and similar investments 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 from collateral securing the obligations; and (iv) limitations on the Client's ability to directly enforce its rights. They may also involve transactional risks: the Client may experience significant delays in the settlement of certain loan and/or bank debt transactions, particularly in the case of investments that are or become distressed. Until a transaction is settled, the Client will be subject to counterparty insolvency risk. Pursuant to certain insolvency laws, a counterparty may have the ability to reject or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, the Client might lose any increase in value with respect to such loan that accrued while the transaction

was unsettled. The Client may also invest in loan participations where it has no direct contractual relationship with the underlying borrower. In those cases, the Client generally would depend on the lender to enforce its rights and obligations under the loan arrangements in the event of a borrower default and would generally have no voting rights as to the borrower, as the lenders typically retains those rights. Participation investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. A lender could default on its obligations to the Client, resulting in substantial losses to the Client.

- *Non-Investment Grade (High Yield) Instruments.* Bonds and other debt instruments are often traded in established securities markets, and their prices vary based on factors that influence those markets. Non-investment grade, or “high yield” instruments, are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be speculative. In the United States, these are generally debt securities that are not rated or are rated below investment grade (for example, below BBB by Standard & Poor’s Rating Group or Baa by Moody’s Investors Service, Inc.) by a nationally recognized statistical rating organization. They are also generally considered to be subject to greater risk than securities with higher ratings, because their yields and prices tend to fluctuate more than those for higher-rated instruments, and the market for lower-rated securities is less liquid and less active. Trading and investing in non-investment grade instruments can be highly speculative.
- *Asset-Backed Securities.* Asset-Backed Securities (“ABS”) typically represent an interest in a pool of assets such as credit card receivables, automobile loans, or home equity loans, and have yield and maturity characteristics corresponding to their underlying assets. 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 consist 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 the Client 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.

Active or Suggestive Investing. Particularly in connection with distressed investments, Silver Rock may communicate with the issuer of a security in an attempt to influence the issuer’s decisions or strategies and enhance the value of the Client’s investment. This could occur when the Funds and Managed Accounts, together, have or seek to take a position in an issuer’s securities that is material relative to other holders of the issuer’s outstanding securities. Silver Rock’s efforts may be ineffective for a variety of reasons, including: (i) opposition by the issuer’s management or shareholders of the subject company; (ii) “preemptive” defensive efforts by the issuer, including a merger with, or a friendly tender offer by, another company; (iii) material changes in securities prices; (iv) intervention by a governmental agency; or (v) the issuer’s corporate governance mechanisms. Successful advocacy with an issuer may also depend on the active cooperation of shareholders and others with an interest in the issuer, which may not materialize or may change. Even if Silver Rock’s efforts succeed, market reactions may not be what was anticipated or

hoped for and, particularly if the Clients' position in the issuer is material relative to other security holders, the Clients may be unable to exit their position at a favorable price.

Hedging. Silver Rock may use hedging strategies to the extent it considers appropriate in light of current circumstances and portfolio composition. It may do so using short positions in one instrument to hedge long positions in another instrument, and vice versa. Hedging strategies in general are intended to limit or reduce investment risk, but they can also be expected to involve transaction costs and may inherently limit or reduce the potential for profit. Hedges are often imperfectly inversely correlated with the underlying exposure the Client seeks to hedge and, to the extent that is the case, can subject the Client to additional risk, if prices involved in the hedging position move against the Client. Other risks that may be involved in hedging include: (i) possible illiquidity in the market for closing out a hedging position; (ii) interest rate, spread, or other broad market movements not anticipated by Silver Rock; (iii) the Client's obligations to meet margin or other payment requirements; (iv) a counterparty's default or refusal to perform; and (v) impact that required segregation of the Client's assets to cover hedge-related obligations may have on portfolio management or the Client's ability to meet short term obligations. Silver Rock does not attempt to hedge all market or other risks inherent in its positions and hedges certain risks, if at all, only partially. The Client's portfolio composition commonly results in various directional market risks remaining unhedged. In addition, reductions in a Fund's or Managed Account's net asset value may trigger events of default or termination events under various counterparty agreements. If Silver Rock is unable to obtain waivers from the relevant counterparties, such counterparties could exercise numerous remedies under the affected agreements, including liquidation of posted collateral and termination of outstanding trades.

Short Selling. Subject to each Client's investment guidelines and applicable law, Silver Rock sells securities short as a part of its investing activities for Clients. In a short sale, the Client sells securities it does not own, in the expectation that the market price will decline and the Client will be able to buy replacement securities later at a lower price. To accomplish this, the Client borrows the securities from a broker or other third party. It "closes" the position by "returning" the security (buying a replacement security on the lender's behalf). This "return" obligation does not typically have a specified "maturity" date and the lender generally may require replacement of the securities whenever it chooses. A short sale theoretically involves the risk of unlimited loss; the price at which the Client must buy "replacement" securities could increase without limit. The Client may experience losses on short positions that are not offset by gains on long positions.

Portfolio Leverage. Leverage in the Client portfolios could increase both the possibilities for profit and the risk of loss. If a Client were to borrow to leverage its investments (margin borrowing), that borrowing would probably be secured by the Client's securities and other assets. Margin borrowings typically allow the lender to demand an increase in the collateral that secures a Client's obligations, and if a Client were unable to provide additional collateral, the lender could liquidate the collateral to satisfy the Client's obligations. Forced liquidation could have extremely adverse consequences, including sales at disadvantageous times and prices and the acceleration of tax consequences.

Risks of Investing in Non-U.S. Securities. Clients may invest and trade in securities of non-U.S. companies or governmental entities, and in securities, commodity interests, and derivative contracts and instruments denominated in currencies other than U.S. dollars. Such securities and other instruments can subject the

Client to risks not typically associated with investing in securities and commodity interests in the United States.

Reliance on Technology; Cybercrime. Clients rely heavily on computer hardware and software, online services, data feeds, trading platforms, and other computer-related and communications technology and equipment to implement Silver Rock's strategies and investment and trading activities. Clients' custodians and counterparties, including prime brokers and exchanges, also rely critically on such systems and technologies. Should events such as computer data theft, "worms," viruses, other cyber-attacks, and/or power failures cause failures or disruptions in the operation of any of those systems or technologies, Clients could experience losses, liabilities, or other adverse effects that Silver Rock may be unable to prevent or to mitigate.

In particular, Clients are subject to risks associated with a cybersecurity breach. Cybersecurity is a generic term used to describe the technology, processes, and practices designed to protect networks, systems, computers, programs, and data from "hacking" by other computer users, other unauthorized access, and the resulting damage and disruption of hardware and software systems, loss or corruption of data, and misappropriation of confidential information. If a cybersecurity breach occurs, Clients may incur substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged trading systems; identity theft; unauthorized use of proprietary information; litigation; adverse investor reaction; the dissemination of confidential and proprietary information; and reputational damage. Any such breach could expose both Clients and Silver Rock to civil liability as well as regulatory inquiry and/or action. In addition, any such breach could cause substantial withdrawals from the Funds and Managed Accounts. Investors could also be exposed to additional losses as a result of unauthorized use of their personal information.

## **Item 9. Disciplinary Information**

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To Silver Rock's knowledge, none of the Firm or any of its employees have been involved in any disciplinary events in the past 10 years that would be material to a Client or a Fund Limited Partner's evaluation of the Firm or its personnel.

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

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The general partners of the Funds are related entities of Silver Rock. Additionally, the Funds themselves may be considered related entities of Silver Rock.

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

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Silver Rock's principals and certain employees have invested in one of the Funds and therefore may have an indirect financial interest in the underlying components of the Fund. Silver Rock has adopted a *Code of Ethics* (the "Code") expressing the Firm's commitment to ethical conduct. Silver Rock's Code describes



the Firm's fiduciary duties and responsibilities to its clients and sets forth Silver Rock's practice of supervising the personal securities transactions of supervised persons.

Individuals associated with Silver Rock must seek pre-approval before transacting in reportable securities out of their personal accounts. In addition, reportable securities traded through personal accounts are subject to a minimum holding period.

To supervise compliance with its Code, Silver Rock requires all employees to provide initial and annual securities holdings reports and quarterly transaction reports to the Firm's Chief Compliance Officer.

Silver Rock requires that all individuals must act in accordance with all applicable U.S. federal and state regulations governing registered investment advisory practices. Silver Rock's Code includes a policy prohibiting the misuse of material non-public information.

Any individual not in observance of the above may be subject to discipline.

Silver Rock provides a complete copy of its Code to any Limited Partner in the Funds or a Managed Account holder upon request to the Chief Compliance Officer, whose contact information can be found on the cover page of this Brochure.

## **Item 12. Brokerage Practices**

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As investment adviser to the Funds and Managed Accounts, Silver Rock has been granted the discretionary authority in the relevant governing documents and/or Investment Management Agreements to determine which securities and the amounts of securities that are bought or sold, as well as the broker-dealer to be used and the commission rates to be paid.

### **Broker Selection and Best Execution**

Silver Rock has the authority to determine the broker-dealer to be used for each securities transaction for the Funds and Managed Accounts. In selecting broker-dealers to execute transactions, Silver Rock's policy is to seek the best execution of orders at the most favorable price in light of the overall quality of brokerage and research services provided. In determining the broker-dealer to be used for each securities transaction, Silver Rock adheres to the provisions of any relevant organizational documents and/or Investment Management Agreements.

In selecting broker-dealers and negotiating compensation arrangements, Silver Rock typically takes into account a range of qualitative and quantitative factors, including: historical net prices (after markups, markdowns and other transaction-related compensation); transacting parties' execution, clearance and settlement and error correction capabilities generally and in connection with instruments of the type and in the amounts to be bought or sold; their willingness to commit capital; their reliability and financial stability; the size of the transaction; the availability of securities to borrow for short sales; the market for the instrument in question; and the nature, quantity, and quality of research and other services and products the transacting party provides. Silver Rock may place transactions with a broker-dealer that (i) provides the Firm with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers potential clients or limited partners to products advised by Silver Rock, if otherwise consistent

with seeking best execution; provided Silver Rock is not selecting the broker-dealer in recognition of the opportunity to participate in such capital introduction events or the referral of clients/limited partners. Clients may at times pay more than the lowest transaction cost available in order to obtain services and products other than the execution of securities transactions.

Silver Rock's Chief Compliance Officer must approve any new broker. Best execution is assessed on a contemporaneous basis by the Firm's employees with trading execution authority and periodically by the Firm's Best Execution Committee.

#### Soft Dollars

Silver Rock has not entered into, and does not intend to enter into, any formal soft dollar arrangements but may receive products or services from broker-dealers and other counterparties that to the best of Silver Rock's knowledge are generally made available to all institutional clients doing business with these counterparties. These products and services are, as far as Silver Rock is aware, made available to Silver Rock on an unsolicited basis and without regard to transaction costs paid by the Funds or Managed Accounts or the volume of business Silver Rock directs to these counterparties.

The Funds or Managed Accounts do not pay higher rates than those charged by other brokers in return for research. Silver Rock uses broker-provided research for the benefit of all its Clients.

#### Allocation and Aggregation of Orders

Although not required, Silver Rock may aggregate transactions on behalf of more than one Client. If so, such transactions are allocated to all participating Client accounts in a fair and equitable manner, considering both the best interests and specific restrictions of the Client accounts. Consistent with each participating Client's offering document or Investment Management Agreement, Silver Rock may aggregate orders for more than one Client to facilitate best execution, including negotiating more favorable prices, obtaining more timely or equitable execution, or reducing overall commission charges. From time to time, Silver Rock may form special purpose vehicles ("SPVs") to acquire illiquid investments on behalf of multiple Clients where direct ownership is impracticable and subject in each case to such Client's governing documents. No fees or material costs are incurred by use of these SPVs.

As a general rule, pro-rata allocation (based on Client NAVs) is pursued when the size of the security being purchased provides for an equal opportunity to all participating Client accounts within the Strategy to share in the security based either on each account's assets under management or its existing position size with respect to the purchased security, in each case, without creating odd-lots for the other accounts. In the event of a partial fill, the order is generally allocated among the participating Client accounts based on the size of each account's original order, subject to rounding in order to achieve round lots. If the partial fill is too small to allocate in a meaningful manner, Silver Rock may decide to allocate the shares to a single client. Purchases of credits are allocated in lots of 1000. Asset sales are generally allocated on a pro-rated basis based on position size in each account.

Notwithstanding the above, pro-rata is not always the allocation method utilized for purchases or sales because it is not always appropriate in light of several criteria, including, but not limited to, the relevant Client account's strategic mandates (including Client-specific investment guidelines and restrictions), the size of the account, the size of the position, Client weight in a particular security, liquidity, leverage,

regulatory constraints, ability to short or hedge within the Client account, cash availability and cash needs, and whether the account is new and in a “ramp-up” stage. Again, in all such cases, Silver Rock intends to allocate purchase and sale opportunities in a fair and equitable manner and maintain appropriate documentation of the allocation methodology.

Silver Rock retains discretion to select an alternative means of allocation. Where a trade is allocated in a manner other than as described above, Silver Rock ensures that the chosen means of allocation is documented prior to settlement of the transaction and that the allocation method chosen has been approved in accordance with Silver Rock’s policies and procedures.

#### Cross Trades

Silver Rock may (but is not obligated to) engage in cross transactions in which a security is crossed between Client accounts. Silver Rock will only engage in the cross transaction if the transaction is deemed advantageous for each participant and only if the transaction is allowed under the relevant Client’s governing documents or applicable law. For equities and bonds, Silver Rock shall use an unaffiliated broker-dealer or custodian to cross trade securities between Client accounts. Cross transactions of loan interests may be conducted by Silver Rock without the use of a broker-dealer or custodian. Cross transactions will be effected by Silver Rock only to the extent permitted by applicable law. In no instance will Silver Rock receive additional compensation when crossing trades for Client accounts. Silver Rock will seek to ensure that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable, and the transactions are done for the benefit of the participating Clients.

#### Trade Errors

Silver Rock has established trade processes and procedures designed to reduce the likelihood of errors and, in its sole discretion, will determine what constitutes a trade error.

Silver Rock’s general policy seeks to identify and correct any trade errors promptly and in a way that mitigates any losses. Generally, trade errors in a Fund or Managed Account will be borne by the Fund or Managed Account, as applicable, unless an error is the result of gross negligence, willful misconduct or violation of applicable laws by Silver Rock (except to the extent that either the governing Investment Management Agreement or applicable law provides otherwise). Silver Rock does not provide reimbursement for lost opportunity costs.

### **Item 13. Review of Accounts**

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Positions held by Silver Rock’s Funds and Managed Accounts are continuously monitored and reviewed by the investment advisory personnel of Silver Rock. Accounts are reviewed in the context of the Clients’ stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the Funds’ or Managed Accounts’ individual circumstances, or the market, political or economic environment.

Fund Limited Partners are provided a monthly performance report by Silver Rock, if applicable, and a monthly capital statement by the Funds’ administrator, Citco Funds Administration Limited. In addition,

Limited Partners are provided with audited financial statements within 120 days of the end of the respective Fund's fiscal year and any other information necessary to enable each Fund Limited Partner to prepare its income tax returns. Final tax return information may be delayed past April 15 from time to time. Silver Rock may also prepare and deliver to such Fund Limited Partners any additional information that Silver Rock deems pertinent upon request. Managed Account holders receive statements, no less than quarterly, directly from their custodians and, if applicable, access to reports generated by third party account administration service providers.

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

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Silver Rock may, from time to time, compensate third-party individuals or entities for client and limited partner referrals. To the extent deemed applicable, such arrangements will be entered into in accordance with the terms and conditions of Advisers Act Rule 206(4)-3. Prospective clients and limited partners will be advised in advance of the nature of and compensation payable in connection with such referral arrangements.

## **Item 15. Custody**

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Silver Rock is deemed to have custody of the Funds because it has the authority to obtain funds or securities, for example, by deducting advisory fees from the Funds or otherwise withdrawing assets from the Funds. Accordingly, Silver Rock is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). The Funds' assets are held in custody by unaffiliated, long-standing broker-dealers or banks, all of whom are qualified custodians as the term is defined in the Custody Rule. The Funds are subject to an audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The Funds' audited financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and sent to Fund Limited Partners within 120 days of the end of the Funds' fiscal year.

As previously described, Managed Account holders receive statements directly from their custodians and, if applicable, access to reports generated by third party account administration service providers.

## **Item 16. Investment Discretion**

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Silver Rock accepts discretionary authority to manage securities accounts on behalf of its Clients. Clients (but generally not investors) are permitted to place limits on this discretion or with respect to certain investments and/or investment types.

As investment adviser to the Funds and Managed Accounts, Silver Rock has been granted the discretionary authority, subject to the terms of the relevant governing documents and/or Investment Management Agreements, to determine which securities and the amounts of securities that are bought or sold, as well as the broker-dealer to be used and the commission rates to be paid.

## **Item 17. Voting Client Securities**

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In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Advisers Act, Silver Rock has adopted and implemented written policies and procedures governing the voting of Client securities.

Proxies must be voted with diligence, care, and loyalty. Silver Rock considers each proxy decision (including, potentially, the decision to abstain from voting a proxy) in accordance with its fiduciary duty to its Clients. Silver Rock seeks to vote proxies in a way that maximizes the value of Clients' assets. Each proxy vote decision is ultimately made on a case-by-case basis, as Silver Rock considers the contractual obligations under organizational documents and Investment Management Agreements, and all other relevant facts and circumstances at the time of the vote.

Silver Rock documents and abides by any specific proxy voting instructions conveyed by a Client with respect to that Client's securities.

The Chief Investment Officer with the assistance of other investment personnel has the responsibility to identify any material conflicts of interest and resolve the conflicts in the best interest of the Client.

Clients may obtain a copy of Silver Rock's Proxy Voting policy and procedures or information with respect to a specific proxy vote as it relates to their account by submitting a request to the Chief Compliance Officer, whose contact information can be found on the cover page of this Brochure.

## **Item 18. Financial Information**

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Silver Rock has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage the Funds or the Managed Accounts.