



## **Item 1 – Cover Page**

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This Brochure provides information about the qualifications and business practices of CIT Asset Management LLC (“CITAM”, the “Company”, “us”, “we”, “our”).

CITAM is registered with the Securities and Exchange Commission (“SEC”) as an investment adviser. The Company’s 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 United States SEC or by any state securities authority.

Any questions about the contents of this brochure should be directed to Cherie Harris, Vice President, at (212) 461-5761. Additional information about CITAM is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link, select “investment adviser firm” and type in the firm name). Results will provide you with both Parts 1A and 2A of our Form ADV.

## Item 2 – Material Changes

Below is a summary of the material changes that CITAM has made to this brochure since the last annual filing on March 30, 2018:

Item 4:

- We have updated Item 4 to clarify the services that we provide and the types of clients that are, and are expected to be served by us.

Item 5

- We have updated Item 5 to clarify the fees that may be paid to CITAM or its affiliates.

Item 8:

- We have updated Item 8 to add additional risks related to valuation risk, concentration risk, regulatory risks, cybersecurity risk, and manager risk, and to make additional clarifying updates.

Items 11 and 12:

- We have amended Items 11 and 12 to reflect updates to Allocation of Investment Opportunities and to clarify the factors that may impact investment decisions and to add additional disclosure on conflicts of interest.

For future filings, this section of the Disclosure Brochure will address only those “material changes” that have been incorporated since our last delivery or posting of the Disclosure Brochure on the SEC’s public disclosure website (“IAPD”) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

CITAM may, at any time, update this Disclosure Brochure and send to you an updated copy including a summary of material changes, or a summary of material changes that includes an offer to send you a copy (by electronic means (which you consent to by providing us with your email address) or in hard copy form).

If you would like another copy of this Disclosure Brochure, please download it from the SEC website or contact us.

## Important Note about this Brochure

***This Brochure is not:***

- **an offer or agreement to provide advisory services to any person;**
- **an offer to sell interests (or a solicitation of an offer to purchase interests) in any investment vehicle; or**
- **a complete discussion of the features, risks or conflicts associated with any investment vehicle or advisory service.**

As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), CITAM provides this brochure to current and prospective clients and may also, in its discretion, provide this brochure to current or prospective investors in an investment vehicle, together with other relevant documents, such as the investment vehicle’s offering or private placement memorandum, organizational documents and related transaction documents, as applicable, prior to, or in connection with, such persons’ investment. Additionally, this brochure is available through the SEC’s Investment Adviser Public Disclosure website.

Although this publicly available brochure describes investment advisory services and products of CITAM, persons who receive this brochure (whether or not from CITAM) should be aware that it is designed solely to provide information about CITAM as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this brochure may differ from information provided in relevant documents. More complete information about each investment vehicle is included in relevant documents, certain of which may be provided to current and eligible prospective investors only by CITAM or its affiliate. To the extent that there is any conflict between discussions herein and similar or related discussions in any applicable relevant documents, such relevant documents shall govern and control.

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## **Item 4 – Advisory Business**

### **Firm Description**

CITAM was incorporated under the laws of the State of Delaware on March 17, 2006. CITAM is indirectly wholly-owned by CIT Group Inc. (“CIT Group” or “CIT”), a public company listed on the New York Stock Exchange, which trades under the ticker symbol “CIT”.

CIT Group is the parent company for CIT Bank, N.A. (“CIT Bank”) and other affiliates that provide financing, leasing, advisory, and other products and services to small and middle market businesses across a wide variety of industries. CIT Bank also offers products and services to consumers. CIT Group was founded in 1908 and is headquartered in Livingston, New Jersey.

### **Description of Advisory Services**

CITAM provides investment management, advisory and certain administrative services to clients, typically pursuant to an investment management agreement or other document that describes the terms of the engagement.

Clients are generally anticipated to consist of privately offered pooled investment entities (“Private Funds”), each of which primarily invests in loans, and which are joint ventures between CIT Bank and one or more third-party institutions (“Clients”). Client assets are managed in accordance with the particular investment objectives, strategies, restrictions and guidelines set forth in each Client’s investment advisory agreement, limited liability company agreement, and any other applicable governing documents (“Governing Documents”). CITAM does not tailor its advisory services to the needs of individual investors in Private Funds, however, at the establishment of a joint-venture relationship, specific investment criteria, obligations, or restrictions, may be set-out for a Client in consultation with prospective investors. Criteria for each Client, including investment objectives, restrictions, guidelines, and other information are set-out in the Governing Documents for each Client. Prior to investing, prospective investors and joint-venture partners should carefully review the Governing Documents.

CITAM identifies, recommends and/or effects possible investments for the Client and provides ongoing oversight and monitoring services with respect to the Client’s investment portfolio. CIT Bank personnel will serve on the Client’s board and investment committee, along with representatives from the third parties. The Client’s portfolio of loans may be sourced by CIT Bank and its affiliates (for more information on sourcing and allocation decisions for Clients, see Item 11, below). From time to time, loans may be sold by CIT Bank or its affiliates to the Client in arm’s-length transactions that will be fair valued by the Client’s members and/or a third-party vendor.

In the future, CITAM may provide advisory services to other pools of capital, including collateralized loan obligation vehicles (“CLOs”), Private Funds, and institutional separately managed accounts (“SMAs”) relating to the origination, management, and disposition of loans.

As discussed more fully in Items 10 and 11 below, CITAM serves as administrative agent to a joint venture between a CIT affiliate and a third-party asset manager. Under an administrative services agreement with this entity, CITAM provides administrative, operational and oversight services, including loan monitoring

and covenant compliance.

**Wrap Fee Programs**

CITAM does not participate in or sponsor any wrap fee programs.

**Assets Under Management**

As of December 31, 2018 CITAM had, on a non-discretionary basis, assets under management of \$204,852,000 million, and on a discretionary basis, assets under management of \$0.

## **Item 5 – Fees and Compensation**

### **How CITAM is Compensated for Advisory Services**

CITAM is compensated for its investment advisory services to the Client through receipt of a quarterly investment management fee and may receive an incentive fee based upon performance measurements. Management fees are generally based on the aggregate outstanding funded principal balance of a Client's portfolio loans as of the determination date, as reduced by charge-offs in accordance with GAAP. Management fees and the incentive fees are negotiated between CITAM and the Client. There are no set fee schedules. Management fees are generally payable quarterly in arrears. Both management and incentive fees are calculated in accordance with Client Governing Documents.

Asset-based management fees may create actual or potential conflicts of interest when CITAM controls the timing and the amount of borrowings used by a Client because increased borrowings by a Client will generally lead to an increase in fees to CITAM. CITAM may have an incentive to allocate investment opportunities to Clients that employ more leverage; CITAM seeks to mitigate this conflict pursuant to its allocation policies and procedures (See Item 11, below).

In addition, CITAM has the authority to enter into loan servicing agreements with certain Clients in connection with credit facilities for Clients and pursuant to which CITAM services loans in the Client's portfolio for a separate fee.

CITAM may also incur Client-related expenses that are reimbursable by Clients, including an allocable portion of personnel and related overhead expenses of CITAM and its affiliates incurred or expended for the benefit of Clients. Expenses that are reimbursable by each Client are set-out in each Client's relevant Governing Documents.

CIT Bank and its affiliates may at a future date, originate loans, some of which, or some portion of which, will be acquired by Clients, and some of which, or some portion of which, will be retained on the balance sheet of CIT Bank or by its affiliates. CIT Bank or its affiliates may receive compensation or fees from loan obligors in connection with loans. Such fees may include, but are not limited to, structuring, commitment, origination, syndication, monitoring, agent, and/or other fees. CIT Bank and its affiliates receipt of fees for such services represents a potential or actual conflict of interest in that CITAM may have an incentive to cause or recommend Client invest in such loans.

CITAM anticipates that any Private Fund managed by CITAM will have its fees deducted from its assets by CITAM.

### **Other Types of Fees or Expenses**

Clients may also bear direct and indirect costs, fees and expenses incurred by or on behalf of such vehicles including, among others, (i) expenses and costs of legal advisers, consultants and other professionals retained by CITAM, on behalf of the client, in connection with the services provided by CITAM under the management agreement (including without limitation those expenses and costs relating to advice rendered by such professionals in connection with the disposition, potential disposition, preservation and/or maintenance of any investment), (ii) reasonable travel expenses (airfare, meals, lodging and other

transportation) incurred by CITAM as are reasonably necessary, (iii) all third-party out-of-pocket expenses reasonably incurred in connection with actual and potential investments, including, without limitation, research expenses, and travel costs, (iv) all reasonable fees and disbursements of counsel employed to perform legal due diligence and documentation in connection with the acquisition, or proposed acquisition, of any investment, (v) any and all costs and expenses incurred in connection with the sourcing, underwriting, carrying or management of the investments and (vi) fees or expenses of CITAM or its affiliates reasonably incurred in connection with the cost of investment related software acquisition, plus maintenance costs of such software.

Please reference Items 11 and 12 for more information on CITAM's brokerage practices.

#### **Employee Compensation for Sales of Securities**

No employee of CITAM accepts or otherwise receives, directly or indirectly, any compensation for the sale of assets or other investment products.



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

As discussed in Item 5 (“Fees and Compensation”) of this Brochure, CITAM may earn, with respect to the Client and certain other clients, and in addition to management fees, performance-based fees. Private Funds may have periodic or cumulative performance hurdles prior to CITAM receiving a performance fee. The timing and amount of performance fees are described in the relevant Client Governing Documents.

Clients should be aware that, for any actively managed portfolios (such as Private Funds), when CITAM receives performance-based fees, CITAM may have an incentive to choose investments that are riskier or more speculative than might otherwise be chosen. Side-by-side management by CITAM may raise potential conflicts of interest where some clients pay performance-based compensation and others do not.

CITAM or its related persons may also have a financial interest in a Private Fund or, in the case of the Client, sit on the board and investment committee of that client. CITAM may have an incentive to favor certain accounts over others that may be less lucrative where: (i) the actions taken on behalf of one account may impact other similar or different accounts (e.g., because such accounts have the same or similar investment styles or otherwise compete for investment opportunities, have potentially conflicting investments or investment styles, or have differing abilities to engage in short sales and economically similar transactions); (ii) CITAM and its personnel have differential interests in such accounts (i.e., expose CITAM or its related persons to differing potential for gain or loss through differential ownership interests or compensation structures – including circumstances where some accounts pay only asset-based fees while others are subject to performance or incentive fees); or (iii) the actions taken on account of one client may benefit a CITAM affiliate (e.g., a client’s investment activities may indirectly benefit CIT Bank through purchasing loans held by CIT Bank or participating in transactions in which CIT Bank is also participating).

To mitigate these conflicts, CITAM’s policies and procedures require that investment recommendations and decisions are to be made in accordance with the fiduciary duties owed to its advisory client accounts and without consideration of CITAM’s (or its personnel’s or affiliates’) pecuniary, investment or other financial interests (See Item 11, below, for more information on allocations and investment recommendations).

## **Item 7 – Types of Clients**

Clients will generally consist of Private Funds and which are joint ventures between CIT Bank and one or more third-party institutions. Investors will generally consist of financial institutions, insurance companies, and other institutional investors. As a general matter, investors in Clients are (i) accredited investors within the meaning of Regulation D promulgated under the Securities Act and Section 413 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended, and (ii) qualified purchasers within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

In the future, CITAM may provide advisory services for other joint ventures, or other pools of capital, including collateralized loan obligation vehicles (“CLOs”), Private Funds, and institutional separately managed accounts (“SMAs”) relating to the origination, management, and disposition of loans.

Private Funds will be organized as non-U.S. companies, limited partnerships, limited liability companies, corporate trusts or other legal entities, as determined appropriate by CITAM. As a general matter, each Private Fund will be managed in accordance with its investment objectives, strategies and guidelines and is not tailored to the individualized needs of any particular investor in the Private Fund. In addition, an investment in a Private Fund does not, in and of itself, create an advisory relationship between the investor and CITAM, and CITAM is not obligated to assess whether the investment is suitable for the investor. Investors, therefore, must consider whether the Private Fund meets their investment objectives and risk tolerance prior to investing in a Private Fund. Information about each Private Fund will be provided in its offering materials, which will be available to current and prospective investors only through an authorized party. It is anticipated that Private Fund investors will be required to be qualified purchasers or non-U.S. persons.

CITAM also provides administrative, operational and oversight services to a joint venture between a CITAM affiliate and a third-party asset manager with respect to such joint venture’s loan investments. CITAM does not provide investment advisory services to this entity.

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

### **Methods of Analysis and Investment Strategy**

The following describes CITAM's method of analysis and investment strategy in general terms, and would generally apply to CITAM's investment advisory clients, including the current Client and any CLOs, Private Funds or SMAs that CITAM may manage in the future. The current Client generally invests in senior-secured, middle market corporate asset-based revolving or term loans or other types of secured loans, such as subordinate corporate loans or second-lien loans.

CITAM's investment professionals invest across multiple industries, including, but not limited to, the commercial, industrial, energy, media and entertainment, and healthcare industries. CITAM employs a rigorous investment process to evaluate potential opportunities and investments for its clients and may use a variety of proprietary and non-proprietary research models and methods in its analysis. CITAM's investment process includes, but is not limited to, the following:

- Participating in bank meetings.
- Analyzing information memorandums and other information on proposed investments, as provided by the agent bank.
- Gathering additional due diligence information from external public sources in reference to the prospective deal and the prospective borrower.
- Evaluating the credit, borrower, deal structure, financial performance and other risks and mitigates in a transaction.
- Maintaining ongoing dialogue with the agent bank in order to answer critical due diligence questions that will determine CITAM's level of interest in a new transaction.
- Collaborating closely with CITAM's portfolio manager to determine the level of interest in a deal and appropriate commitment amount, given specific deal metrics and current portfolio concentrations.

Additionally, responsible CITAM employees may conduct weekly update meetings with account managers and credit analysts to discuss current portfolio holdings, forthcoming opportunities and overall market conditions.

Upon completion of the due diligence review, and following the allocation process (discussed in Item 11, below) non-discretionary investment opportunities are summarized and provided to CITAM's investment committee and the Client's investment committee or board of directors for approval.

## **Risks**

### *Risk of Loss.*

Loans and other investments made by Clients, and investments made by investors in a Client, are speculative and bear the potential risk of the total loss of capital. Private Fund Clients are suitable investments only for investors with sufficient knowledge and expertise in financial and business matters and capable of evaluating risks with respect to loans. The following risk factors are generally applicable to all Clients. These risk factors are not, and are not intended to be, a complete list of the risks involved in each Client. The Governing Documents applicable to each Client may include additional information about material risks that Client's should read in addition to the risk factors below.

Client mandates may be limited to certain types of investments and may not be diversified. CITAM does not provide a complete investment program for investors in Clients. Investors in Clients are responsible for diversifying their investments to guard against the risk of loss.

### *Investment Strategy Risks.*

The investments made by CITAM on behalf of, or recommended to, its clients are expected to consist primarily of loans or interests in loans which are subject to liquidity, market value, credit, interest rate, reinvestment and other risks. In addition, there can be no assurance that CITAM will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on such investments and purchase or recommend investments that will not default and will generate high returns for the clients. It is anticipated that such assets generally will be subject to greater risks than investment grade corporate obligations. These risks could be exacerbated to the extent that the client portfolio is concentrated in one or more particular types of investments.

Prices of loans may be volatile and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, including the condition of the leveraged loan market, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the loans.

Loans and interests in loans have significant liquidity and market value risks since they are not generally traded in organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities. In addition, historically the trading volume in the loan market has been small relative to the non-investment grade bond market.

A non-investment grade loan or an interest in a non-investment grade loan is generally considered speculative in nature and may become a defaulted obligation for a variety of reasons. A defaulted obligation may become subject to either substantial workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such defaulted obligation. In addition, such negotiations or restructuring may be quite extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such defaulted obligation. The liquidity for defaulted obligations may be limited, and, to the extent that

defaulted obligations are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon. In addition, a client may incur additional expenses to the extent it is required to seek recovery upon a default on a loan or participate in the restructuring of such loan. Moreover, there can be no assurance on the timing of any recoveries.

Unsecured loans are unsecured obligations of the applicable obligor, may be subordinated to other obligations of the obligor and generally have greater credit, insolvency and liquidity risk than is typically associated with investment grade obligations and secured obligations. Unsecured obligations will generally have lower rates of recovery than secured obligations following a default. Also, in the event of the insolvency of an obligor of an unsecured obligation, the holders of such unsecured obligation will be considered general, unsecured creditors of the obligor, will have fewer rights than secured creditors of the obligor and will be subordinate to the secured creditors with respect to the related collateral.

In certain circumstances, a client's portfolio may include loans that are not first lien secured loans, including second lien loans. Such loans are subordinate in right of payment with respect to liquidation to one or more senior secured loans of the related borrower, and, therefore, are subject to additional risks that the cash flows of the related borrower and the property securing a second lien loan may be insufficient to make the scheduled payments after giving effect to any senior secured loans of the related obligor. The subordination of second lien loans is also expected to cause second lien loans to be more illiquid investments than senior secured loans.

*Valuation Risk.* CITAM may, from time to time, be called upon to assist Clients in valuation of portfolio assets, and CITAM conducts valuations in accordance with its valuation procedures. Valuations of illiquid middle market loans are inherently uncertain, will fluctuate and in some cases be based on estimates, and will require judgement. Determinations of fair value may differ materially from the values that would have been used if an active market for loans existed, and if determinations regarding fair value by CITAM are materially higher than values ultimately realized for such loans, Client returns may be adversely affected.

Generally accepted accounting principles ("GAAP") and FASB Accounting Standards Codification 820 define "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Where CITAM believes a reliable market price is available for a loan, CITAM will value such loan at the current market price. Loans for which CITAM believes market prices are unavailable or unreliable will be fair valued by CITAM in good faith and in accordance with its policies and procedures. Generally, CITAM will determine fair value for loans by taking into consideration current pricing data, fair value of a loan based on a valuation model, and such other information and considerations that CITAM deems material to such determinations.

*Limited Control of Administration and Amendment of Loans.* As a holder of an interest in a syndicated loan, a client will have limited consent and control rights, and such rights may not be effective in view of the expected proportion of such obligations held by the client. CITAM is expected to exercise or enforce, or refrain from exercising or enforcing, any or all of the clients' rights in connection with loans or any related documents.

In some cases, due to the size of a client's position in the applicable loan, CITAM will have limited influence over any amendment, waiver or modification of the loan. CITAM may, in accordance with its collateral management practices and subject to the applicable terms of the indenture and the collateral management agreement applicable to a client, elect to accept any offer by the issuer of a security or by

any other person made to all of the holders of such security to purchase or otherwise acquire such security or to convert or exchange such security into or for cash, securities or any other type of consideration, or accept a solicitation by the issuer of a loan to extend or defer the maturity, or to adjust the outstanding balance, of such loan, or otherwise amend, modify or waive the terms of any related loan agreement, including the payment terms thereunder.

*Participation on Creditors' Committees.* A client may (through CITAM) participate on committees formed by creditors to negotiate the management of financially troubled companies that may or may not be in bankruptcy, or a client may seek to negotiate directly with the debtors with respect to restructuring issues. If clients do join a creditors' committee, the participants of the committee would be interested in obtaining an outcome that is in their respective individual best interests, and there can be no assurance of obtaining results most favorable to the clients in such proceedings. By participating on such committees, the clients may be deemed to have duties to other creditors represented by the committees, which might thereby expose the clients to liability to such other creditors who disagree with the clients' actions. Furthermore, by participating on such committees, a client may be contractually obligated to hold the related position even if CITAM believes it would be in the best interests of the client to sell.

Clients may also be provided with material non-public information that may restrict the clients' ability to trade in the company's securities. CITAM will use all efforts to comply with all applicable securities laws. However, such efforts will involve good faith judgments concerning restrictions on trading, and there is a risk that regulators may disagree with such judgments. Clients may trade in the company's securities while engaged in the company's restructuring activities. Such trading creates a risk of litigation and liability that may cause clients to incur significant legal fees and potential losses.

*Limitations of Portfolio Diversification.* Clients' portfolios may include assignments or participation interests of loans. Although no specific concentration with respect to any particular obligor, industry or country (other than the United States) is expected to exist, the concentration of the portfolios in any one obligor would subject a client to a greater degree of risk with respect to defaults by such obligor, and the concentration of a portfolio in any one industry would subject the relevant client to a greater degree of risk with respect to economic downturns relating to such industry. In purchasing and selling loans, the clients and CITAM may be required to satisfy certain tests to limit concentrations in terms of both obligor and industry concentration. Although the resulting diversification may reduce the risk described above, the diversification requirements applicable to a client may cause such client to invest in obligors or industries that suffer more defaults than if the client was not required to invest in a diversified manner.

*Cov-Lite Loans.* A portion of the investments (which portion may be significant) of clients may be comprised of "Cov-Lite Loans" which contain limited, if any, financial covenants. Generally, Cov-Lite Loans either do not require the borrower to maintain debt service or other financial ratios or do not contain common restrictions on the ability of the borrower to change significantly its operations or to enter into other significant transactions that could affect its ability to repay such loans. Ownership of Cov-Lite Loans may expose clients to different risks, including with respect to liquidity, price volatility and ability to restructure loans, than is the case with loans that have such requirements and restrictions. The definition of Cov-Lite Loan may (depending on the collateral management agreements for a particular client) not include a loan that, although it has no maintenance or incurrence covenant, contains either a cross-default provision to, or is pari passu with, another loan of the underlying obligor forming part of the same loan facility that requires the underlying obligor to comply with one or more financial covenants or maintenance covenants (each, an "excluded loan"). If the application of such covenants is subject to

certain conditions (for example, in the case of a revolver, the condition that such revolver has been drawn), and those conditions have not been satisfied, such covenants will afford no protection to the clients. As a result of the ownership of such excluded loans and Cov-Lite Loans, clients' exposure to losses may be increased, which could result in an adverse impact on clients' ability to make payments to investors. In addition, in certain economic environments, the market prices of Cov-Lite Loans may be depressed.

*International Investing.* To the extent permitted under the applicable indenture or investment advisory or management agreement, a portion of the assets held by clients may consist of obligations of non-U.S. obligors. Investing outside the United States may involve greater risks than investing in the United States. These risks include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, non-U.S. obligors may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies. If the sovereign rating of a country in which an obligor is located is downgraded, the ratings applicable to such obligation may be downgraded as well.

Generally, there is less governmental supervision and regulation of exchanges, brokers and issuers in non-U.S. countries than there is in the United States. For example, there may be no comparable provisions under certain non-U.S. laws to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States.

Non-U.S. markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the clients are uninvested and no return is earned thereon. The inability of clients to make intended purchases of investments issued by non-U.S. issuers due to settlement problems or the risk of intermediary counterparty failures could cause the clients to miss investment opportunities. The inability to dispose of an obligation due to such settlement problems or failures could result either in losses to the clients due to subsequent declines in the value of such obligation or, if the client has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling non-U.S. securities, including brokerage, tax and custody costs, also are generally higher than those involved in domestic transactions. Furthermore, non-U.S. financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many non-U.S. companies are less liquid and their prices more volatile than securities in comparable domestic companies.

In some non-U.S. countries, there is the possibility of expropriation, nationalization or confiscatory taxation, limitations on the convertibility of currency or the removal of securities, property or other assets of the clients, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on the clients' investments in such foreign countries (which may make it more difficult to pay U.S. Dollar-denominated obligations). The economies of individual non-U.S. countries also may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resources self-sufficiency and balance of payments position.

*Illiquidity of Investments.* Some of the investments held by clients will have no, or only a limited, trading market. The clients' investment in illiquid investments may restrict their ability to dispose of investments in a timely fashion and for a fair price as well as their ability to take advantage of market opportunities.

Illiquid investments may trade at a discount to comparable, more liquid investments. In addition, clients may invest in privately placed investments that may or may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale. Even if such privately placed obligations are transferable, the prices realized from their sale could be less than those originally paid by a client or less than what may be considered the fair value of such debt obligations.

In addition, adverse developments in the primary market for leveraged loans may reduce opportunities for the clients to purchase new issuances of potential investments. More particularly, the ability of private equity sponsors and leveraged loan arrangers to effectuate new leveraged buy-outs and the ability of clients to purchase such assets may be partially or significantly limited. The impact of a liquidity crisis on the global credit markets may adversely affect the management or advisory flexibility of CITAM in relation to a client's portfolio.

*Prepayment of Loans.* Loans are generally prepayable in whole or in part at any time at the option of the obligor thereof at par plus accrued unpaid interest thereon. Prepayments on loans may be caused by a variety of factors which are often difficult to predict. Consequently, there exists a risk that loans purchased at a price greater than par may experience a capital loss as a result of such a prepayment. In addition, principal proceeds received upon such a prepayment are subject to reinvestment risk. There is no assurance that a client will be able to reinvest proceeds in assets with comparable interest rates that satisfy its investment criteria or (if it is able to make such reinvestments) as to the length of any delays before such investments are made.

*Loan Repricing.* Loans may experience volatility in the spread that is paid on them. Such spreads will vary based on a variety of factors, including, but not limited to, the level of supply and demand in the applicable loan market, general economic conditions, levels of relative liquidity for loans, the actual and perceived level of credit risk in the applicable loan market, regulatory changes, changes in credit ratings and the methodology used by credit rating agencies in assigning credit ratings, and such other factors that may affect pricing in the applicable loan market. Since loans may generally be prepaid at any time without penalty, loan obligors would be expected to prepay or refinance if alternative financing were available at a lower cost. For example, if the credit ratings of an obligor were upgraded, the obligor was recapitalized or credit spreads were declining for loans in the applicable market, such obligor would likely seek to refinance at a lower credit spread. Declining credit spreads in the loan market and increasing rates of prepayments and refinancings will likely result in a reduction of portfolio yield and interest collections on investment positions, which would have an adverse effect on the amount available for distribution to clients.

*Assignments and Participation Interests.* Clients may acquire interests in loans either directly (by way of assignment from the selling institution) or indirectly (by purchasing a participation interest from the selling institution). As described in more detail below, holders of participation interests are subject to additional risks not applicable to a holder of a direct interest in a loan.

Participations by clients in a selling institution's portion of a loan typically result in a contractual relationship only with such selling institution, not with the borrower. In the case of a participation interest, clients will generally have the right to receive payments of principal, interest and any fees to which it is entitled only from the institution selling the participation interest and only upon receipt by such selling institution of such payments from the borrower. By holding a participation interest in a loan, the client generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the client may not directly benefit from the collateral



supporting the loan in which it has purchased the participation interest. As a result, the client will assume the credit risk of both the borrower and the institution selling the participation interest, which will remain the legal owner of record of the applicable loan. CITAM does not expect to perform independent credit analyses of the selling institutions. In the event of the insolvency of the selling institution, the client, by owning a participation interest, may be treated as a general unsecured creditor of the selling institution and may not benefit from any set off between the selling institution and the borrower. In addition, the client may purchase a participation interest from a selling institution that does not itself retain any beneficial interest in any portion of the applicable loan and, therefore, may have limited interest in monitoring the terms of the loan agreement and the continuing creditworthiness of the borrower. When the client holds a participation interest in a loan, it will not have the right to vote under the applicable loan agreement with respect to every matter that arises thereunder, and it is expected that each selling institution will reserve the right to administer the loan sold by it as it sees fit, and subject to the terms of the participation agreement, to amend the documentation evidencing such loan in all respects. Selling institutions voting in connection with such matters may have interests different from those of the client and may fail to consider the interests of the client in connection with their votes.

The purchaser of an assignment of an interest in a loan typically succeeds to all the rights and obligations of the assigning selling institution and becomes a lender under the loan agreement with respect to that loan. As a purchaser of an assignment, a client generally will have the same voting rights as other lenders under the applicable loan agreement, including the right to vote to waive enforcement of breaches of covenants or to enforce compliance by the borrower with the terms of the loan agreement, and the right to set off claims against the borrower and to have recourse to collateral supporting the loan. Assignments are, however, arranged through private negotiations between assignees and assignors, and in certain cases the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning selling institution.

Assignments and participation interests are sold without recourse to the selling institutions, and the selling institutions will generally make minimal or no representations or warranties about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans. In addition, the client will be bound by provisions of the underlying loan agreements, if any, that require the preservation of the confidentiality of information provided by the borrower.

Certain of the loans or participation interests may be governed by the law of a jurisdiction other than a United States jurisdiction. A client will be subject to the risks associated with purchasing a participation interest under an agreement governed by the laws of a jurisdiction other than a United States jurisdiction, including characterization under such laws of such participation interest or sub-participation in the event of the insolvency of the institution from which a client purchases such participation or sub-participation interest or the insolvency of the institution from which the grantor of the sub-participation interest purchased its participation interest.

*Insolvency Considerations Under U.S. Federal Bankruptcy Law.* Various laws enacted for the protection of debtors or creditors may apply to loans held by clients under U.S. federal bankruptcy law. If a court were to find that the obligor did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the obligation and, after giving effect to such indebtedness, the obligor (i) was insolvent, (ii) was engaged in a business for which its remaining assets constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured, the court could invalidate, in whole or in part, the indebtedness as a fraudulent

conveyance, subordinate the indebtedness to existing or future creditors of the obligor or recover amounts previously paid by the obligor in satisfaction of the indebtedness. There can be no assurance as to what standard a court would apply in order to determine whether the obligor was “insolvent.” In addition, in the event of the insolvency of an obligor of a loan, payments made on the loan could be subject to avoidance as a “preference” if made within a certain period of time (which may be as long as one year and one day) before insolvency.

In addition, there is the possibility that a bankruptcy court may in the exercise of its equitable or other powers determine not to enforce such an agreement on the ground that it violates an essential policy underlying the Bankruptcy Law or other applicable bankruptcy or insolvency law or on other grounds it may determine in the exercise of its powers.

*Lender Liability Considerations and Equitable Subordination.* A number of judicial decisions in the United States and some non-U.S. jurisdictions have upheld the right of borrowers to sue lending institutions and others on the basis of various evolving legal theories. Generally, lender liability is founded upon the premise that a lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower that creates a fiduciary duty owed to the borrower or its other creditors or shareholders.

In some cases, courts have subordinated the claim of a lender against a borrower to claims of other creditors of the borrower when the lending institution is found to have engaged in unfair, inequitable or fraudulent conduct. Because of the nature of certain loans expected to be held by clients, a client could be subject to claims from creditors of a loan obligor that the client’s claim under the loan should be equitably subordinated.

The preceding discussion is based upon principles of U.S. federal and state laws. Insofar as obligations of non-U.S. obligors are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under U.S. federal and state laws.

*Insolvency Considerations with Respect to Obligations of Non-U.S. Issuers.* Obligations of non-U.S. obligors held by clients may be subject to various laws enacted in their home countries for the protection of debtors or creditors, which could adversely affect a client’s ability to recover amounts owed. These insolvency considerations will differ depending on the country in which each obligor is located and may differ depending on whether the obligor is a non-sovereign or a sovereign entity. These obligations may also be subject to greater risks than the obligations of U.S. obligors, such as: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws. A number of European jurisdictions operate “debtor-friendly” insolvency regimes that would result in delays in payments from obligors subject to such regimes. The different insolvency regimes applicable in European jurisdictions result in a corresponding variability of recovery rates for obligations with obligors in such jurisdictions. No reliable historical data is available.

*Recent Positive Economic Trends May Not Continue.* Positive economic trends nationally as well as in specific geographic areas of the United States have led to low rates of loan defaults and delinquencies. While the levels of defaults and delinquencies have decreased significantly in recent years, there is a material risk that economic activity will slow and/or become volatile (as occurred dramatically, for

example, in the 2008 financial crisis). If that were to occur, some obligors that are able to service their loans in the current economic environment will be significantly and negatively impacted. A downturn or reversal of economic growth would likely lead to decreased ability of obligors to obtain refinancing which would likely exacerbate any economic decline and cause a further deterioration in loan performance generally. Some believe that the recovery from the 2008 financial crisis has been fragile, and there is no way to determine whether recent positive economic trends in the credit markets will continue or reverse in the future.

*The Senior Loan Market.* Senior secured loans are of a type often incurred by the borrowers thereunder in connection with a highly leveraged transaction, often to finance internal growth, acquisitions, mergers or stock purchases, or for other reasons. As a result of the additional debt incurred by the borrower in the course of such a transaction, the borrower's creditworthiness is often judged by the rating agencies to be below investment grade. Such loans may be private corporate loans that are negotiated by one or more commercial banks and syndicated among a group of commercial banks and institutional investors. In order to induce the banks and institutional investors to invest in a borrower's loan facility, and to offer a favorable interest rate, the borrower often provides the banks and institutional investors with extensive information about its business which is not generally available to the public.

Senior loans are typically at the most senior level of the capital structure and are often secured by specific collateral, including, but not limited to, trademarks, patents, accounts receivable, inventory, equipment, buildings, real estate, franchises and common and preferred stock of the obligor and its subsidiaries. Such loans may provide for restrictive covenants designed to limit the activities of the borrower in an effort to protect the right of lenders to receive timely payments of interest on and repayment of principal of the loans. Such covenants may include restrictions on dividend payments, specific mandatory minimum financial ratios, limits on total debt and other financial tests. Senior loans usually have shorter terms than more junior obligations and often require mandatory prepayments from excess cash flow, asset dispositions and offerings of debt and/or equity securities. Because of the provision of confidential information, the unique and customized nature of a loan agreement, and the private syndication of the loan, senior loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the non-investment grade bond market.

The majority of senior loans bear interest based on a floating rate index (such as LIBOR) the certificate of deposit rate, a prime or base rate (each as defined in the applicable loan agreement) or other index, which may reset daily (as most prime or base rate indices do) or offer the borrower a choice of one, two, three, six, nine or twelve month interest periods.

Purchasers of senior loans are predominantly collateralized loan obligations, investment and commercial banks, insurance companies and other financial institutions who have applied their experience in high-yield securities trade groups to the commercial loan market, acting as both principal and broker. The range of investors for such loans has broadened, with money managers, insurance companies and mutual funds seeking increased potential total returns. As secondary market trading volumes increase, new loans are frequently adopting more standardized documentation to facilitate loan trading which should improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide the degree of liquidity that currently exists in the market.

The nature of the direct relationship that may exist between the borrower under a senior loan and the lender when such loan is assigned gives rise to the risks of lender liability, fraudulent conveyance and

avoidable preference. The unique nature of the loan documentation also creates a degree of complexity in negotiating a secondary market purchase or sale which does not exist, for example in the non-investment grade bond market.

*Borrowing; Use of Leverage.* CITAM expects to direct Clients to borrow money or otherwise incur leverage in connection with the acquisitions or financing of their loan portfolios. While leverage has the potential to increase Client profits, it can also result in an increased risk of loss and increased volatility to the Client due to fluctuations in interest rates, downturns in the loan market or the economy, the potential inability to refinance borrowings when they mature, or the inability to achieve an amount sufficient to repay such borrowings from the loan portfolio. An event that adversely affects Client portfolios could be greater if such Client uses leverage. Interest payments or similar costs associated with leverage may be a direct or indirect cost to Clients. Interest rates or similar costs associated with leverage may be based on indices that are different from interest rate indices applicable to Client assets that support such leverage. Lenders or other counterparties to a credit facility, or an agent thereof, will be able to exercise remedies with respect to borrowings in the case of default, and such remedies may include, but are not limited to, liquidation of or taking title to collateral for such facility, and which may result in loss to the Client.

*Concentration.* Concentration of a Client's portfolio to a limited number or type of (i) loan obligors, (ii) industries or geographic regions, or (iii) type of collateral, could impair the Client's portfolio if the underlying obligors, industries, regions, or collateral were to experience economic difficulties or fall out of favor in the loan market. Concentration may result in greater volatility, or result in Clients or investors not realizing their rate of return, or suffer full or partial loss.

*Manager Risk.* Client performance will depend, in large part, on the skill and expertise of CITAM and its affiliates, their investment professionals and the professionals responsible for originating loans. Shared personnel are supervised by CITAM and subject to CITAM's compliance policies and procedures, including the code of ethics, and applicable provisions of the Advisers Act. There can be no assurance that investment professionals will remain with CITAM or its affiliates, or in their current positions, and these personnel or positions may be changed without notice. Investment professionals associated with CITAM will devote such time as they determine in their discretion is reasonably necessary to fulfill CITAM's obligations to Clients, however, they may split their time among multiple Clients or responsibilities, and such responsibilities may include proprietary accounts or accounts that are otherwise managed for affiliates of CITAM.

*Cybersecurity and Technology Risk.* CITAM and its affiliates rely on information technology processes, procedures, equipment, and infrastructure, and those of its service providers. Information technology changes rapidly and CITAM may be exposed to the risk that information technology it relies upon will be or become out of date or subject to technological vulnerabilities. CITAM, its affiliates, and service providers may find themselves targets of cybersecurity attacks; while CITAM and its affiliates take steps to mitigate or prevent such risks, no system is guaranteed to be protected from all cybersecurity vulnerabilities, and a cyberattack may adversely impact CITAM and its Clients.

*Legal, Regulatory, and Political Risk.* Clients may be adversely affected by laws, rules or regulations or changes thereto. Legal regulatory and tax changes have occurred that may adversely affect clients and such changes may occur in the future. It is impossible to predict whether new legislation or regulations governing those industries or U.S. taxes will be enacted or adopted, nor can CITAM predict the potential impact of such changes on Client's investments or portfolios.

**Item 9 – Disciplinary Information**

Neither CITAM nor any of its management persons have any legal, financial or other “disciplinary” items to report. We are obligated to disclose any disciplinary event that would be material when evaluating a client/adviser relationship.

## Item 10 – Other Financial Industry Activities and Affiliations

CITAM is not registered, and does not have an application pending to register, as a broker-dealer, futures commission merchant, commodity pool operator, or commodity trading advisor. Three of CITAM's officers are also registered representatives of CIT Capital Securities LLC.

Neither CITAM nor any of its management persons have any relationship or arrangement that is material to its advisory business with a related person (except as disclosed below) that is:

- A broker-dealer, municipal securities dealer, or government securities dealer or broker.
  - However, CITAM is affiliated with CIT Capital Securities LLC ("CITCS"), a FINRA member broker-dealer that acts as a broker or dealer providing investment advisory services for mergers and acquisitions, to engage in the private placement of securities and serve as an underwriter or selling group participant in offerings of public debt or equity offerings on a best efforts or firm commitment basis.

CITCS is responsible for structuring, pricing and distributing various financial products originated by CIT. CITCS does not execute trades on behalf of CITAM.

- A banking or thrift institution.
  - However, CITAM is affiliated with CIT Bank. CIT Bank is a national banking association and is regulated by the Office of the Comptroller of the Currency. CIT Bank has an independent Board of Directors that guides its activities. CIT Bank raises deposits to fund its lending activities and is insured by the Federal Deposit Insurance Corporation (FDIC).

CITAM has numerous relationships with CIT Bank that may be material to CITAM's advisory business. Certain CIT Bank "dual hatted" personnel may also have roles with CITAM. CITAM may rely on CIT Bank and its affiliates for information technology resources, including investment-related resources, such as models and programs used to evaluate investment opportunities and manage risk. CITAM may from time to time cause its clients to (i) purchase loans from CIT Bank or (ii) participate in transactions where CIT Bank is also involved. CIT Bank employees are eligible to receive cash payments for referrals of qualifying loans to the Client.

- An insurance company or agency.
  - CITAM is affiliated with CIT Insurance Services, which provides access to protection products for small businesses and middle market clients. Products include Property Coverage, Life Insurance, Debt Protection, Commercial Casualty, GAP, Down Payment Protection Waiver, Employee Benefits, and High Net Worth-Personal Insurance. CIT Insurance Services operates in the United States through CIT Insurance Agency, Inc. CIT Insurance Agency, Inc., California license, is domiciled in New Jersey and is licensed in the United States in all states and the District of Columbia. There is no business relationship between CIT Insurance Services and CITAM.

### **Clients**

As discussed above, CITAM provides investment advisory services to an entity that is a joint venture between CIT Bank and two third-party institutions (previously defined as the “Client”). CIT Bank personnel serve on the Client’s board and investment committee, along with representatives from the third parties. CITAM anticipates that the Client’s portfolio of loans will be sourced by CIT Bank and may, from time to time, include loans sold by CIT Bank to the Client in arm’s-length transactions that will be fair valued by the Client’s board and/or a third-party vendor.

CITAM also serves as administrative agent to another joint venture between a CIT affiliate and a third-party asset manager. Under an administrative services agreement with this entity, CITAM provides administrative, operational and oversight services, such as loan monitoring and covenant compliance. Certain persons who are also CIT Bank personnel serve on the board and the investment committee of this entity, along with representatives from the third parties. Investment decisions for the joint venture are made by the board and the investment committee. CITAM does not provide investment advisory services to this joint venture.

### **Conflicts of Interest**

CITAM sources a portion of the loan investments it effects for, or recommends to, its clients from CIT Bank. Such transactions may be subject to conflict of interests, in that CITAM may have an incentive to source loans from its affiliate in a manner that may benefit CIT Bank to the detriment of CITAM’s clients. However, as a matter of CITAM policy, such transactions will be conducted only when, in CITAM’s view, the transaction is in the best interest of the pertinent client(s), will be done on an arms’-length basis and will comply with applicable law.

CITAM and its officers will devote such time as shall be necessary to conduct the business affairs of CITAM’s advisory clients in an appropriate manner. However, CITAM personnel may also serve as personnel of other CIT affiliates, and, therefore, certain conflicts may arise in terms of the allocation of their time and attention and the allocation of potential opportunities. CITAM clients will not necessarily benefit from potential opportunities that CITAM personnel learn of in their roles on behalf of other CIT affiliates.

Additionally, as a result of the roles played by certain CITAM personnel in the businesses of the other CIT affiliates, CITAM may not be able, or may determine not, to effect or recommend a transaction to a client that it might otherwise effect or recommend. Specifically, in connection with their activities on behalf of other CIT affiliates, these CITAM personnel may receive material non-public information or other sensitive or proprietary information. In many cases, these persons will be prohibited from disclosing or using such information for their own benefit or the benefit of any other person, including CITAM's investment advisory clients. CITAM will establish policies and procedures designed to prevent the misuse of material non-public information. Nevertheless, the receipt of sensitive information by CITAM personnel as a result of their separate business activities with other CIT affiliates could limit the ability of CITAM clients to transact in certain investments, possibly to the detriment of the CITAM clients.

From time to time, a CIT affiliate and CITAM clients may become involved in the same transaction, participating in different risk aspects of particular investment opportunities. CITAM clients' participation in such transactions may benefit the CIT affiliate by taking a riskier portion of a loan, thus reducing the overall risk for the CIT affiliate. CITAM personnel may face conflicts of interest between their duties to both CITAM clients and the CIT affiliate when evaluating and negotiating such transactions.

CIT Bank may purchase or sell loans made to an obligor at, or about, the same time a purchase or sale of loans made to the same obligor is made for a client account. This conflict of interest is further described under Item 12.

It is also possible that, in some instances, CITAM clients and other CIT affiliates may compete for investment opportunities. Please see Item 12 for a discussion of CITAM's trade allocation and aggregation conflicts.

CITAM does not recommend or select other investment advisers for its clients, or have other business relationships with other advisers, for which it receives compensation directly or indirectly from those advisers.



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

### **Code of Ethics**

CITAM has in place a Code of Ethics and Insider Trading policies and procedures (the “Code”), which addresses the use of material non-public information, personal trading, conflicts of interest and confidentiality. The Code also establishes policies regarding other matters such as outside employment, the giving or receiving of gifts, and safeguarding portfolio holdings information.

The Code is designed to ensure that CITAM personnel:

- Observe applicable legal and ethical standards (including compliance with applicable state and federal securities laws) in the performance of their duties;
- At all times place the interests of CITAM’s clients first as they relate to investment opportunities and securities trading;
- Disclose to all clients actual or potential conflicts;
- Adhere to the highest standards of loyalty, candor and care in all matters relating to CITAM clients;
- Conduct all personal trading consistent with the Code and in such a manner as to avoid any actual or potential conflict of interest or any abuse of their position of trust and responsibility; and
- Not use any material non-public information in securities trading.

Under the Code, CITAM personnel must act with integrity and honesty at all times and must apply the following principles:

- Not use their position to gain an unfair advantage for themselves or another person or cause detriment to CITAM’s clients;
- Act in the best interests of CITAM’s clients and, where there is a conflict of interest, give priority to the interests of CITAM’s clients;
- Not trade in any financial products or procure another person to trade in financial products while in possession of material non-public information;
- Not communicate or disseminate material non-public information to another person;
- Avoid and/or disclose any conflicts between their personal interests and CITAM clients;

- Uphold fiduciary responsibilities (i.e., personnel must respect the trust that clients have placed in CITAM to act on their behalf);
- Ensure personal trading does not conflict with their regular employee duties; and
- Ensure personal trading does not contravene any other legal requirements.

CITAM has implemented a personal trading policy as part of the Code setting out the procedures to be followed in relation to trading financial products in a personal capacity. For example, Access Persons (defined as investment personnel, officers of CITAM, and other persons designated by CITAM's Chief Compliance Officer or his/her designee) must report to CITAM's Chief Compliance Officer or his/her designee all personal transactions in securities not otherwise exempt under the Code.

Personnel must also comply with the general CIT Code of Business Conduct.

The Code of Ethics is available to current and prospective clients and investors from CITAM upon request.

#### **Personal Trading by Related Persons**

CITAM generally address conflicts that may arise in the personal trading of securities by our related persons through the Code and review of the personal trading of related persons who are CITAM directors or officers or personnel that have access to pre-trade information about orders placed or recommendations made for our clients. The Code contains general prohibitions on (and review reports of related persons' personal trading for) personal trading that would conflict with the clients' interests, "front running" of client transactions and transactions that would involve the use of material non-public information.

#### **CITAM's Ownership**

CITAM, its personnel or a related entity may have an investment in Private Funds. Therefore, CITAM may be considered to participate, indirectly, in transactions effected for those Private Funds.

CITAM has developed and implemented policies and procedures designed to mitigate and disclose these and similar conflicts of interests. Please refer to Item 12 for a discussion of CITAM's Allocation Procedures.

## **Participation or Interest in Client Transactions**

CIT originates, holds, buys, or sells for its own account or for the account of its affiliates existing or new loans, including loans or the type of loans that Clients invest or expect to invest. Clients should expect that all or a significant portion of Client assets will be comprised of loans, a portion of loans, that are also held by CIT or its affiliates. This will result in potential and actual conflicts of interest. The following summarizes some of the conflicts of interest inherent in investment activity on behalf of Clients. More detailed information on the nature of CITAM's sourcing arrangements is included in Client Governing Documents.

### *Principal and Agency Cross Transactions*

It is anticipated that from time to time clients of CITAM may purchase loans from CIT affiliates. Such transactions may be subject to conflicts of interest, in that CITAM may have an incentive to source loans from its affiliate in a manner that may benefit such affiliate to the detriment of CITAM's clients. However, as a matter of CITAM policy, such transactions will be conducted only when, in CITAM's view, the transaction is in the best interest of the pertinent client(s).

CITAM may cause or recommend principal transaction where a Client acquires a loan from or sells a loan to (or a portion of a loan, in each case) CIT Bank or an affiliate. In such cases, CITAM will provide disclosures to and obtain consent of the Client, or consent of such Client's designee, in accordance with Section 206(3) of the Advisers Act and with applicable Client Governing Documents.

CITAM may also cause or recommend Clients enter into cross-transactions where one Client sells assets to another Client. Prior to entering into cross-transactions, CITAM will determine that such transaction is fair and equitable to each Client, and such transactions are executed at valuations in accordance with CITAM's policies and procedures and Client Governing Documents.

### *Other Conflicts of Interest*

CITAM regularly invests Clients in loans, or portions of loans, that are also held directly or indirectly by CIT Bank, its affiliates, or other Clients. CIT Bank and its affiliates may invest in a range of asset classes (including loans and other debt securities, as well as equity securities) of issuers in which Clients invest. A Client may hold interests in an obligor that are of a different class or type that the class or type of interest held by CIT Bank or an affiliate and which may be senior, pari passu, or junior to the Client's investment in such obligor, and CIT Bank or its affiliates' investments' in an obligor of the same class or type as a Client may be held in different amounts than those of the Client.

CIT Bank or an affiliate may participate in creditors' committees with respect to bankruptcy, restricting or working out of obligors' loans and may take positions that are adverse to the interest of a Client. It is possible that CIT Bank or an affiliate may obtain material, non-public information that they may be prohibited from providing to CITAM and its Clients. Any of the foregoing may create an actual or potential conflict of interest, or the appearance of one. CIT Bank may take actions with respect to obligors that will differ from the timing or nature of actions taken or recommended with respect to investments by Clients. CIT Bank or its affiliates may have obligations to other persons, the fulfillment of which may not be in the best interests of certain Clients. The scope of CITAM's, and CIT Bank's or its

affiliates', duties and limitations will be specifically agreed to in Client Governing Documents.

CITAM or CIT Bank may engage in repeat transactions with certain obligors over time, which may present conflicts of interest; if an obligor's creditworthiness becomes impaired or seeks to refinance or restructure its loans, the interests of CITAM's Clients and CIT Bank may not be aligned.

CITAM or its associated persons may from time to time come into possession of material non-public information that limits CITAM's ability to recommend or effect a transaction for a Client, and the Client's ability or inability to effect transactions may be impacted by the presence or absence of internal information barriers.

## **Item 12 – Brokerage and Loan Trading Practices**

Transactions will be allocated to brokers and dealers on the basis of best execution (which may include, among other items, the consideration of such broker's or dealer's ability to effect transactions, its facilities and financial responsibility). The SEC generally describes "best execution" as a duty to execute securities transactions so that a client's total costs or proceeds in each transaction are the most favorable under the circumstances. The SEC also has stated that when seeking best execution the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution.

Loans are generally purchased from the issuer, or a primary market-maker, on a net basis without a stated commission but at prices generally reflecting a dealer spread. When executing such transactions, CITAM personnel are required to seek to obtain the best execution for CITAM's clients, considering such factors as price (including the applicable dealer spread), size of the market, the breadth of the market, counterparty risk, liquidity, actual prices offered and difficulty of execution. CITAM's execution personnel typically work with the portfolio manager to establish ranges of levels for execution within the quoted market, taking into account the liquidity of the loan and overall market technicals.

As loans are bought and sold through a negotiated market, they are not liquid. There can be no assurance that the current level of liquidity will continue or that future levels of supply and demand in loan trading will provide an adequate degree of liquidity. Due to (i) holders of such loans receiving confidential information relating to the borrower, (ii) the unique and customized nature of loan agreements, and (iii) the private syndication of loans, loans may not be as easily purchased or sold as publicly traded securities, and historically the trading volume in the loan market has been smaller relative to other markets. Therefore, achieving best execution for loan trades is a function not only of the best price but also the ability to provide or establish adequate liquidity in a given loan.

CITAM has developed and implemented policies and procedures to comply with its best execution responsibilities, which includes evaluating and changing, when necessary, our best execution practices.

### **Research and Other Soft Dollar Benefits**

Although CITAM does not have any formal soft dollar arrangements at this time, it reserves the right to take into consideration research and other brokerage services furnished to it or its affiliates by brokers and dealers when selecting which brokers or dealers to employ on behalf of its clients. Any research or other brokerage services provided to CITAM or its affiliates will benefit CITAM or its affiliates, as CITAM will not need to produce or pay for such research or services on its own. If CITAM were to enter into a formal soft dollar arrangement, it may have an incentive to select or recommend a broker-dealer based on its interest in receiving research or other services rather than its clients' interest in receiving the most favorable execution.

### **Brokerage for Client Referrals**

CITAM's trading and brokerage policies prohibit the directing of commissions generated from brokerage transactions to pay for investor referrals, and these policies also prohibit making any recommendation that "credit" be given to particular individual brokers within a brokerage firm.

## **Directed Brokerage**

CITAM does not have any directed brokerage arrangements, but it may enter into such arrangements with SMA clients. Such directed brokerage arrangements may cause CITAM to be unable to achieve the most favorable execution of transactions on behalf of such SMA clients.

## **Allocation and Aggregation Procedures**

CITAM has adopted Investment Allocation Policies & Procedures (“Allocation Procedures”) for use in the allocation of investment opportunities. Generally, all investment opportunities are sourced for potential investment on CIT Bank’s own balance sheet, however, when CIT Bank is unable, or elects not, to retain the full amount of such opportunities on its own balance sheet, a certain portion of these investment opportunities may be shared with CITAM and become allocable to Clients. Certain investment opportunities made available to CITAM by CIT Bank may be subject to an initial minimum amount retained (if any) for investment by CIT Bank (the “CIT Hold Amount”), which may be adjusted from time to time by CIT Bank as its business needs warrant, subject to CIT Bank’s lending guidelines and its contractual obligations. However, CIT Bank may decide, in its sole discretion, to decline to retain any portion of an investment opportunity. CITAM may not have the opportunity to recommend or cause a Client to invest in a particular opportunity if CIT Bank has agreed to make the entire loan.

For some Clients, CITAM may have discretionary power to cause Clients to participate in certain investment opportunities with respect to some or all of such Clients’ assets or types of opportunities. For other Clients, CITAM recommends opportunities on a non-discretionary basis. The scope of CITAM’s discretionary authority, if any, will be set-out in the applicable Governing Documents for each Client. To the extent CITAM lacks discretion with respect to an investment opportunity, CITAM generally recommends such investment opportunity to the Client’s board of directors or similar body, including an investment committee, representing the respective Client, who must approve such investment opportunity before such Client can participate.

In addition to Clients, CITAM makes available investment opportunities, or portions thereof, to joint ventures or other pools of capital established by related persons of CITAM and/or to which CITAM provides non-advisory services (“Related Party Accounts”). Related Party Accounts and Clients are, together, referred to herein as “Managed Accounts.”

As an investment adviser and fiduciary to its Clients, CITAM has a duty to treat Client on a fair and equitable basis over time in the allocation of investment opportunities. Clients will generally have agreements in place with CITAM which impact allocations. In making available investment opportunities to Clients pursuant to its Allocation Procedures, CITAM considers, among other things, each Client’s investment objectives, restrictions and agreements; (ii) the amount of available capital each Client has to invest (including, without limitation, capital available as a result of borrowings); and (iii) any other factors deemed to be appropriate by CITAM, as set-out in CITAM’s Allocation Procedures, consistent with its obligations to Clients and applicable laws and regulations. While CITAM and CIT will seek to allocate investment opportunities fairly over time, there is no assurance that CITAM clients will participate in every opportunity which may be appropriate for such CITAM clients.

When the amount of aggregate demand from participating Managed Accounts for an investment opportunity made available to CITAM by CIT Bank for allocation among Managed Accounts (following

retention, if any, of the CIT Hold Amount) exceeds the total supply available for allocation, CITAM generally allocates the investment opportunity among participating Managed Accounts pro rata based on the relative amounts recommended for such participating Managed Accounts. Following this allocation process, Managed Accounts for which CITAM has non-discretionary authority, investment opportunities are presented to the Managed Accounts' investment committees or boards of directors for approval prior to execution.

Following any initial decision by CIT Bank or a Managed Account not to participate in an investment opportunity, in whole or in part, CITAM may make such remaining investment opportunity available (i) to CIT Bank or Managed Accounts for a second time at the end of the investment process, and/or (ii) to strategic partners of CITAM or CIT Bank or unrelated third-parties (collectively, "Third-Party Accounts"). CITAM's ability to make investment opportunities available to Third-Party Accounts may enable CITAM to consummate transactions on behalf of Managed Accounts where additional capital is required above the capacity available from Managed Accounts, however, investment opportunities will generally be made available to Third-Party Accounts only after CIT Bank and all relevant Managed Accounts have been offered and rejected all or a portion of such investment opportunities.

#### *Aggregation*

In addition, as a general matter, when CITAM intends to originate, purchase or sell loans for two or more clients at the same time, CITAM will generally seek to aggregate client orders for execution as a single transaction. Such orders, upon execution, will be allocated to specific clients.

CITAM may, in limited circumstances, aggregate multiple orders for the purchase or sale of the same asset across CITAM and other CIT entities (such as a term loan) into block transactions ("Block Orders"), subject to seeking "Best Execution" in all cases. In limited circumstances when bank debt is purchased in a Block Order, CITAM may not be able to allocate to a particular client (e.g., an allocation order may not meet the minimum assignment amount mandated by the issuer). CITAM, in its discretion, may also decide to have certain clients not invest in a bank debt transaction directly for a variety of reasons, including that the relevant client does not meet the lender requirements to buy debt directly (e.g., minimum amounts) or CITAM believes that the costs (e.g., assignment fees) associated with the investment are too high. In making a determination to include a client in a Block Order and the level of participation of each client, CITAM may consider a number of factors with respect to each client, including, but not limited to, the allocation factors mentioned above.

Prospective investors and clients should review the discussion of brokerage practices and of the liability of and indemnification provisions applicable to CITAM in the applicable offering memorandum, indenture, collateral management agreement, or investment advisory or management agreement.

### **Item 13 – Review of Accounts**

CITAM will routinely review and monitor Client accounts. Specific reviews may be triggered by, among other factors, changing market conditions, news concerning specific holdings or the request of a client.

CITAM performs routine reviews to monitor compliance with investment objectives and requirements agreed to with Clients and set-out in respective Governing Documents. Specific tests may also be performed in connection with periodic reporting dates agreed to with each joint-venture Client. CIT and CITAM have developed appropriate systems, policies and procedures to meet these specific reporting requirements. Private Funds will also receive audited financial statements within 120 days of the end of the fiscal year (see Item 15, below).



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

CITAM does not currently enter into cash solicitation or similar agreements pursuant to which CITAM pays fees to third parties for the referral of Clients.

**Item 15 – Custody**

CITAM may be deemed to have custody of Private Fund assets for purposes of the Rule 206(4)-2 under the Advisers Act (the “Custody Rule”) due to CITAM’s or its affiliate’s relationship to the Private Funds. Except as required by the Custody Rule, funds and securities of the Private Fund are held by an unaffiliated qualified custodian. Private Funds are audited in accordance with GAAP on an annual basis, and each Private Fund’s audited financial statements would be distributed to each investor within 120 days of the Private Fund’s fiscal year end to comply with the Custody Rule.

## **Item 16 – Investment Discretion**

CITAM will provide investment advisory services to the Client within certain guidelines determined by the Client members. The scope of CITAM's discretionary authority, if any, will be set-out in the applicable Governing Documents for each Client. For some Clients, CITAM may have discretionary power to cause Clients to participate in certain investment opportunities with respect to some or all of such Clients' assets or types of opportunities. For other Clients, CITAM recommends opportunities on a non-discretionary basis. To the extent CITAM lacks discretion with respect to an investment opportunity, CITAM generally recommends such investment opportunity to the Client's board of directors or similar body, including an investment committee, representing the respective Client, who must approve such investment opportunity before such Client can participate.

**Item 17 – Voting Client Securities (i.e., Proxy Voting)**

While CITAM does not intend to cause its clients to hold public securities, CITAM may exercise voting and/or consent rights with respect to fixed income securities or loans, including but not limited to, plans of reorganization, and waivers and consents under applicable indentures, consent rights that primarily entail decisions to buy or sell investments, such as tender or exchange offers, conversions, put options, redemption and Dutch auctions.

With respect to the exercising of such voting and/or consent rights, CITAM considers each proposal regarding a fixed income security or loan on a case-by-case basis, taking into consideration any relevant financial implications and contractual obligations, as well as other relevant facts and circumstances at the time of the vote.

**Item 18 – Financial Information**

CITAM is not subject to any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients. CITAM is not currently, nor has at any time in the past ten years been, the subject of a bankruptcy petition. However, CIT Group Inc., the ultimate parent of CITAM, filed a voluntary prepackaged bankruptcy on November 1, 2009 with the U.S. Bankruptcy Court, Southern District of New York. A confirmation hearing was held on December 8, 2009 and the plan of reorganization was confirmed by the U.S. Bankruptcy Court for the Southern District of New York. CIT Group Inc. emerged from bankruptcy on December 10, 2009.

**Item 19 – Requirements for State-Registered Advisers**

Not applicable.