



## **VENOR CAPITAL MANAGEMENT LP**

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### **FORM ADV PART 2A: FIRM BROCHURE**

**March 30, 2022**

**Venor Capital Management LP is an investment adviser that is registered with the Securities and Exchange Commission (“SEC”). Registration with the SEC does not imply a certain level of skill or training.**

**This brochure provides information about the qualifications and business practices of Venor Capital Management LP. If you have any questions about the contents of this brochure, please contact us at (212) 703-2100. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

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

**Item 2. Material Changes**

There are no material changes to report since March 30, 2021, the date of Venor Capital Management LP's most recent annual amendment to its brochure. Nevertheless, clients are encouraged to read this document in its entirety.

### Item 3. Table of Contents

	<u>Page</u>
Item 1. Cover Page .....	1
Item 2. Material Changes.....	2
Item 3. Table of Contents.....	3
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation .....	5
Item 6. Performance-Based Fees and Side-by-Side Management.....	7
Item 7. Types of Clients.....	7
Item 8. Methods of Analysis, Investment Strategies, and Risk of Loss.....	7
Item 9. Disciplinary Information .....	20
Item 10. Other Financial Industry Activities and Affiliations .....	20
Item 11. Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading.....	20
Item 12. Brokerage Practices .....	23
Item 13. Review of Accounts.....	25
Item 14. Client Referrals and Other Compensation.....	25
Item 15. Custody.....	25
Item 16. Investment Discretion.....	25
Item 17. Voting Client Securities.....	26
Item 18. Financial Information .....	26
Item 19. Requirements for State-Registered Advisers.....	26

#### Item 4. Advisory Business

Venor Capital Management LP (“we,” “us,” “our,” or “our firm”), a Delaware limited partnership founded in July 2005, is an investment advisory firm with its principal place of business in New York, New York. Venor Capital Management GP LLC, a Delaware limited liability company, is the general partner of our firm. Jeffrey A. Bersh and Michael J. Wartell are the co-founders and Co-Chief Investment Officers of our firm and the co-founders and co-managing members of Venor Capital Management GP LLC and each of the following entities (each a “General Partner” and collectively, the “General Partners”):

- Venor Capital GP LLC, a Delaware limited liability company that serves as the general partner of certain of our clients;
- Venor Special Situations GP LLC, a Delaware limited liability company that serves as the general partner of certain of our clients;
- Venor Trevithick GP LLC, a Delaware limited liability company that serves as the general partner of one of our clients; and
- Venor Raven Holdings GP LLC, a Delaware limited liability company that serves as the general partner to one of our clients.

In addition, Mr. Bersh and Mr. Wartell each own greater than 25% of each of the foregoing entities as well as our firm. As such, Mr. Bersh and Mr. Wartell control our firm.

Our firm provides investment advisory services to the following private funds:

- Venor Capital Master Fund Ltd., which is structured as a master-feeder fund and which (together with its feeder funds) we refer to in this brochure as our “flagship fund” and through which we advise its feeder funds;
- Venor Special Situations Fund II LP, which is structured as a master-feeder fund and which (together with its feeder fund) we refer to in this brochure as our “special situations fund” and through which we advise its feeder fund;
- Raven Holdings, L.P., which we refer to in this brochure as our “special purpose client fund”;
- Trevithick LP, which we refer to in this brochure as our “fund-of-one”; and
- Raven Holdings II, L.P., which we refer to in this brochure as our “custom client fund.”

In addition, our firm provides investment advisory services to a separately managed account and sub-advises a private fund through a separately managed account arrangement. We refer to these arrangements in this brochure as our “managed accounts.”

References throughout this document to “clients” refer to the foregoing private funds and managed accounts, as well as any investment vehicles that we may advise in the future. In addition, references herein to “investors” refers to the advisers of the managed accounts and investors in our other client accounts, as applicable.

In providing advisory services, we formulate the investment objective for each client, direct and manage the investment and reinvestment of each client’s assets.

Our firm tailors our advisory services to each client’s needs and investment mandates as disclosed in each client’s offering documents, governing documents or investment management agreement (collectively, the “Governing Documents”). While much of this brochure applies to all our clients, certain information included herein applies to specific clients only. Thus, it is crucial for any investor or prospective investor

in a private fund client or any client or prospective client to closely review the applicable Governing Documents with respect to, among other things, the terms, conditions, and risks of investing. While restrictions on the types of securities in which we invest for our clients vary from client to client as disclosed in each client's Governing Documents, generally neither clients nor investors of our clients may impose restrictions on investment in certain securities or types of securities. We describe the investment strategies our firm employs on behalf of our clients in greater detail below in Item 8.

Our firm does not participate in wrap fee programs.

As of December 31, 2021, our firm managed \$751,780,470 of regulatory assets under management on a discretionary basis and did not manage any client assets on a non-discretionary basis.

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

### *Fees*

Our firm, or an affiliate of our firm, typically receives compensation from our clients based on the percentage of assets we manage and by receiving performance-based compensation.

The management fee is typically an amount up to 1.5% per year of each client's net assets, which depending on the client, is determined and payable either monthly or quarterly, in advance or in arrears. Certain of our clients do not pay a management fee. Any client that pays a management fee in advance will generally not have the ability to terminate the applicable advisory contract before the end of the billing period, and as a result we generally do not provide for a refund of management fees.

With respect to certain of our clients, the incentive compensation is up to 20% of the net realized and unrealized appreciation in each such client's net assets. We typically determine and charge such incentive compensation on an annual basis, but will determine and charge it for shorter periods under certain circumstances (such as with respect to amounts withdrawn or redeemed from a client). The incentive compensation is subject to a loss carryforward or high-water mark provision that generally requires that any losses suffered by such clients (adjusted to reflect withdrawals and redemptions) be offset by subsequent net profits before our firm is entitled to subsequent incentive compensation from such clients.

With respect to each investor in certain of our other clients, we typically receive incentive compensation in an amount up to 20% of distributions to such investor after a return to such investor of (i) an amount equal to capital contributions made by such investor for portfolio investments, management fees and expenses and (ii) in some cases, a preferred return on such amounts at a rate up to 10% (which is compounded for certain clients).

Our fees are deducted from the accounts of the investors in our client funds and invoiced to our managed account clients. Our fees are generally not negotiable, but our firm has in the past waived, reduced, or otherwise modified the management fee and/or incentive compensation arrangement for certain investors in our client funds (including affiliates of our firm) and may do so in the future. In addition, we occasionally enter into side letter arrangements with certain investors in our client funds, in which we grant such investors preferential fee terms. The fees applicable to our managed account clients and future clients depend on each individual arrangement.

Although the foregoing is a brief summary of the management fee and incentive compensation arrangements applicable to our clients, please note that this brief summary is not a substitute for the detailed terms provided in each client's Governing Documents.

## *Expenses*

The expenses paid by clients are set forth in their Governing Documents. Such expenses differ among clients. Thus, although the following is a summary of expenses our clients will generally bear, it is not an exhaustive or complete list with respect to all clients. Investors and prospective investors and clients and prospective clients should therefore review the relevant Governing Documents carefully because such documents, and not this brochure summary, describe more precisely the expenses such client will bear.

Generally, each of our clients bears its own operating and other expenses, including, but not limited to:

- The management fee (as applicable);
- Fees to the administrator (the “Administrator”);
- Investment expenses (*i.e.*, expenses related to the investment of our client fund’s assets, including, without limitation, brokerage commissions, interest, professional and consulting fees relating to particular investments and expenses related to the purchase and sale of securities, investment-related travel and lodging expenses and research-related expenses, including, without limitation, news and quotation equipment and services (*e.g.*, Bloomberg terminal expenses and exchange feed expenses));
- Legal expenses including, without limitation, costs associated with regulatory compliance (*e.g.*, expenses related to anti-money laundering monitoring, expenses related to investor-related compliance obligations (*e.g.*, FATCA), expenses related to position-specific regulatory filings (*e.g.*, Schedules 13, Forms 13F, Forms 3, 4, and 5, and Hart-Scott-Rodino notifications), and expenses related to non-position-specific regulatory filings (*e.g.*, Forms 13H and Forms D));
- Accounting, audit and tax preparation expenses;
- Taxes;
- Other expenses associated with the operation of the client (*e.g.*, third party valuation expenses and premiums for certain insurance policies); and
- All extraordinary expenses.

Expenses to be borne by more than one client are allocated across the applicable clients in a fair and equitable manner, generally *pro rata* based on the size of the applicable investment or client (as applicable), based on which clients would receive the benefit of the expenses paid (*e.g.*, for research on an investment that has not yet been purchased for any client), or in another manner that we deem to be fair and equitable.

Neither our firm nor any of our supervised persons receives any transaction-based compensation for the sale of securities or other investment products.

From time to time, our firm also allocates a portion of certain clients’ capital to money market funds. In addition to the fees and expenses discussed above, clients will indirectly incur similar fees and expenses if we invest their capital in such funds, as these funds in turn pay similar fees and expenses to their investment managers and other service providers.

From time to time, our firm permits certain investors and/or third parties to co-invest in investments alongside one or more of the client funds, subject to the relevant Governing Documents as well as the considerations described in Item 8 below. Where a co-invest vehicle is formed, such entity or our firm generally will bear expenses related to the entity’s formation and operation, many of which are similar in nature to those borne by the client funds. Further, where a co-investment is consummated with one or more existing clients, ongoing investment-related expenses are generally expected to be allocated *pro rata* between such clients and the participating co-investors. Where a co-investment is sought but ultimately

fails to reach consummation, the applicable client accounts will generally bear all investment-related expenses pertaining to the applicable investment, whether or not such clients ultimately consummate such investment, in each case unless the relevant co-investors have agreed to bear their *pro rata* share of such expenses. There can be no assurances that a contemplated co-investment will reach consummation or that would-be co-investors will agree to bear their *pro rata* share of expenses for co-investments that fail to reach consummation.

A description of the brokerage and other transaction costs that will be borne by our clients is in Item 12 of this brochure.

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

As described in Item 5 above, our firm receives part of its compensation from each client in the form of performance-based compensation. However, such performance-based compensation is not charged in the same amount or manner for all clients. The variation of performance-based compensation structures among clients may create an incentive for our firm to direct the best investment ideas to, or to allocate the sequence of trades in favor of, clients that have a performance-based compensation arrangement more favorable to our firm. Our firm is committed to allocating investment opportunities on a fair and equitable basis and, accordingly, has established policies and procedures that are designed and implemented with the goal of ensuring that all clients are treated fairly and equitably and to prevent this conflict from influencing the allocation of investment opportunities among them (see Item 8).

Our firm does not manage any funds or accounts that do not pay performance-based compensation.

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

Our firm provides investment advice to our clients, and not individually to the underlying investors in our clients. Investors in our clients include high net worth individuals, trusts, estates, corporate and public pension and profit sharing plans, sovereign wealth funds, endowments, charitable organizations, funds of private funds and family offices that qualify as “accredited investors” (as defined in Rule 501 under the Securities Act of 1933, as amended), and “qualified purchasers” (as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Company Act”)).

The current minimum initial investment in our flagship fund is \$5,000,000. However, we may waive or reduce the minimum initial investment amounts in certain circumstances, subject to statutory limitations. Our other client funds are no longer accepting new capital commitments from investors.

The minimum investment amount for any other client account would be determined on a case-by-case basis.

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

The descriptions set forth in this brochure of specific advisory services that our firm offers to our clients, and investment strategies pursued and investments made by our firm on behalf of our clients, should not be understood to limit in any way our firm’s investment activities. Our firm may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this brochure, that we consider appropriate, subject to each client’s investment objectives and guidelines.

### ***Methods of Analysis and Investment Strategies***

Our clients seek to achieve their objectives through a combination of process-driven, bottom-up research and disciplined trading and risk management procedures. Generally, our clients share the investment

objective of identifying investments with attractive prospective risk-adjusted return characteristics in order to achieve superior overall investment returns, primarily through capital appreciation, while also concentrating on the preservation of capital. Our client funds invest in value and event-driven opportunities across the corporate capital structure with a preference for investments higher in the capital structure, such as corporate bonds, bank loans, and other fixed-income securities, but also have the flexibility to invest in equities, credit derivatives, busted convertibles, trade/lease claims, preferred stock, liquidating trusts, rescue funding, and other financial obligations. Such clients are focused on investment opportunities primarily in the United States and Western Europe, but have also invested, and may continue to invest, in companies based in other countries and regions, including, but not limited to, other countries in North America, other Organisation for Economic Co-operation and Development countries, and Latin America.

The difference between the investment objective of our flagship fund, on the one hand, and our special situations fund, special purpose client fund, and custom client fund on the other hand, is that our special situations fund, special purpose client fund, and custom client fund generally have been limited to investing in longer-term or less liquid special situations investments, many of which are typically also held in the portfolio of our flagship fund. One of our managed account clients pursues an investment objective that is substantially similar to the investment objective of our flagship fund. Our other managed account client purchases and holds interests in a specific bank loan of a certain issuer.

The investment periods for our special situations fund, special purpose client fund and managed account clients have expired, so these client funds are no longer making new investments.

In addition, our fund-of-one primarily focuses on opportunities in debt securities and other related debt instruments resulting from catalyst-driven events and value propositions created by market inefficiencies and its portfolio is generally more concentrated than that of the flagship fund with longer-duration and/or less-liquid investments, subject to certain investment guidelines set forth in the Governing Documents of the fund-of-one. The particular strategy employed with respect to a particular group of investments may change over time.

The foregoing is a summary description of the strategies employed by our clients. The strategy employed with respect to each client is set forth more particularly in its respective Governing Documents. Thus, any investor or prospective investor in a private fund client or any client or prospective client is reminded that the disclosures in this brochure are qualified by and subject to such Governing Documents.

Despite our firm's research and analysis, investing involves a risk of loss that any clients and investors in our clients must be prepared to bear. Please see the "Risks" section below for a detailed explanation of the investment strategies our firm employs and some of the significant risks associated with them.

### ***Risks***

The investment strategies we use entail substantial risks, including, but not limited to, those key risks listed below. Further risk factors are listed in our clients' Governing Documents.

**Lack of Diversification.** An investment in our clients does not constitute a diversified investment program. Our clients may invest in a limited number of investments. A consequence of a limited number of investments is that the aggregate returns realized by a client may be substantially affected by the unfavorable performance of a small number of such investments. A client's portfolio may not be as diversified among a wide range of types of securities as other investment vehicles. Accordingly, the investment portfolios of our clients may be subject to more rapid change in value than would be the case if our clients were required to maintain a wider diversification among types of securities and other instruments.



**Availability and Accuracy of Information.** Our firm will select investments for our clients on the basis of information and data derived from firsthand research by our firm. Although our firm intends to evaluate all such information and data and to seek independent corroboration when our firm considers it appropriate and when it is reasonably available, our firm will not in many cases be in a position to confirm the completeness, genuineness or accuracy of such information and data.

**Liability Following the Disposal of Investments.** While our firm may hold certain of its investments to maturity, our clients may dispose of investments in some circumstances prior to termination and, in connection therewith, may be required to pay damages to the extent that any representations or warranties given in connection with such investments turn out to be inaccurate. Our clients may become involved in disputes or litigation concerning such representations and warranties and may be required to make payments to third parties as a result of such disputes or litigation. Our clients may also be subject to certain tax liabilities and/or payments. In the event a client does not have cash available to conduct such litigation or make such payments, it may be forced to sell investments to obtain funds. Such sales may be effected on unsatisfactory terms.

**No Assurance of Investment Returns.** An investment in any of our clients involves a high degree of risk, including the risk that the entire amount invested may be lost. Our clients invest in debt and equity securities and other financial instruments using investment techniques with significant risk characteristics. Our clients' investment programs have utilized, and may in the future utilize, such investment techniques as short sales, options, swaps, and other derivatives investments which techniques can, in certain circumstances, maximize the adverse impact to which our clients may be subject. There can be no assurance that our clients' investment programs will be successful or that investments made by our clients will increase in value. An investor in a client could lose its entire investment in the client. As a result, each prospective investor should carefully consider whether it can afford to bear the risks of investing in a client. All investors in our clients should consult their own legal, tax and financial advisors prior to investing with us. Our clients may make investments relying upon analysis or projections developed by our firm or an issuer concerning that issuer's future performance and cash flow. Analysis and projections are inherently uncertain and subject to factors beyond the control of our firm and the issuer in question. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of unforeseen events could impair the ability of an issuer or any fund investment to realize projected values and/or cash flow.

**Liquidity of Investments.** Our clients invest in securities or other assets which are subject to legal or other restrictions on transfer or for which no liquid market exists. Our clients may not be able to dispose of such securities or other assets when our firm desires to do so or to realize what our firm perceives to be their fair value in the event of a disposition.

**Financial Markets and Regulatory Change.** Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of the "alternative fund" industry in general. In addition to specific business and regulatory risks of private funds listed above, the laws and regulations affecting such businesses in general continue to evolve in an unpredictable manner. Laws and regulations, particularly those involving taxation, investment and trade, applicable to our clients' activities can change quickly and unpredictably, and may at any time be amended, modified, repealed, or replaced in a manner adverse to the interests of our clients. Our clients may also be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. It is impossible to predict what, if any, changes in regulation applicable to our clients or our firm, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. Our clients and our firm may be, or may become, subject to unduly burdensome and restrictive regulation. In particular, in response to significant recent events in international financial

markets, governmental intervention and certain regulatory measures have been adopted in certain jurisdictions. The extent to which the underlying causes of these recent events are pervasive throughout global financial markets and have the potential to cause further instability is not yet clear. These recent events, and their underlying causes, have heightened the risks associated with the investment activities and operations of alternative funds, including without limitation those resulting from a substantial reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity, an increased risk of insolvency of prime brokers and other counterparties, and regulatory changes that may have an adverse effect on alternative funds generally, and in particular, on our clients' ability to achieve their investment objective. The alternative fund industry may continue to be adversely affected by the recent developments in the financial markets in the U.S. and abroad, and any future legal, regulatory, or governmental action and developments in such financial markets and the broader U.S. economy could have an adverse effect on our clients' business, operations and performance.

**Political, Economic and Other Conditions.** Our clients' investments may be adversely affected by changes in economic conditions or political events that are beyond our firm's control. For example, a stock market downturn, continued threats of terrorism, the outbreak of hostilities involving the United States or any other jurisdiction in which our clients invest, Brexit, a U.S.-China trade war, the death of a major political figure, or the overthrow or replacement of a current ruling body may have significant adverse effects on our clients' investment results. Additionally, a serious pandemic, such as Covid-19 (as further discussed below) or avian influenza, or a natural disaster, such as a hurricane, could severely disrupt the global, national, and/or regional economies and/or markets. Other factors, such as changes in U.S. or non-U.S. tax laws, U.S. or non-U.S. securities laws, bank regulatory policies, or accounting standards, may make corporate acquisitions less desirable. Similarly, legislative acts, rulemaking, adjudicatory, or other activities of the United States Congress, the SEC, the Federal Reserve Board, the New York Stock Exchange, the Financial Industry Regulatory Authority, Inc. or other U.S. or non-U.S. governmental or quasi-governmental bodies, agencies, and regulatory organizations may make the business of our clients less attractive. A negative impact on economic fundamentals and consumer confidence may negatively impact market value, increase market volatility, and cause credit spreads to widen, each of which could have an adverse effect on the investment performance of our clients.

**Epidemics, Pandemics and Covid-19.** Many countries have been susceptible to epidemics and global pandemics such as the coronavirus "Covid-19". A continued escalation in the Covid-19 could see a continual decline in global economic growth and international business activity. The spread of Covid-19 could adversely affect the clients and their portfolio companies. The impact of a viral pandemic in certain areas with large and crowded cities is especially severe. The banking industry, and in particular, the consumer finance sector, may be significantly affected by credit losses resulting from financial difficulties of borrowers impacted by Covid-19. Certain governmental regulators have imposed limitations on short sales of equity securities, which may impact the Firm's ability to trade in certain equities and/or equity index derivatives. Covid-19 has resulted in our employees and employees of certain other service providers to the clients to work remotely, potentially for prolonged periods of time. The ability of our employees and/or the employees of other service providers to the clients to work effectively on a remote basis may adversely impact the day-to-day operations of the clients. Any similar future outbreak or pandemic could have similar potential adverse effects on the global economy, us and/or the clients.

**Defaulted Securities.** Our clients invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings, and our clients may have a more material participation in the affairs of the issuer than is generally assumed by an investor. This may subject our clients to litigation risks or prevent our clients from disposing of securities. In a bankruptcy or other proceeding, our clients as creditors may be unable to enforce their rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While our clients will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability,

there can be no assurance that such claims will not be asserted or that our clients will be able to successfully defend against them.

**Post-Reorganization Securities.** Post-reorganization securities typically entail a higher degree of risk than investments in securities of companies which have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to heavy selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If our firm's evaluation of the anticipated outcome of an investment situation should prove incorrect, our clients could experience a loss.

**Investments in Undervalued Assets.** Our clients may invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from our clients' investments may not adequately compensate investors for the business and financial risks assumed. An investor should be aware that it may lose all or part of its investment in our clients.

**Spread Widening Risks.** For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the debt instruments and other securities in which our clients invest may decline substantially. In particular, purchasing debt instruments or other assets at what may appear to be "undervalued" or "discounted" levels is no guarantee that these assets will not be trading at even lower levels at a time of valuation or at the time of sale. It may not be possible to predict such "spread widening" risk. Additionally, the perceived discount in pricing from previous environments described herein may still not reflect the true value of the assets underlying debt instruments in which our clients invest.

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

**Competition; Availability of Investments.** Our clients may be unable to find a sufficient number of attractive opportunities to meet their investment objectives or fully invest their assets and/or committed capital, as applicable. Among other factors, competition for suitable investments from other investment funds and other investors may reduce the availability of investment opportunities. There has been significant growth in the number of private funds and managed accounts organized to make investments similar or identical to our clients' investments, which may result in increased competition to our clients in obtaining suitable investments. There can be no assurance that our firm will be able to identify or successfully pursue attractive investment opportunities in such environments.

**Risks Associated with Investments in Distressed Securities.** Certain of our clients invest in securities and/or other investment instruments of issuers that are experiencing significant financial or business difficulties, including issuers involved in bankruptcy proceedings, financial restructurings or other reorganization and liquidation proceedings. Although such investments may result in significant returns to our clients, they may involve a substantial degree of risk.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by our firm. To the extent that our firm becomes involved in such proceedings, our clients may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by our firm in an issuer's

reorganization proceedings could result in the imposition of restrictions limiting our clients' ability to liquidate their positions in the issuer.

From time to time, certain of our clients invest in bonds and other fixed income instruments, including, without limitation, debt securities that can yield higher returns (and, therefore, may be subject to higher risk), when our firm believes that such investments offer opportunities for capital growth. Such investments may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower rated debt instruments tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. It is likely that a major economic recession could have a materially adverse impact on the value of such investments. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of investments rated below investment grade.

**General Credit Risks.** While certain debt instruments acquired by our clients are currently expected to be over-collateralized, there are no restrictions on the credit quality of our clients' investments. Therefore, our clients are subject to credit risk (*i.e.*, the risk that an issuer or borrower will default in the payment of principal and/or interest on an instrument) and may be exposed to losses resulting from default and foreclosure. Financial strength and solvency of an issuer or borrower are the primary factors influencing credit risk. In addition, degree of subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. The degree of credit risk associated with any particular investment or any collateral relating thereto may be difficult or impossible for our firm to determine within reasonable standards of predictability. In some cases, the credit risk of some of our clients' investments may be broadly gauged by the credit ratings of such investments. However, ratings are only the opinions of the agencies issuing them, may change less quickly than relevant circumstances, are not absolute guarantees of the quality of the rated securities and are subject to downgrade. Credit ratings and ratings agencies have recently been criticized for ratings which did not fully reflect the risks of certain securities or which did not reflect such risks in a timely manner. Therefore, our firm's capabilities in analyzing credit quality and associated risks will be particularly important (especially since it is currently anticipated that most of our clients' assets will not be rated by a ratings agency), and there can be no assurance that our firm will be successful in this regard.

Our clients cannot guarantee the adequacy of the protection of their shares or interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, our clients cannot assure that claims may not be asserted that might interfere with enforcement of their rights. In the event of a foreclosure, a client or an affiliate thereof may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to such client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

**Interest Rate Fluctuations.** The prices of fixed-income and other portfolio investments tend to be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding prices of positions to move in directions that were not initially anticipated. For example, as interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. In addition, interest rate increases generally will increase the interest carrying costs to our clients.

**Loan Participations, Sub-Participations and Assignments.** Our clients invest in fixed- and floating-rate loans, which investments generally will be in the form of loan participations and assignments of portions of such loans. Participations and assignments involve special types of risk, including credit risk, interest-rate risk, liquidity risk, and the risks of being a lender. Participations and assignments are typically sold strictly without recourse to the selling institutions and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans. Participations in commercial loans may be secured or unsecured. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. When purchasing loan participations, our clients assume the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary, and may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the borrower. In the event of the insolvency of the selling institution, our clients, 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, our clients may purchase a participation interest from a selling institution that does not itself retain 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 our clients hold a participation interest in a loan, they 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 to amend the documentation evidencing such loan in all respects.

In the case of any sub-participation held by a client, or any similar arrangement, the client may enter into one or more agreements with a third party, which third party will be a party to one or more other participation arrangements. Our clients will, in certain instances, not be aware of the terms governing, or the parties to, the other participation arrangements and will likely have a limited ability, or no ability, to cause the parties to such arrangements to act in a manner that would benefit or protect the interests of the clients in the sub-participation arrangement.

Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks to our clients. For example, if a loan is foreclosed, a client could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, a client could be held liable as a co-lender. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, each client relies on our firm's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect our clients, and there can be no assurance that our firm will be successful in this regard.

**Risk of Fraud.** Of paramount concern in investments in loans is the possibility of material misrepresentation or omission on the part of a borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying a loan or may adversely affect the ability of a client to perfect or effectuate a lien on the collateral securing the loan. Our firm will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to our clients may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Instances of fraud and other deceptive practices committed by senior management of certain companies in which a client invests may undermine our firm's due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of the client's investments. In addition, when discovered, financial fraud may contribute to overall market volatility which can negatively impact a client's investment program.

**Risks Associated with Bankruptcy Cases.** Our clients' investment and lending activities, particularly involving companies in distressed situations, may result in them becoming involved as creditors in bankruptcy cases. In addition, our clients may purchase securities or assets of, or claims against, companies in bankruptcy. There are a number of significant risks inherent in the bankruptcy process, including, but not limited to, the following:

- A bankruptcy filing may have adverse and permanent effects on a company.
- Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of our clients.
- Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and our clients; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to reorganize and may be required to liquidate assets.
- In certain jurisdictions, the administrative costs incurred 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.
- The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during the reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.
- U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purposes of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that our clients' influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority over the claims of certain creditors (for example, claims for taxes) may be quite high.
- There are instances where creditors and equity holders lose their ranking and priority such as when they take over management and functional operating control of a debtor. In those cases where our clients, by virtue of such action, are found to exercise "domination and control" over a debtor, they may lose its priority if the debtor can demonstrate that it was adversely impacted or other creditors and equity holders were harmed by such clients.
- If a client seeks representation on creditor's committees, it may owe certain obligations generally to all similarly situated creditors that the committee represents and it may be subject to various trading and/or confidentiality restrictions.
- Commercial bankruptcy laws outside the United States differ from those in the United States; some jurisdictions were until recently not supportive of creditors' rights and are slowly evolving to support financial restructurings.

- Some jurisdictions offer legal procedures whereby the debt or equity instruments of a distressed company can be amended, restructured (including write-downs and debt for equity swaps) or otherwise compromised by a majority or super-majority by number and/or value of relevant shareholders or creditors notwithstanding that relevant agreements or constitutional documents provide that the consent of all or a greater majority of relevant shareholders or creditors is required in order to undertake the relevant amendment, restructuring or compromise. Such procedures may, in some jurisdictions, be undertaken outside of formal bankruptcy proceedings and may or may not involve active court supervision.
- Our clients may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

There have been recent developments in the area of restructuring and bankruptcy that may raise additional complex issues that have not been dealt with previously. These new developments are further compounded by the fact that many of the new institutions that are looking to get involved in the next wave of restructurings are inexperienced participants in the distressed field.

**Potential Involvement in Litigation.** As a result of our clients' activities generally, including investments in distressed investments and the possibility that our firm may participate in restructuring activities, our clients sometimes become involved in litigation, including litigation respecting creditor disputes and similar issues among classes of claimants. Litigation entails expense and the possibility of counterclaims against our clients and our firm and ultimately judgments may be rendered against our clients for which our clients do not carry insurance. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by our clients and would reduce net assets or could require shareholders to return to our clients' distributed capital and earnings. In addition, our clients are sometimes required to expend funds to sustain or advance the claims underlying such investments. No assurance can be given that such clients will have funds available to sustain or advance the claims.

**Trade and Other General Unsecured Claims.** From time to time, certain of our clients acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor. Trade claims generally include, but are not limited to, claims of suppliers for goods delivered and for which payment has not been made, claims for unpaid services rendered, claims for contract rejections and claims related to litigation. Trade claims are typically unsecured and may, in unusual circumstances, be subordinated to other unsecured obligations of the debtor. The repayment of trade claims is subject to significant uncertainties, including potential set-off by the debtor characterization of "preferences" in bankruptcy as well as the other uncertainties with respect to other distressed securities. A trade claim may be transferred or assigned before or after a petition in bankruptcy is filed, including after a proof of claim has been filed. Our clients' investments in trade claims and high risk receivables may also entail special risks including, but not limited to, fraud on the part of the assignor of the trade claim as well as logistical and mechanical issues which may affect the ability of our clients or their agent(s) to collect the claim in whole or in part.

**Bank Loans.** Certain of our clients' investment programs include investments in bank loans (which at times may be in significant amounts) either by assignment or participation. These obligations are subject to unique risks, including, but not limited to (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) lender liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv)

counterparty credit risk due to delayed settlement of the bank loan transactions; and (v) limitations on the ability of our clients to directly enforce their rights with respect to participations. In analyzing each bank loan or participation therein, our firm compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by relevant clients. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are generally not purchased or sold as easily as publicly-traded securities. In addition, settlement of such transactions may be delayed due to administrative uncertainties.

Investments in loans through a direct assignment may involve certain risks to a client, including without limitation, becoming an owner of any collateral, which may involve bearing the costs and liabilities associated with owning and disposing of such collateral. When purchasing a loan by participation, a client also assumes the credit risk associated with an interposed bank or other financial intermediary, and therefore may only be able to enforce its rights through such lender.

**Issuer Default Risk; Negative Loan Performance.** There are varying sources of statistical default and recovery rate data for commercial and government loans and numerous methods for measuring default and recovery rates. The levels of defaults and delinquencies with respect to loans have been increasing, and slowing economic activity continues to contribute to a decline in overall credit quality. The historical performance of the loan market is not necessarily indicative of its future performance, and there is no way to determine whether such trends in the credit markets will improve or worsen in the future.

A portion of our clients' income may be derived, directly or indirectly, from repayments of principal and interest received in respect of debt securities. A wide range of factors may adversely affect an obligor's ability to make repayments. A continuing decreased ability of borrowers to obtain refinancing may result in a further economic decline that could delay an economic recovery and cause a further deterioration in loan performance generally.

To the extent our clients invest in debt securities secured by collateral, there can be no assurance that the liquidation of any collateral securing any client's investments would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that the collateral could be readily liquidated. In the event of bankruptcy or insolvency of a borrower, our clients could experience delays or limitations with respect to their ability to realize the benefits of the collateral securing such investment. The collateral securing an investment may lose all or substantially all of its value in the event of the bankruptcy or insolvency of a borrower.

Any defaults will have a negative impact on the value of our clients' investments and may reduce the return that our clients receive from their investments in certain circumstances. While some amount of defaults is expected to occur in our clients' portfolios, in the event that a client elects to apply leverage to an investment, defaults in or declines in the value of the portfolio investments in excess of these expected amounts may result in breaches of covenants under applicable financing arrangements, triggering credit enhancement requirements or accelerated repayment provisions and, if not cured within the relevant grace periods, permitting the finance provider to enforce its security over all the assets of our clients.

In the case of debt ranking equally with the loans or debt securities in which our clients invest, our clients would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant entity's debt securities. Each jurisdiction in which our clients invest has its own insolvency laws. As a result, investments in similarly situated companies or governments in different jurisdictions may confer different rights in the event of insolvency.

**Leverage and Financing Risk.** Leverage has been utilized, and may continue to be utilized, by certain of our clients on an opportunistic basis when warranted under the circumstances as determined by our firm.



Accordingly, certain of our clients are permitted to pledge their securities in order to borrow additional funds for investment purposes. From time to time, certain of our clients also leverage their investment return with options, commodity futures contracts, short sales, swaps, forwards, and other derivative instruments. The amount of borrowings which our clients may have outstanding at any time may be substantial in relation to their capital. While leverage presents opportunities for increasing our clients' total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by our clients would be magnified to the extent our clients are leveraged. The cumulative effect of the use of leverage by our clients in a market that moves adversely to our clients' investments could result in a substantial loss which would be greater than if no leverage were utilized.

**Hedging Transactions.** Our firm is not required to attempt to hedge portfolio positions in our clients and, for various reasons, may determine not to do so. Furthermore, our firm may not anticipate a particular risk so as to hedge against it. For various reasons, our clients may utilize financial instruments, both for investment purposes and for risk management purposes. The success of the hedging strategy of our clients will be subject to our firm's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Because the characteristics of many investment instruments change as markets change or time passes, the success of our clients' hedging strategies will also be subject to our firm's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. While our clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for our clients than if our clients had not engaged in any such hedging transactions. For a variety of reasons, our firm may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent our clients from achieving the intended hedge or expose our clients to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of our clients' portfolio holdings.

**Short Selling.** Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which our clients engage in short sales will depend upon our clients' investment objectives, our firm's investment strategy and market opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to our clients of buying those securities to cover the short position.

**Certain Derivative Investments.** Certain of our clients purchase and sell (write) options on securities, currencies and commodities on U.S. and non-U.S. exchanges and over-the-counter markets. The writer of a put option assumes the risk of a decline in the market price of the underlying instrument below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying instrument, the loss on the put will be offset in whole or in part by any gain on the underlying instrument.

The writer of a call option which is covered (*e.g.*, the writer has a long position in the underlying instrument) gives up the opportunity for gain on the underlying instrument above the exercise price of the option. The writer of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying instrument above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase transaction. In entering into a closing purchase transaction, our clients may be subject to the risk of loss to the extent

that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written. Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty.

**Non-U.S. Securities.** Our clients may invest a portion of their assets in the debt or other securities and instruments of issuers located outside the United States. In addition to the business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

Our clients may be subject to additional risks which include possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the securities or investments may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities or investments at the time of sale. Laws, regulations and conditions in foreign countries may impose restrictions or risks that would not exist in the U.S. and may require financing and structuring alternatives that differ significantly from those customarily used in the U.S. Income received by a client from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by a client will reduce its net income or return from such investments. While our firm will take these factors into consideration in making investment decisions for each client, no assurance can be given that it will be able to fully avoid these risks.

**Cybersecurity.** With the increased use of technologies such as the internet and the dependence on computer systems to perform necessary business functions, investment vehicles such as our clients and their service providers may be prone to operational and information security risks resulting from cyber-attacks. In general, cyber-attacks result from deliberate attacks, but unintentional events may have effects similar to those caused by cyber-attacks. Cyber-attacks include, among other behaviors, stealing or corrupting data maintained online or digitally (including, for example, through cyber-attacks known as “phishing” and “spear-phishing”), denial-of-service attacks on websites, the unauthorized release of confidential information and causing operational disruption. Successful cyber-attacks against, or security breakdowns of, us, our clients, the General Partners, the clients’ custodians, the Administrator and/or other third-party service providers may adversely impact our clients. For instance, cyber-attacks may interfere with the processing of transactions, impact our ability to value our clients’ assets, cause the release of private information or confidential information of our clients or investors, impede trading, cause reputational damage, and subject our clients to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and/or additional compliance costs. Our clients may also incur substantial costs for cyber security risk management in order to prevent any cyber incidents in the future. Our clients could be negatively impacted as a result. While we have established business continuity plans and systems designed to prevent such cyber-attacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Similar types of cybersecurity risks are also present for issuers of securities or other instruments in which our clients invest, which could result in material adverse consequences for such issuers, and may cause our clients’ investments therein to lose value.

## ***Conflict of Interests***

**Management of More than One Client.** Certain inherent conflicts of interest arise from the fact that our firm and its affiliates provide investment management services to multiple clients. The portfolio strategies employed by one or more of our clients could conflict with the transactions and strategies employed by our firm in managing one or more of our other clients and may affect the prices and availability of the securities and instruments in which a client invests, and vice versa. Participation in specific investment opportunities may be appropriate, at times, for more than one of our clients. In such case, participation in such opportunities will be allocated pursuant to our policies and procedures on the allocation of investments. If an order on behalf of one client cannot be fully executed under prevailing market conditions, our firm would allocate the trades among our clients on a basis that we consider equitable. Such considerations may result in allocations of certain investments among our clients on other than a *pari passu* basis.

Our firm is not required to assure equality of treatment among all of our clients and, therefore, there can be no assurance that a purchase or sale opportunity that would be suitable for one client will not be allocated to another client, with certain clients being unable to participate in such purchase or sale opportunity. Although our clients pursue similar investment objectives, the portfolios of our clients may differ as a result of, among other things, purchases and withdrawals being made at different times and in different amounts, as well as because of different tax and regulatory considerations. It is possible, for example, that one client may have a long position in (or be a buyer of) a security or other investment instrument in which one or more other clients of our firm or its affiliates have a short position (or are sellers of such security or investment instrument). Situations may occur where one client could be disadvantaged because of the various other activities conducted by our firm.

**Co-Investments.** We may, from time to time, determine that, after giving effect to all intended allocations among our clients, a co-investment opportunity exists for co-investment alongside one or more clients. We generally reserve the right to allocate co-investment opportunities among our clients, investors in our clients and third parties as we may determine in our sole discretion.

As of the date of this brochure, our firm has one active co-investment relationship with a third-party.

The allocation of all or a portion of an investment opportunity to co-investors could result in lower returns for our clients than had our clients taken the full opportunity for themselves. Furthermore, unless separately negotiated with clients or investors in our private fund clients, we generally reserve the right to allocate co-investment opportunities among our clients, investors in our clients and third parties as we may determine in our sole discretion. This could result in third parties receiving co-investment opportunities from us prior to such co-investment opportunities being presented or offered to our clients. In addition, we have charged, and may in the future charge, co-investors a management fee and/or performance compensation. Depending upon the compensation arrangement applicable to co-investors as compared to the compensation arrangement applicable to the relevant clients, we may have an incentive to allocate an investment opportunity to a co-investment vehicle rather than to our existing clients.

**Conflicts Relating to Equity and Debt Ownership by our Clients and Affiliates.** From time to time, certain of our clients invest in securities or other instruments of the same issuer (or affiliated group of issuers) having a different seniority in the issuer's capital structure. If the issuer becomes insolvent, restructures or suffers financial distress, there may be a conflict between the interests of such clients insofar as the issuer may be unable (or in the case of a restructuring prior to bankruptcy may be expected to be unable) to satisfy the claims of all classes of its creditors and security holders and our clients may have competing claims for the remaining assets of such issuers. Under these circumstances, it may not be feasible for our firm to reconcile the conflicting interests of our clients in a way that protects all of their interests. Additionally, our firm or our nominees may hold board or creditors' committee memberships which may

require us to vote or take other actions in such capacities that might be conflicting with respect to certain of our clients in that such votes or actions may favor the interests of one client over another client.

**Management Fee and Performance-Based Compensation.** The management fee and the performance-based compensation arrangements for our clients have not been negotiated at arm's length. The existence of performance-based compensation may create an incentive for our firm to make more speculative investments on behalf of our clients than we would otherwise make in the absence of such performance-based compensation. Such performance-based compensation may result in compensation to our firm that may be greater than performance-based compensation allocable to other managers for similar services. In addition, because the performance-based compensation for certain client funds is determined based upon both realized and unrealized gains, there can be no assurance that such unrealized gains will ultimately be realized.

**Side Letters.** Our firm or our client funds have the absolute discretion to enter into side letters or similar agreements with certain investors in our client funds which have the effect of establishing rights, terms, or conditions (including, without limitation, reductions in management fees and/or performance-based compensation or other terms relating to liquidity, transparency, or access to co-investment opportunities) with respect to such investors that are more favorable than the rights, terms, and conditions established in favor of other investors in our client funds without obtaining the consent of any other investor in our client funds (other than those whose rights are materially and adversely changed by such waiver or notification).

#### **Item 9. Disciplinary Information**

Neither our firm nor any of our directors, officers, or principals has been involved in any criminal or civil action in a domestic, foreign, or military court that is material to a client's or prospective client's evaluation of our advisory business or the integrity of our firm's management.

Neither our firm nor any of our directors, officers, or principals has been involved in any investment-related administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.

Neither our firm nor any of our directors, officers, or principals has been involved in any self-regulatory organization proceedings.

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

Neither our firm nor any of our directors, officers, or principals is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or is an associated person of any of the above.

As noted above, each General Partner serves as the general partner to one or more client fund.

Finally, our firm does not recommend or select other investment advisers for our clients, and our firm does not have other business relationships with advisers that create material conflicts of interest.

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

##### ***Standard of Business Conduct***

Our firm has a fiduciary duty to our clients, and in this fiduciary capacity, we and our employees must place the interests of our clients before our own interests.

## ***Code of Ethics***

We have adopted a Code of Ethics, the purpose of which is to identify the ethical and legal framework in which our firm and our personnel are required to operate and to highlight some of the guiding principles and policies for upholding our firm's standard of business conduct. Our Code of Ethics is designed to ensure that all applicable personnel are aware of and adhere to our firm's policies and procedures. The description below is a summary only. We will provide a complete copy of our Code of Ethics to our clients and prospective clients, as well as investors and prospective investors in our client funds, upon request.

***Basic Principles.*** Our Code of Ethics is based on a few basic principles: (i) our firm and its personnel must place the interests of our clients above their own; (ii) the professional activities and personal investment activities of our firm's personnel must be consistent with our Code of Ethics and avoid any actual or potential conflict between the interests of clients and those of our firm or its personnel; (iii) the activities of our firm's personnel must be conducted in a way that avoids any abuse of any such person's position of trust with and responsibility to our firm and clients; (iv) our employees must not take any inappropriate advantage of their positions at our firm; (v) we must maintain independence in our investment decision-making process; and (vi) our firm's personnel may not engage in any act, practice, or course of conduct that would violate the provisions of Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") or other applicable securities laws.

***Conflicts of Interest.*** As a fiduciary, our firm has an affirmative duty of care, loyalty, honesty, and good faith to put our clients' interests ahead of our own. Our firm makes every effort to avoid conflicts of interest and fully disclose all material facts concerning a conflict of interest that may arise with respect to any of our clients. Our firm stresses that individuals subject to our Code of Ethics must try to avoid situations that have even the appearance of conflict or impropriety.

***Insider Trading.*** Our firm's personnel may not trade, either personally or on behalf of another, on material non-public information or communicate material non-public information to another person in violation of the law. This policy applies to all of our firm's personnel and extends to their activities both within and outside their duties for our firm. Our firm has also implemented policies and procedures designed to detect and prevent insider trading.

***Personal Securities Transactions.*** All personnel must comply with our firm's policy on personal trading. Except with respect to certain securities (e.g., open-ended mutual funds, exchange-traded funds, and certain government securities) and with respect to certain accounts for which persons do not exercise investment discretion, personal securities transactions by our firm's personnel and members of their immediate family must be pre-approved by our firm's Chief Compliance Officer.

***Personal Trading Reports.*** Every employee (and anyone else deemed to be an access person) must submit periodic reports to our firm's Chief Compliance Officer relating to their trading activity and personal accounts in accordance with the Advisers Act.

***Service as a Director.*** Our firm's employees are prohibited from serving on the boards of directors of any outside company, unless the service (i) would not be contrary to the best interests of our firm or our clients and (ii) has been approved in writing by our firm's Chief Compliance Officer; *provided, however* that our employees will not be required to obtain prior written approval for service on the boards of directors of charitable or civic organizations. In addition, any employee serving on the board of a private company which is about to go public may be required to resign either immediately or at the end of the current term.

***Reporting of Violations.*** Our firm has implemented policies and procedures whereby our firm's personnel are required to report any violation of our Code of Ethics to our firm's Chief Compliance Officer.

***Review and Enforcement.*** Our firm's Chief Compliance Officer is responsible for administering and overseeing our Code of Ethics and enforcing our firm's response to any violations thereof.

### ***Conflicts of Interest***

Generally, neither our firm nor any related person of our firm recommends to our clients, or buys or sells for our clients, securities in which our firm or a related person of our firm has a material financial interest.

Our firm and related persons of our firm generally do not invest in the same securities or related securities (e.g., warrants, options, or futures) that our firm or a related person of our firm recommends to our clients. In addition, our firm and related persons of our firm generally do not recommend securities to our clients, or buy or sell securities for our clients, at or about the same time that our firm or a related person buys or sells the same securities for our firm's own (or the related person's own) account. However, exceptions are made under limited circumstances.

From time to time, subject to applicable law and client or investment guidelines and restrictions, our firm may effect transactions among clients in which one client will purchase securities from or sell or participate securities to another client (including client accounts in which our firm or its related persons may have a significant interest). This may result in a conflict of interest because a potential transaction may result in benefits to one transacting client that may be greater than the benefits to the other transacting client. In order to mitigate such conflicts, our firm effects such transactions only when it believes that such transactions are in the best interests of the applicable clients. Any investments crossed will generally be traded at the midpoint between the current best bid and offer prices, where available, and assuming such price is the most accurate price available, and any transaction costs will be divided equally between the participating clients. Our firm may, but is not required to, engage an independent third party to confirm that the price at which any cross trade would be, or was, as the case may be, effected is consistent with an arm's length transaction.

To the extent that any such transaction may be viewed as a principal transaction, our firm will comply with the requirements of Section 206(3) of the Advisers Act and provide written notification to such client and obtain client consent prior to the principal transaction or its settlement.

Potential conflicts also may arise due to the fact that our firm and our personnel may have investments in some of our private fund clients but not in others or may have different levels of investment in our various private fund clients, or due to the fact that our clients pay different levels of compensation to our firm.

In addition, our firm may give advice or take action with respect to investments of one or more of our clients that may not be given or taken with respect to our other clients with similar investment programs, objectives and strategies. Accordingly, our clients with similar investment strategies may not hold the same investments or achieve the same performance. Our firm may also advise our clients with conflicting programs, objectives or strategies. These activities may also adversely affect the prices and availability of other investments held or potentially considered for one or more clients. (*See Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss*)

From time to time, our firm has acquired, and may in the future acquire, securities or other financial instruments of an issuer for one of our clients which are senior or junior to securities or financial instruments of the same issuer that are held by, or acquired by, another of our clients. We recognize that conflicts may

arise under such circumstances and will endeavor to treat all of our clients fairly and equitably. (*See Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss*)

Our firm maintains a list of companies about which a determination has been made that it is prudent to restrict or limit trading activity based on the possibility that our firm or its employees have access to material non-public information (the “Restricted List”). Trades will not be allowed for clients, or for employees and their immediate family, in the securities of an issuer appearing on the Restricted List. Restrictions and limitations with regard to securities on the Restricted List are also considered to extend to options, rights, or warrants relating to those securities and any securities convertible into those securities.

From time to time, we have directed (and may continue to direct) one or more of our client funds to structure all or a portion of an investment through a subsidiary, another client fund, or through a pooling vehicle that aggregates investments from multiple clients. While such an arrangement may be beneficial for all of our clients involved, such an arrangement could nonetheless create conflicts of interest that might not exist in the absence of such an arrangement. When structuring such an arrangement, our firm ensures that none of our clients will bear two levels of management fees or performance-based compensation.

## **Item 12. Brokerage Practices**

### ***Selection of Brokers***

Our firm generally has authority to select broker-dealers to execute our clients’ investment transactions and uses brokerage firms to act as “prime brokers” for each client. A client’s prime broker has certain administrative responsibilities, including the issuance of account statements and information with respect to securities transactions affected through other broker-dealers. A prime broker may be allocated a portion of our clients’ securities transactions, subject to our duty to seek best execution.

Our firm allocates a portion of each client’s brokerage business to brokers on the basis of certain considerations, which may include, among others:

- Quality of execution (including accurate and timely execution, clearance and error/dispute resolution);
- Reputation, financial strength and stability;
- Block trading and block positioning capabilities;
- Willingness to execute difficult transactions;
- Willingness and ability to commit capital;
- Access to underwritten offerings and secondary markets;
- Ongoing reliability;
- Overall costs of a trade (*i.e.*, net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the firm’s knowledge of negotiated commission rates currently available and other current transaction costs;
- Nature of the security and the available market makers;
- Desired timing of the transaction and size of trade;
- Confidentiality of trading activity;
- Market intelligence regarding trading activity; and/or
- Research provided

From time to time, brokers provide our firm with capital introduction, marketing assistance, consulting with respect to technology, operations, equipment, commitment of capital, access to company management, and access to deal flow. Neither our firm nor our clients will separately compensate any broker for any of these services. Our firm has adopted policies and procedures that specify factors to be taken into account when selecting brokers (as set forth above) and these services will not be considered when selecting brokers.

In addition, our firm's personnel speak at or participate in conferences and programs sponsored by prime brokers and attended by persons and entities interested in investing in private funds. These conferences and programs may be a means by which our firm can be introduced to potential investors in our client funds. The prime brokers are not compensated by our firm, our clients, or potential investors in our private fund clients for providing such capital introduction opportunities. Such capital introduction services may assist our firm in raising capital and thus pose a potential conflict of interest.

We utilize capital introduction and marketing assistance provided by broker-dealers for our private fund clients subject to our obligation to allocate brokerage to those providers in a manner that is consistent with our duty to seek best execution. Our firm has adopted policies and procedures that seek to mitigate any actual or potential conflicts pertaining to broker selection.

Our firm has established a brokerage committee, which meets periodically to evaluate, among other things, the execution that our firm is receiving from brokers based on the factors listed above.

### ***Research and Soft Dollars***

At this time our firm is not a party to, and does not anticipate entering into, any formal "soft dollar" arrangements. However, our firm has the option to use "soft dollars" generated by our clients to pay for the research related services. In the event that our firm utilizes allocations of commission dollars, it will do so solely to pay for products or services that qualify as "research and brokerage services" within the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934, as amended.

Notwithstanding the foregoing, our firm may execute securities transactions on behalf of the clients with broker-dealers that provide our firm with access to proprietary research reports (such as standard investment research and credit reports). To our knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. These bundled services are made available to our firm on an unsolicited basis and without regard to the rates of commissions charged or paid by clients or the volume of business that our firm directs to such broker-dealers.

During its last fiscal year, our firm acquired research, such as proprietary research from brokers, with client brokerage commissions (or markups or markdowns).

### ***Aggregation of Orders***

From time to time, our firm places orders for publicly traded securities on an aggregated basis for the accounts of two or more of our clients. This practice enables our firm's clients to seek more favorable executions and net prices for the combined order. If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day are generally allocated *pro rata* among the participating clients in accordance with the initial amounts ordered by each client. However, the *pro rata* allocation may be adjusted to avoid having odd amounts of shares held in any client's account or to avoid deviations from any pre-determined minimum/maximum holdings limits established for any client. Each client that participates in the order will do so at the average price for all the transactions and will share in commissions or other transaction costs based on the allocation of shares received.



### ***Trade Errors***

Our firm may, on occasion, experience errors with respect to trades made on behalf of our clients. We will not reimburse a client for losses resulting from trade errors unless such reimbursement is made in accordance with the terms of the exculpation provision in such client's Governing Documents.

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

Jeffery A. Bersh and Michael J. Wartell, in their capacities as our firm's Co-Chief Investment Officers, review client portfolios on a regular basis. In addition, our firm's Chief Compliance Officer and other personnel will periodically review the clients' portfolio holdings to determine that the construction of each client portfolio remains consistent with their investment objectives and guidelines.

Our firm provides to investors in each private fund client such respective private fund client's audited financial statements on an annual basis and unaudited performance data on a monthly or quarterly basis. We provide managed account owners with periodic unaudited reports as agreed upon with such owner. In addition, the managed account owners have full, real-time transparency as to all transactions and holdings in the managed accounts.

In addition, investors may be provided with certain information about us and/or the clients in response to questions and requests. This information may or may not be distributed to other investors or prospective investors. Each investor and prospective investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions and must decide for itself whether the limited information provided by us is sufficient for its needs.

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

None of our firm, its principals or its employees receives any economic benefit from non-clients for providing advisory services to our clients.

### **Item 15. Custody**

Our firm is deemed to have custody over our clients' cash and securities (except as set forth below) pursuant to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). Our firm complies with the Custody Rule with respect to those private fund clients over which it is deemed to have custody by: (i) having such private fund clients audited by an independent public accounting firm that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board, (ii) having such audited financial statements be prepared in accordance with U.S. generally accepted accounting principles, and (iii) delivering such audited financial statements to investors in each such private fund client within 120 days of the end of such fund's fiscal year.

Our firm does not have custody of cash or securities of our managed account clients.

### **Item 16. Investment Discretion**

Our firm is provided with discretionary authority to manage the securities accounts of each of our clients as set forth in, and limited by, the terms and conditions of the relevant Governing Documents. Our firm does not provide advisory services directly to the investors in our clients. Generally, our firm assumes such authority by receiving a power of attorney through the execution of such Governing Documents.

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

Our firm generally has the authority to vote proxies relating to securities in certain client accounts. Accordingly, our firm has adopted policies and procedures governing the voting of proxies. The general policy is to vote proxies, which includes proxy proposals, amendments, consents, or resolutions relating to client securities, including interests in private investment funds, if any, in a manner that serves the best interests of the investing client(s), as determined by our firm in its discretion, and taking into account relevant factors, including, but not limited to:

- The impact on the value of the securities;
- The anticipated costs and benefits associated with the proposal;
- The effect on liquidity; and
- Customary industry and business practices.

We will abstain from voting by proxy (which generally requires submission of a proxy voting card), or affirmatively decide not to vote by proxy, if we deem that the issue being voted upon is not material for the investing client(s) or we determine that the cost of voting by proxy would exceed the expected benefit to the investing client(s). At times, conflicts may arise between the interests of the investing client(s), on the one hand, and the interests of our firm or its affiliates, on the other hand. If we determine that we have, or may be perceived to have, a conflict of interest when voting by proxy, we will address such conflict in accordance with our proxy voting policies and procedures.

A complete copy of our firm's policies and procedures governing the voting of proxies, together with information regarding how our firm voted particular proxies, is available to clients and prospective clients upon request.

### **Item 18. Financial Information**

Our firm is not required to include its balance sheet for its most recent fiscal year with this brochure.

### **Item 19. Requirements for State-Registered Advisers**

Our firm is not a state-registered adviser.