

Cross Sound Management LLC

Form ADV Part 2A

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This brochure provides information about the qualifications and business practices of Cross Sound Management LLC (“Cross Sound”). If you have any questions about the content of this brochure, please contact Helen L. Francis, the Chief Compliance Officer, at lovely@cross-sound.com. Cross Sound is an investment adviser registered with the U.S. Securities & Exchange Commission (“SEC”). The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

Item 2. Material Changes

This brochure contains information about Cross Sound Management LLC. There have been no material changes compared to the previous update dated March 28, 2018.

Please be aware that certain non-material changes were made to the brochure, which Cross Sound recommends you review in its entirety.

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Item 4. Advisory Business

Cross Sound Management LLC (“Cross Sound” or the “Firm”) was formed in October 2015. The Firm’s headquarters is located in Wilton, Connecticut. Sierentz Management LP, an entity indirectly owned by The Star of Kayalov Trust V, is the owner of Cross Sound.

Cross Sound serves as investment adviser to Cross Sound Distressed Opportunities Fund, L.P., a Delaware limited partnership (the “Master Fund”) and Cross Sound Offshore SPC, a Cayman Islands exempted company registered as a segregated portfolio company (the “Feeder Fund,” and together with the Master Fund, the “Funds”). The Feeder Fund will invest substantially all of its assets (to the extent not retained in cash) in the Master Fund. The Master Fund was organized to invest principally in distressed debt securities and Debtor-in-Possession financing (“DIP loans”).

In addition to the Funds, Cross Sound may also serve as investment adviser to separately managed accounts (“Managed Accounts”). These Managed Accounts will include entities owned by high net worth individuals, as well as institutions. The Funds and Managed Accounts are collectively referred to as the “Clients” herein. Upon request, Cross Sound will work with the owners of Managed Accounts to accommodate client-specific investment restrictions.

For information about the investment strategy of Cross Sound, see the discussion under “*Methods of Analysis, Investment Strategies and Risks of Loss*”. Further details regarding the investment objective for the Funds can be found in their respective offering circulars and other governing documents.

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

The Funds have entered into side letters or other similar agreements with certain investors that have the effect of establishing rights under or altering or supplementing the Funds’ respective offering circulars and other governing documents.

Cross Sound does not provide investment advisory services to wrap fee programs.

As of December 31, 2018, Cross Sound had approximately \$177,776,877 in regulatory assets under management. Approximately \$173,207,208 of such amount was managed on a discretionary basis, and approximately \$4,569,669 was managed on a non-discretionary basis.

Item 5. Fees and Compensation

Fees

Cross Sound will charge a management fee, and the Master Fund’s general partner, Cross Sound Capital Partners LLC (the “General Partner”) will be entitled to receive a special profit allocation in accordance

with the Master Fund's Limited Partnership Agreement ("LPA"), offering circular (including supplements) and other governing documents (collectively, the "Master Fund Offering Documents"). The information provided in this brochure regarding the fees and expenses that can be charged to Investors is not intended to be complete or final and is qualified in its entirety by the Master Fund's Offering Documents, as well as the Feeder Fund's Articles of Association, offering circular (including supplements) and other governing documents (collectively, the "Feeder Fund Offering Documents," and together with the Master Fund Offering Documents, the "Offering Documents").

The General Partner may, in its discretion, establish any number of series (each, a "Series") and classes within such Series (each, a "Class"), associated with different assets of the Master Fund and each with varying investment guidelines, lock-up periods, management fees and special profit allocations. The terms associated with such Series and Classes will be described in supplements to the offering circular that relate specifically to each such Series or Class. Similarly, the Feeder Fund will establish a segregated portfolio (a "Segregated Portfolio") comprised of one or more classes of shares, and the assets attributable to that Segregated Portfolio will be invested in the relevant Master Fund Series or Class. The terms associated with each Segregated Portfolio will be described in supplements to the Feeder Fund's offering circular that relate specifically to each such Segregated Portfolio. Investors should read and review these supplements for the Master Fund and the Feeder Fund, respectively, which form part of the Offering Documents, to fully understand the types of fees and expenses that are paid for by each such Series or Segregated Portfolio and each class or series within such Series and Segregated Portfolios. Currently, the Master Fund has two (2) Series, which invest within the distressed sector: one which invests principally in distressed debt securities ("Distressed Series 1") and a second which invests principally in DIP loans ("DIP Series 3"). The Feeder Fund has two (2) corresponding Segregated Portfolios numbered 1 and 3, which invest in Distressed Series 1 and DIP Series 3, respectively. The Master Fund had a "DIP Series 2," and the Feeder Fund had a corresponding Segregated Portfolio 2, both of which were liquidated as of March 31, 2017.

Except as noted below, the Master Fund, as to each Limited Partner (including the Feeder Fund), will pay Cross Sound a quarterly management fee calculated at an annual rate ranging between 0.50% and 1.75%, depending on the Class or Classes in which the Limited Partner is invested, with the lock-up period also varying by Class. The Management Fee is calculated either (i) based on the net assets attributable as to each Limited Partner within each Class or (ii) the committed capital and unreturned capital contributions as of the first day of such quarter. The management fee will be adjusted for contributions and withdrawals made during the quarter.

Except as noted below, the Master Fund, as to each Limited Partner (including the Feeder Fund), will also pay to the General Partner a performance-based fee ("Special Profit Allocation") calculated at an annual rate ranging between 15% and 20% of the net profits allocated to each Limited Partner's capital account subject to a high water mark or a hurdle rate in certain circumstances. The performance-based fee generally includes unrealized gains and losses, if any. When calculating the performance-based fee, net profits will be reduced by the management fee and all items of loss and expense incurred by the Master Fund, as more particularly described in the LPA. The Special Profit Allocation is made with respect to each Limited Partner at the end of each fiscal quarter (and on withdrawal of funds by or distribution of funds to a Limited Partner during a fiscal quarter) but is only paid to the General Partner annually.

Cross Sound reserves the right to vary the fees as to particular Limited Partners by separate agreement and to reduce or waive any fees at any time. Cross Sound intends to waive or reduce the fee for its own capital and that of its constituent partners, affiliates, and employees, and family members of the foregoing.

Expenses

In addition to the fees noted above, the Limited Partners (including the Feeder Fund) will also indirectly bear the fees and expenses charged to the Master Fund, including, without limitation, operating costs such as all trading costs and expenses (such as, for example, brokerage commissions and charges, expenses related to short sales, clearing and settlement charges, option premiums and custodial and service fees); all interest and commitment fees on loans and debit balances (on margin or otherwise); all costs and expenses of negotiating and entering into contracts and arrangements and making investments (such as brokerage, legal, accounting, investment banking, appraisal and other professional and consulting fees and expenses arising from particular investments and potential investments) and similar expenses in terminating those contracts and arrangements and disposing of investments; all costs and expenses associated with registering restricted securities; costs and expenses incurred in attempting to protect or enhance the value of investments; (including participation in creditors' committees, both formal and informal and costs and expenses of instituting and defending lawsuits); all income taxes, withholding taxes, transfer taxes and other governmental charges and duties; all fees and charges of custodians, clearing agencies and banks; all administration, bookkeeping, recordkeeping, legal, accounting, auditing, tax preparation and other professional, expert and consulting fees and expenses arising in connection with the Master Fund's activities (including fees and expenses of counsel for the Master Fund, the General Partner and its officers and managers arising in connection with the Master Fund's activities, and the fees, costs and expenses of the Administrator or any similar service provider retained by the General Partner); all fees, costs and expenses of communicating with Limited Partners (including governmental and self-regulatory agency filing fees; all costs and expenses of investing the Master Fund's assets indirectly; all premiums and other costs and expenses of insurance policies as the General Partner considers appropriate, insuring the Master Fund, the General Partner and their affiliates against liabilities that may arise in connection with the business or management of the Master Fund; any contingencies for which the General Partner determines reserves are required; and any extraordinary expenses (such as litigation expenses). The Master Fund reimburses the General Partner for any of such expenses paid by it. To the extent that any expense or portion thereof relates to a particular Series, the General Partner shall allocate such expense or portion thereof to such Series. The total fees and expense reimbursements to the General Partner may exceed the cost that the Master Fund or the Limited Partners would incur for portfolio management services provided by other investment advisers.

The General Partner bears the costs of organizing the Funds and offering and selling interests therein. The General Partner bears its own operating, general, administrative and overhead costs and expenses.

Investors should refer to the Offering Documents for a detailed discussion on the fees and expenses paid by each Fund.

Managed Accounts

While any Managed Accounts would also be charged management and performance-based fees, the fee terms are negotiated on an individual basis and are outlined in the applicable investment management agreements.

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

As mentioned above, in addition to the management fee for portfolio management, Cross Sound or its affiliates will also be entitled to share in the performance-based fee paid to the General Partner of the Master Fund, subject to a high water mark or a hurdle rate in certain circumstances, and may also receive a performance-based fee from certain Managed Accounts.

The fact that Cross Sound or its affiliates are compensated based on trading profits may create an incentive for Cross Sound 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 Cross Sound are based primarily 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 Master Fund) meet certain financial qualifications.

The offerings of interests in the Funds are structured to comply with this rule and accordingly the Funds will only accept subscriptions from Investors who meet the qualifications set forth in Rule 205-3. Prospective Investors should refer to the Offering Documents for complete information on the corresponding fees charged by Cross Sound.

Managed Accounts should refer to their investment management agreement with Cross Sound for complete information on the corresponding fees charged by Cross Sound.

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

Item 7. Types of Clients

As previously described, Cross Sound provides investment advice to the Funds and Managed Accounts.

Investors are required to meet certain suitability qualifications, such as being an “accredited investor,” as defined under Regulation D of the Securities Act of 1933, and a “qualified purchaser” within the meaning of the Investment Company Act of 1940.

Generally, an Investor in the Funds is required to open an account with a minimum of US\$5 million. The minimum investment may be raised, reduced, or waived by the Master Fund’s General Partner or the Feeder Fund’s board of directors.

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

Cross Sound's investment objective is to achieve consistent absolute returns with low volatility and minimal correlation to other distressed funds and the equity markets. Cross Sound will pursue, for Distressed Series 1, investments (long and short positions) in a variety of public and private distressed corporate debt, equity and derivative instruments and, for DIP Series 3, investments in DIP loans, and, opportunistically, under certain circumstances, in certain public and private distressed corporate debt and loan instruments. Cross Sound will apply a research-intensive approach to investments, as supplemented by its portfolio management and risk-mitigation techniques. Cross Sound will seek to undertake investments primarily in North America.

Cross Sound will view all existing and potential investments first and foremost through a capital preservation prism. To wit, there will be an emphasis on pre-defined margin of safety, downside risk assessment metrics, liquidity and availability of hedging instruments.

Cross Sound will rely heavily on its co-Chief Investment Officers, Arif Gangat and David Dunn ("Co-CIOs"), who together have over 35 years of experience in distressed and high yield investing and advisory mandates. During that time they have developed an extensive network of contacts in the distressed community, including buy-side, sell-side and advisory professionals. Frequent contact with these individuals will generate investment ideas for Clients. The Co-CIOs will also utilize industry and company-specific knowledge from past investments and review securities filings, media sources, court filings and research reports to source additional investment ideas.

Distressed Series 1. Cross Sound will run a concentrated portfolio for Distressed Series 1, with investments in the top 10 to 20 highest conviction ideas. Prospective investments will be evaluated using a holistic analytical approach, assessing both quantitative and qualitative factors to determine whether an investment is warranted. For example, the debt securities of a distressed company may be affected by a host of uncertainties – business, market, financial, legal or process – each of which may affect the pricing of such debt securities, leaving them under-valued or over-valued relative to intrinsic value. Cross Sound may take long or short positions based on its view of value and the expected outcome of upcoming events.

DIP Series 3. DIP Series 3 is anticipated to be more concentrated, with investments in the top 5-10 highest conviction ideas. Similar to Distressed Series 1, Cross Sound will analyze prospective investments both from a qualitative and quantitative perspective for the DIP Series. For example, in evaluating potential DIP lending opportunities, Cross Sound will focus on hard asset collateral coverage and insulation of such a loan from commodity price or macro-economic fluctuations. Cross Sound may make an investment based on its assessment of the value of the collateral underlying the DIP loan.

Once Cross Sound has finalized an investment thesis on an actionable trade, it will determine position size based on liquidity and maximum downside loss. Cross Sound will frequently re-underwrite an investment, analyzing whether, for example: (i) the original investment thesis remains intact; (ii) the situation has changed since the position was originated; (iii) the event path and process have played out as expected; (iv) the position would be originated as a new investment today; (v) the macro environment

has changed and (vi) an alternative thesis is available and, if so, how the position size and duration should be tailored.

Cross Sound's investment objective is long-term capital growth with respect to Distressed Series 1 and DIP Series 3. Limited Partners should refer to the Offering Documents for a detailed discussion on the investment strategies applicable to each Series, which include, but are not limited to, the following:

Distressed Investment. Distressed investments involve investing in the debt and equity securities and other obligations of distressed entities that are overlevered, insolvent or in the zone of insolvency, are undertaking or are likely to undertake: (i) out-of-court liability management transactions, including exchanges, swaps, equitizations and new money financings; and (ii) reorganization or liquidation under the auspices of United States federal bankruptcy law, state law or similar laws of foreign countries. Distressed investments may also include companies whose financial obligations are trading at a substantial discount to par in the secondary market. In respect of Distressed Series 1, Cross Sound will consider investing where the price of the underlying debt obligation has declined to the point that liquidation value of the underlying assets and/or cash coupon coverage limit downside thereby creating asymmetric upside potential for Distressed Series 1.

Capital Structure Arbitrage. Capital structure arbitrage involves identifying credit sensitive instruments that Cross Sound views as being mispriced relative to other instruments in a company capital structure. This strategy typically involves taking long/short positions in the debt or equity securities or credit or loan derivatives of the same company or in companies within the same sector or industry. In particular, in situations where a particular company has fallen from performing to distressed, mispricing is more likely to occur. Cross Sound may also utilize this strategy to capitalize on an expected default, via either cash instruments or derivatives.

Post-Reorganization. Post-reorganization investments involve debt or equity securities issued in connection with the consummation of a plan of reorganization and emergence from bankruptcy. Often these securities are thinly traded or are otherwise mispriced versus intrinsic value due to holder composition, trading restrictions, disfavored industry dynamics or lack of sell-side coverage. Either through conversion of debt or equity securities acquired before or during a restructuring or after emergence, Distressed Series 1 will seek to capitalize on post-reorganization mispricings in order to monetize some or all of the upside inherent within the reorganized company.

Debtor-in-Possession Loans. "DIP" loans are senior secured asset-based loans with a 6-18 month tenor that may be put into place at the outset of Chapter 11 to provide the debtor with liquidity during the reorganization process. The loan may be structured as a term loan, revolving credit facility letter of credit facility and/or bonding facility. Once granted final approval by the Bankruptcy Court, DIP loans are no longer subject to legal challenge and their administrative priority status requires repayment in full prior to a debtor's emergence from Chapter 11. Cross Sound has identified DIP loans as an attractive risk-adjusted opportunity for the DIP Series given the increased role non-traditional lenders are playing in the DIP market, strong collateral coverage and significant yields-to-exit. The DIP Series may participate in lender syndicates that make DIP loans or may purchase such loans in the secondary market.

Opportunistic Investment. Cross Sound has complete flexibility to vary the focus of the Master Fund's investment activities. Different market conditions and companies may offer qualitatively different

types of investment opportunities and Cross Sound's ability to implement different investment strategies will expand the range of investible opportunities as well as diversify the risk within the Master Fund.

Portfolio Investments – Distressed Series 1. Distressed Series 1 invests in various tranches of bank and bond debt and equity across the entire capital structure of companies that are in distress, due to high leverage, low liquidity, poor access to capital markets, operational difficulty, secular decline or macro-economic pressure. In addition, Distressed Series 1 investments may also include derivatives, options, swaps, indexes and other instruments. These investments may have varying terms with respect to collateral, relative seniority or subordination, purchase price, convertibility, interest requirements and tenor. These investments may include:

- *Debt Securities and Obligations.* Distressed Series 1 may invest in a range of publicly-traded or privately placed distressed debt securities. Debt instruments purchased or sold short may include senior and subordinated secured and unsecured debt obligations, as well as hybrid instruments with conversion, warrant or other rights attached.
- *Loan Participations and Assignments.* Distressed Series 1 may invest in syndicated bank loans to distressed companies, either directly or via assignment or beneficially via participation or sub-participation with another institution or through the use of derivatives.
- *Equities.* Distressed Series 1 may purchase or sell short publicly-traded or privately-placed equity securities, including, but not limited to common stock, preferred stock, exchange traded funds and convertible stock, as well as warrants and options with respect to such underlying securities.
- *Derivatives.* Distressed Series 1 may purchase or sell short credit and loan default swaps, recovery, trade puts, total return swaps and other derivative instruments tied to the ultimate default or recovery of a given issuer and will employ a variety of derivatives in its risk management activities.
- *Other Investments.* Distressed Series 1 may also invest in liquidating or litigation trust interests, trade claims and other securities or instruments deemed appropriate by the Cross Sound in furtherance of the Series' investment objectives. Securities investments risk the loss of capital; there can be no assurance that Distressed Series 1 or Managed Accounts will not incur losses.

Portfolio Investments – DIP Series. Investments in DIP Series 3 may include, among others, the following:

- *Debtor-in-Possession Loans.* "DIP" loans are senior secured asset-based loans with a 6-18 month term that may be put into place at the outset of Chapter 11 to provide the debtor with liquidity during the reorganization process. The loan may be structured as a term loan, revolving credit facility letter of credit facility and/or bonding facility. Once granted final approval by the Bankruptcy Court, DIP loans are no longer subject to legal challenge and their administrative priority status requires repayment in full prior to a debtor's emergence

from Chapter 11. Cross Sound has identified DIP loans as an attractive risk-adjusted opportunity for the DIP Series given the increased role non-traditional lenders are playing in the DIP market, strong collateral coverage and significant yields-to-exit. The DIP Series may participate in lender syndicates that make DIP loans or may purchase such loans in the secondary market.

- *Debt Securities and Obligations.* The DIP Series may invest in a range of publicly-traded or privately placed distressed debt securities. These investments will typically be in senior secured instruments and will be made on such occasions when Cross Sound reasonably believes holders of the debt will be afforded the opportunity to participate as DIP lenders in a subsequent restructuring under the auspices of the United States Federal Bankruptcy Laws.
- *Loan Participations and Assignments.* The DIP Series may invest in syndicated bank loans to distressed companies, either directly or via assignment or beneficially via participation or sub-participation with another institution. Such loan investments will be made on such occasions when Cross Sound reasonably believes holders of the loan will be afforded the opportunity to participate as DIP lenders in a subsequent restructuring under the auspices of the United States Federal Bankruptcy Laws.
- *Derivatives.* The DIP Series may purchase or sell short credit and loan default swaps, recovery, trade puts, total return swaps and other derivative instruments tied to the ultimate default or recovery of a given issuer and will employ a variety of derivatives in its risk management activities.

Financing Arrangements. The Master Fund, in respect of a Series, may enter into financing arrangements, secured by the Series' assets, in order to leverage the Master Fund's investment portfolio in respect of such Series. Cross Sound does not anticipate that the amount of leverage utilized by each Series (through margin, derivatives, or other forms of direct or indirect leverage) will exceed 125% of Distressed Series 1's capital or 150% of DIP Series 3's capital, but this amount may be exceeded from time to time. The foregoing limitation will not restrict the amount of exposure that a Series may incur with respect to any single counterparty in exchange-listed securities, options, repurchase agreements, swaps (credit, loan, recovery or total return) or other similar transactions.

Risk Management. The Co-CIOs are primarily responsible for the risk management of the Master Fund. Risk management of the Master Fund seeks to (i) isolate company-specific risks and event alpha, hedging away extraneous risk; (ii) insulate the Master Fund from tail risks and exposure to macro factors such as currencies, commodities, interest rates and credit spreads and provide liquidity during periods of market stress; and (iii) quantify downside profit and loss at both position and Master Fund levels utilizing stress testing and scenario analyses.

Risks

The descriptions contained below are a brief overview of different market risks related to Cross Sound's investment strategies; 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.

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 Offering Documents. There can be no assurance that the Funds will achieve their investment objectives. Investment in the Funds involves 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. Investors should refer to the Offering Documents for further information.

Dependence on Management. The Funds' and Cross Sound's operations are substantially dependent upon the skill, judgment and expertise of its Co-CIOs. If David Dunn or Arif Gangat should cease to participate in Cross Sound's activities, the ability to select attractive investments and manage Client portfolios could be impaired severely. Cross Sound cannot assure Investors that (a) it will realize its investment objectives; (b) its investment strategies will prove successful; or (c) Investors will not lose all or a portion of their investment in the Funds.

Distressed Securities. Distressed investment strategies generally involve investing in the securities and other assets of issuers in weak financial condition (perhaps having a negative net worth), experiencing poor operating results, needing substantial capital investment, facing special competitive or product obsolescence problems, or involved in various stages of bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in significant or even total losses. Among the risks inherent in investments in financially troubled issuers is the fact that it is frequently difficult to obtain reliable information as to their true financial prospects. The market prices of distressed securities are subject to abrupt and erratic market movements and excessive price volatility, and the "bid-ask" spreads for such securities may be greater than normally expected.

Distressed Loans and Trade Claims. Cross Sound may purchase loans on behalf of Clients that may be in default or are from issuers in financial distress or bankruptcy proceedings, and may also purchase trade claims or other claims against credit impaired companies, which generally represent money owed by the company to a supplier of goods and services. Trade claims may not have any maturity and are generally not secured. As with other types of debt instruments, loans and trade claims involve the risk of loss in case of default or insolvency of the borrower. In addition, trade claims may be subject to other defenses such as warranty claims or failure to provide the product or services. Such loans and claims are generally less liquid than are the debt instruments of publicly traded companies.

Interest Rate Risk. The value of the fixed-rate securities in which Cross Sound may invest on behalf of Clients may have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities may decline. In addition, to the extent that the receivables or loans underlying specific securities are prepayable, the value of such securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

Risks Related to the Energy Industry. Investments in the energy industry are subject to a variety of risks, not all of which can be foreseen or quantified. The success of many investments is likely to be affected by factors such as the following: (1) amount, nature and timing of property acquisitions or capital expenditures; (2) the market for oil or gas acreage or properties; (3) drilling of wells and other planned exploitation activities; (4) timing and amount of future production of oil or gas; (5) quantities of discovered or probable, potential or proved reserves of oil or gas; (6) marketing of and market prices for oil, gas, or oil or gas properties generally or in any particular location; (7) operating costs such as lease operating expenses, administrative costs and other expenses; (8) the Fund's future operating or financial results; (9) cash flow and anticipated liquidity; (10) the timing, success and cost of exploration and exploitation activities; (11) governmental and environmental regulation of the oil and gas industry; (12) environmental liabilities relating to potential pollution arising from our operations or the operations of acquirers or acreage positions we may purchase; (13) industry competition, conditions, performance and consolidation; (14) the availability of drilling rigs and other oilfield equipment and services; and (15) natural events.

Nature of Bankruptcy Proceedings. Cross Sound expects to cause Clients to invest in companies involved in bankruptcy proceedings. Such companies could require substantial workout negotiations or restructuring in the event of a default or bankruptcy. There are a number of significant risks when investing in companies involved in bankruptcy proceedings, including the following: First, many events in a bankruptcy are the product of contested matters and adversary proceedings that are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on the relevant 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 Clients' investment in the company's securities. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be affected adversely by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, certain claims, such as claims for taxes, wages and certain trade claims, may have priority by law over the claims of certain creditors. Fifth, 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. Sixth, creditors can lose their ranking and priority in a variety of circumstances, including if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. Seventh, the Clients' ability to trade debt obligations or equity of the relevant companies may be restricted during the pendency of the bankruptcy proceeds pursuant to a "claims trading order." Eighth, Cross Sound may seek representation on creditors' committees and as a member of a creditors' committee may owe certain obligations generally to all creditors similarly situated that the committee represents and may be subject to various trading or confidentiality restrictions. If Cross Sound concludes that its membership on a creditors' committee entails obligations or restrictions that conflict with the duties it owes to Clients, or that otherwise outweigh the advantages of such membership, Cross Sound will not seek membership in, or will resign from, that committee. Because Clients will indemnify Cross Sound, the General Partner or any other person serving on a committee on behalf of the Clients for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on the Clients' investment in a company undergoing a reorganization.

Economic Conditions. Changes in economic conditions, including, for example, interest rates, credit availability, inflation rates, industry conditions, government regulation, competition, technological

developments, political and diplomatic events and trends, tax and other laws and innumerable other factors, can affect Clients' investments and prospects materially and adversely. None of these conditions is within Cross Sound's control, and it may not anticipate these developments. These factors may affect the volatility of securities prices and the liquidity of investments. Unexpected volatility or illiquidity could impair Clients' profitability or result in losses.

Economic conditions also affect Clients' investment in fixed income securities. For example, an increase in overall interest rates will depress the investment value and consequently the price of any bonds that Clients hold. The value of these securities also may be affected by non-payment of interest due on them, or liquidation or dissolution proceedings with respect to their issuers.

No Control over Portfolio Issuers. Clients may acquire, directly or indirectly, substantial positions in the securities of particular companies. Nevertheless, they are unlikely to be represented on the board of directors or share any control over the management of any such company. The success of each investment depends on the ability and success of the management of that company, in addition to economic and market factors.

Concentration of Investments. Clients' investment portfolios (on account of size, investment strategy and other considerations) may be confined to the securities of relatively few issuers. The Master Fund is not required to maintain a minimum level of capital. If the Master Fund fails to raise substantial capital or incurs losses or withdrawals, it may not have sufficient funds to diversify its investments. The LPA also does not limit the Master Fund's concentration in particular issuers or types of investments. If the Master Fund concentrates investments in several, relatively large security positions or industries relative to its capital, a loss in any one position or downturn in any one industry could reduce the Master Fund's performance materially.

Limited Liquidity of Investments. The Master Fund may invest, directly or indirectly, in securities that are thinly traded and relatively illiquid, or that are not traded or that cease to be traded after the Master Fund invests. The Master Fund also may acquire significant positions in some securities. In such cases and in the event of extreme market activity, the Master Fund may not be able to liquidate its investments promptly if necessary. In addition, the Master Fund's sales of thinly-traded securities could depress their market value and thereby reduce the Master Fund's profitability or increase its losses. Such circumstances or events could affect the Master Fund's gain or loss materially and adversely.

The Master Fund may invest in securities issued in 144A offerings that are not traded in public markets. Such restricted securities may be difficult or impossible to sell at prices comparable to the market prices of similar securities that are publicly traded and may not be eligible to be traded on a public market even if a public market for securities of the same class were to develop. It is highly speculative as to whether and when an issuer will be able to register its securities so that they become eligible for trading in public markets.

Valuation. Cross Sound will utilize the services of the Master Fund's administrator to determine the value of the Master Fund's securities. If the valuation of any such securities is inaccurate, Cross Sound might receive a management fee that is greater than that to which it otherwise would be entitled. Cross Sound may not be able to effectively manage the Master Fund's investment portfolio, diversification and other

internal guidelines and risks if the Master Fund's portfolio is inaccurately valued. Any such inaccuracy could affect the Limited Partners adversely.

Risks of Investing in Non-U.S. Securities. Cross Sound may invest and trade in securities of non-U.S. companies, 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 Clients to risks not typically associated with investing in securities and commodity interests in the United States.

Item 9. Disciplinary Information

Cross Sound and its employees have not been involved in any disciplinary events in the past 10 years that would be material to a Client's or Investor's evaluation of the Firm or its personnel.

Item 10. Other Financial Industry Activities and Affiliations

The General Partner of the Master Fund is a related entity of Cross Sound. Additionally, the Funds themselves may be considered related entities of Cross Sound.

Cross Sound's affiliates, principals and employees and their immediate families will purchase interests in the Funds, and investments by such parties generally are not subject to the management fees or Special Profit Allocation described in Item 5 above. Cross Sound believes that its relationships or arrangements with the General Partner do not create a material conflict of interest for Cross Sound with the Funds and/or Investors. In addition, Cross Sound has entered into an investment management agreement with the Funds. The material terms of the investment management agreement are fully disclosed to all Investors prior to their investment.

Cross Sound is affiliated with the Funds and the Master Fund's General Partner as described above. Additionally, Cross Sound shares certain personnel (except for the Co-CIOs, who are dedicated to Cross Sound) with Sierentz North America LLC and other family entities (together, the "Family Entities"). With respect to personnel who provide services both to Cross Sound and the Family Entities, such personnel may have a conflict in allocating their time and services between Cross Sound and the Family Entities. Notwithstanding the foregoing, the Co-CIOs will devote substantially all of their time and attention to Cross Sound and its Clients.

Cross Sound and the Family Entities pursue different investment strategies, each of which are managed by separate investment teams (each such strategy, an "Account"). Cross Sound's Co-CIOs on the one hand, and the Family Entities' investment teams, on the other hand, pursue different investment strategies, operate separately from one another and make investment decisions independently from one another. However, the Co-CIOs and the investment teams of the Family Entities have regular formal and informal communications. There are times when Accounts managed by the Family Entities and Accounts managed by Cross Sound may seek to make the same investment, including as a result of independent investigation by the investment teams managing the Accounts. Cross Sound has policies and procedures in place to mitigate these potential conflicts of interest. In particular, each of the securities in which the Funds invest, and each issuer of such securities, is placed on a "stop list." Once placed on the "stop list," Accounts

managed by the Family Entities must receive preapproval from Cross Sound's CCO (or her designee) before the Accounts managed by the Family Entity can trade in the specific security or other securities of the same issuer. The procedure is designed to ensure that the trading activity of Accounts managed by the Family Entities are based on independent investment decisions and to minimize the potential for any activity that could appear to be an improper cross trade between Accounts managed by Cross Sound and Accounts managed by Family Entities.

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

As described above, Cross Sound's Co-CIOs and affiliates currently invest in the Funds and therefore may have an indirect financial interest in the underlying components of the Funds. Cross Sound has adopted a *Code of Ethics* (the "Code") policy expressing the Firm's commitment to ethical conduct. Cross Sound's Code describes the Firm's fiduciary duties and responsibilities to its Clients, and sets forth Cross Sound's practice of supervising the personal securities transactions of supervised persons with access to Client information.

Cross Sound's supervised persons must seek pre-approval before transacting in reportable securities out of their personal accounts.

To supervise compliance with its Code, Cross Sound requires all supervised persons to provide initial and annual securities holdings reports and monthly transaction reports to the Firm's Chief Compliance Officer.

Cross Sound requires that all individuals must act in accordance with all applicable U.S. federal and state regulations governing registered investment advisory practices. Cross Sound's Code further includes the Firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to discipline.

Cross Sound will provide a complete copy of its Code to any Client or prospective client upon request to the Chief Compliance Officer, whose contact information can be found on the cover page of this brochure.

Item 12. Brokerage Practices

As investment adviser to the Clients, Cross Sound is granted discretionary authority in the relevant organizational documents and/or investment management agreements to determine the amount and nature of securities and other investments 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

Cross Sound is authorized to determine the broker-dealer to be used for each securities transaction for the Clients. In selecting broker-dealers to execute transactions, Cross Sound need not solicit competitive bids and does not have an obligation to seek the lowest available pricing. Cross Sound may not always select a broker-dealer purely on price considerations. When evaluating best execution, Cross Sound will take into account a number of qualitative and quantitative factors. In determining the broker-dealer to be used for each securities transaction, Cross Sound will conform to and be in accordance with applicable provisions of the relevant organizational documents and/or investment management agreements.

In selecting broker-dealers and evaluating compensation arrangements with them, Cross Sound will typically take into account a range of 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; geography and confidentiality considerations; and the nature, quantity, and quality of research and other services and products the transacting party provides. Cross Sound may place transactions with a broker-dealer that (i) provides Cross Sound with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers clients or limited partners to other products advised by Cross Sound, if otherwise consistent with seeking best execution; provided Cross Sound 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 cheapest execution of securities transactions.

Soft Dollars

Cross Sound has not entered into any formal soft dollar arrangements but may receive products or services from broker-dealers and other counterparties that to the best of Cross Sound's knowledge are generally made available to all institutional clients doing business with these counterparties. These products and services are made available to Cross Sound on an unsolicited basis and without regard to transaction costs paid by Clients or the volume of business Cross Sound directs to these counterparties.

Cross Sound does not cause Clients to pay higher rates than those charged by other broker-dealers in return for research, and Cross Sound uses this research for the benefit of all its Clients.

Allocation and Aggregation of Orders

Although not required, Cross Sound may aggregate transactions on behalf of more than one Client. If so, such transactions will be allocated to all participating Client accounts in a fair and equitable manner. Consistent with each participating Client's offering document or investment management agreement, Cross Sound 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.

Generally with respect to aggregated purchase transactions, Cross Sound will allocate a trade among participating Client accounts based on the relative assets under management in each such Client account. The Co-CIOs have discretion to deviate from this policy where liquidity constraints, concentration concerns or other relevant factors lead them to conclude that allocation based on assets under management is not an

appropriate methodology for such allocation. In such cases, the Co-CIOs will deviate from an allocation based on assets under management only to the extent they feel necessary to take account of the other relevant factors being considered. Generally, with respect to aggregated sale transactions, Cross Sound will allocate aggregated trades based on the notional value of the relevant security held by each relevant account. 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, Cross Sound may decide to allocate the shares to a single client.

As referenced above, if a trade is allocated in a manner other than based on the relative assets under management in each Client account, Cross Sound will ensure that the chosen means of allocation is documented prior to completion of the order and that the allocation method chosen has been approved by the Co-CIOs.

Cross Trades

Subject to any limitations agreed with specific investors, Cross Sound may engage in cross transactions in which a security is crossed between Client accounts. Cross Sound will only engage in the cross transaction if the transaction is deemed advantageous for each participant. In these instances, Cross Sound shall use an unaffiliated broker-dealer or custodian to cross investments between Client accounts. Cross transactions will be effected by Cross Sound only to the extent permitted by applicable law. In no instance will Cross Sound receive additional compensation when crossing trades for Client accounts. Cross Sound will seek to ensure that the terms of the crossing transaction, including the consideration to be paid or received, are fair and reasonable, and the crossing transactions are done for the benefit of the participating Clients.

Trade Errors

Cross Sound 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.

Cross Sound's general policy is to seek to identify and correct any trade errors promptly and in a way that mitigates any losses. To the extent that a broker-dealer does not absorb the cost of a trade error for which it is responsible, the cost of trade errors will be absorbed by Cross Sound. Cross Sound does not provide reimbursement for lost opportunity costs.

Item 13. Review of Accounts

Positions held by Cross Sound's Funds and Managed Accounts are continuously monitored and reviewed by the Co-CIOs. Managed 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 a Fund's or Managed Account's individual circumstances, or the market, political or economic environment.

Investors are provided a monthly capital statement by the Fund's administrator, SS&C GlobeOp. In addition, Investors are provided with audited financial statements within 120 days of the end of the Funds' fiscal year and any other information necessary to enable each Investor to prepare its income tax returns.

Cross Sound may also prepare and deliver to such Investors any additional information that Cross Sound deems pertinent or any information upon request. Managed Account Clients will receive statements, no less than quarterly, directly from their custodians.

Item 14. Client Referrals and Other Compensation

Cross Sound may, from time to time, compensate third-party individuals or entities for client and investor 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 investors are advised in advance of the nature of and compensation payable in connection with such referral arrangements.

Item 15. Custody

Cross Sound 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 Master Fund or otherwise withdrawing assets from the Funds. Accordingly, Cross Sound 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 will be 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 Investors within 120 days of the end of the Funds' fiscal year.

As previously described, Managed Account Clients receive statements directly from their custodians.

Item 16. Investment Discretion

Cross Sound accepts discretionary authority to manage securities accounts on behalf of its Clients.

As investment adviser to the Funds and Managed Accounts, Cross Sound is granted the discretionary authority in the relevant organizational 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. In addition, as described above under Item 4, the Funds have entered into side letters or other similar agreements with certain investors that have the effect of establishing rights under or altering or supplementing the Funds' respective offering circulars and other governing documents.

Item 17. Voting Client Securities

In accordance with its fiduciary duty to Clients and Rule 206(4)-6 of the Advisers Act, Cross Sound has adopted and implemented written policies and procedures governing the voting of Client securities. All proxies that Cross Sound receives will be treated in accordance with these policies and procedures.

Because Cross Sound invests predominately in debt instruments and DIP loans, it votes very few, if any traditional proxies. However, to the extent Cross Sound invests in equity securities or convertible securities that become equity securities, Cross Sound will vote each proxy in accordance with its fiduciary duty to its Clients, and will generally seek to vote proxies in a way that maximizes the value of Clients' assets.

Cross Sound occasionally receives solicitations for bond consents with respect to Client investments (e.g., to amend or waive existing bond terms). The Co-CIOs are responsible for determining whether to give or withhold consent regarding such solicitations. In general, such solicitations have a presumption of consent and Cross Sound will only have to take action in order to withhold consent if doing so is determined to be in the best interests of its Clients.

Cross Sound will document and abide by any specific proxy voting instructions conveyed by a Client with respect to that Client's securities.

The Co-CIOs shall be responsible to identify any material conflicts of interest and resolve the conflicts in the best interest of the Clients.

Clients may obtain a copy of Cross Sound'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

Cross Sound 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.