

# **NAPIER PARK GLOBAL CAPITAL (US) LP**

**FORM ADV PART 2A – DISCLOSURE BROCHURE**

**March 17 , 2022**

**280 PARK AVENUE  
3<sup>rd</sup> Floor  
NEW YORK, NY 10017  
212-235-0700  
[www.napierparkglobal.com](http://www.napierparkglobal.com)**

**This brochure provides information about the qualifications and business practices of Napier Park Global Capital (US) LP. If you have any questions about the contents of this brochure, please contact us at (212) 235-0700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Napier Park Global Capital (US) LP also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Napier Park Global Capital (US) LP is an SEC-registered investment adviser. Being a registered investment adviser does not imply a certain level of skill or training.**

## **Item 2 Material Changes**

**This Item 2 includes only material changes since the prior Brochure.**

No material changes since the last brochure.

Additional information about Napier Park, including a full copy of its current brochure, also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### Item 3 Table of Contents

<b><u>Item Number</u></b>	<b><u>Item</u></b>	<b><u>Page</u></b>
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.....	6
Item 6	Performance-Based Fees and Side-By-Side Management .....	8
Item 7	Types of Clients .....	9
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9	Disciplinary Information .....	85
Item 10	Other Financial Industry Activities and Affiliations .....	85
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	85
Item 12	Brokerage Practices.....	89
Item 13	Review of Accounts .....	90
Item 14	Client Referrals and Other Compensation.....	90
Item 15	Custody .....	91
Item 16	Investment Discretion .....	92
Item 17	Voting Client Securities .....	92
Item 18	Financial Information.....	92

#### **Item 4 Advisory Business**

Napier Park Global Capital (US) LP (“Napier Park”) is a subsidiary of Napier Park Global Capital LP and Napier Park Global Capital (US) GP LLC. Napier Park employees own 100% of the voting equity of Napier Park Global Capital LP and a third-party strategic partner holds a small revenue share interest in a non-voting and non-controlling capacity. Napier Park may provide advisory services to private investment companies such as funds of hedge funds, private equity funds, securitized asset vehicles and, infrastructure funds, (“collectively referred to herein as “Funds” and individually as “Fund”), and institutional investors, pension plans, state and municipal government entities, sovereign wealth entities and high net worth individuals. These Funds (i) rely on an exemption from registration under Section 3 of the Investment Company Act of 1940, as amended (“1940 Act”) or (ii) are registered under the 1940 Act, as open-end investment companies.

Napier Park also may provide investment advice to separately managed accounts (“Managed Accounts”) on a fully discretionary or non-discretionary basis.

References herein to Napier Park shall be deemed to also include Napier Park’s subsidiaries that provide advisory services to Funds.

A number of fixed income strategies fall (including CLOs) within Napier’s credit strategies group (“Credit Strategies”) in addition to our Financial Partners and Indian Investing Business strategies. Napier Park will provide investment services for the types of products listed below.

#### ***Services Provided:***

#### **Credit Strategies Fund Products:**

Each Credit Strategies investment center represents a specialized area of expertise in a fixed income or equities sector and seeks to offer Funds with a consistent investment approach, appropriate asset-liability management and attractive risk-return profile. Napier Park manages a range of fixed income and equity products with varying degrees of risk, return and diversification profiles (including hedge funds and separate accounts) with the ability to customize solutions. Napier Park manages fixed income and equity investment funds in the areas of European loans, U.S. loans, U.S. municipal bond arbitrage, corporate credit, mortgage backed and asset backed securities, structured credit and distressed debt as well as special situations strategy among others.

Napier Park uses an integrated product development, investment management, risk, operations and technology platform that draws upon professionals who have experience in investments, research, structured finance, liability management, risk analytics, client servicing, operations, technology, legal and accounting.

Napier Park’s investment and strategy selection and execution process includes an evaluation of each strategy, the development of risk management and investment guidelines, identifying and contracting third party service providers who it believes can successfully execute the strategies selected at any given time and, finally, active management of both the assets and the liabilities of the funds.

**Private Equity Fund Products:**

**Real Assets:**

Napier Park manages real assets funds which seek differentiated investment opportunities primarily by investing in cash-generating real assets with an emphasis on inflation resistant distributions and residual values. (Real “Assets”)

**India Infrastructure/Real Estate:**

Napier Park manages an infrastructure/real estate business that makes investments in India (the “India Investment Business”). Napier Park has engaged a third-party Indian advisor that provides research and advisory services to Napier Park, including deal sourcing, due diligence, deal structuring, exit strategies and other investment related advice.

**Managed Accounts:**

Napier Park provides investment advice to separately managed accounts (“Managed Accounts”) which may follow the strategies described above for Fund products.

The Managed Accounts may be managed on a fully discretionary basis (“Discretionary Managed Accounts”) or a non-discretionary basis (“Non-Discretionary Managed Accounts”).

With respect to a Discretionary Managed Account, Napier Park and its affiliates will enter into an advisory agreement with the client pursuant to which Napier Park will construct and manage on a discretionary basis the Discretionary Managed Account. With respect to a Non-Discretionary Managed Account, Napier Park and its affiliates may enter into an advisory agreement with a client pursuant to which Napier Park will provide investment advice relating to private investment funds and will construct on a non-discretionary basis the Non-Discretionary Managed Account’s portfolio. Individual agreements may provide for other services to be provided by Napier Park which may include: overall allocation advice, due diligence services, certain account consolidation, analytical and reporting services and certain administrative services. Affiliates or third parties may be retained by the Managed Account clients or Napier Park to provide administrative, custodial or other services to the Managed Accounts. Napier Park, affiliates or third party service providers may be retained by Managed Accounts or Napier Park to provide administrative, custodial or other services to Managed Accounts.

In constructing a Managed Account portfolio, Napier Park will first consider and assess the Managed Account client’s financial goals, investment objectives, investment time horizon, and investment preferences. Napier Park expects that Managed Accounts will in most cases follow strategies similar to other Funds it advises, as described above. See Item 8 “Methods of Analysis.”

### ***Particular Investment Restrictions***

Individual investors in the Funds are not typically consulted in the design or implementation of such Fund's investment programs. Each Fund's offering documentation will describe that Fund's investment program.

With respect to Managed Accounts, each advisory agreement and related account documentation will specify the particular investment program and any related investment restrictions. It is expected that, in general, each Managed Account will be customized to reflect a particular client's investor profile.

### ***Definitions***

As used herein, the term "Investment Vehicles" includes Funds and Managed Accounts.

### ***Assets Under Management***

As of March 16, 2022, Napier Park has approximately \$11,676,895,076 in discretionary assets under management based on gross assets data as of December 31, 2021 as reflected on the balance sheet and in some cases estimated gross assets data as of September 30, 2021 for certain private equity funds where this was the most recent data available.

## **Item 5 Fees and Compensation**

Napier Park offers discretionary and non-discretionary investment management and advisory fees for a percentage of assets under management or fees based on performance as described below and in Item 6. Fees may differ based upon a number of factors, including without limitation, overall fee arrangements, account complexity and size, assets under management and the terms of the various Napier Park Funds. Fees for certain of Napier Park Funds may be waived, reduced or calculated differently with respect to certain investors, including Napier Park employees or affiliates, at the discretion of Napier Park as permitted by the Napier Park Fund's offering documentation and organizational documents.

Napier Park may in the future charge other types of fees and use different fee structures, including variations of performance or incentive fee and allocations. Napier Park may share a portion of such fees with certain placement, sales or referral agents.

### ***Fees Charged: Credit Strategies Fund Products***

Each Fund may pay Napier Park a management fee, and in certain cases an incentive fee or incentive allocation (if earned). Fees earned with respect to each Fund may compensate Napier Park or its affiliates for the provision of certain ancillary services, the responsibility for all or a portion of which may be subcontracted to other parties. The amount of fees to be paid by a Fund will be set forth in the offering materials for that Fund. Management Fees payable generally range

from 0.5% to 2.0% per annum of assets under management in respect of asset-based fees, and 15% to 20% of profits in respect of any performance fees or allocations.

***Fees Charged: Private Equity Fund Products***

Napier Park may receive a management fee and if earned, an incentive allocation based on investment returns. The amount of the fees and incentive allocations are disclosed in the relevant offering materials, but may be subject to negotiation with investors. Management Fees payable generally range from .5% to 2% per annum of assets under management in respect of asset-based fees, and 10% to 20% of profits in respect of any performance fees or allocations.

***Fees Charges: Managed Accounts***

The investment advisory agreement and account documentation relating to each Managed Account will specify the fees payable to Napier Park. Such fees may include management fees and incentive fees. Management fees payable by Managed Accounts are based on assets under management and, for certain Managed Accounts, an additional performance fee determined as a percentage of profits, and currently range from 1.0% to 1.25% per annum of assets under management in respect of asset-based fees and 15% to 20% of profits in respect of any performance fees.

Napier Park or its affiliates may provide certain administrative services related to the support of Investment Vehicles for fees.

***Method of Payment of Fees***

The Funds will pay any management and incentive fees at such times and in such manner specified in their respective account documentation. Such fees will be deducted from the Fund and reflected in an investor's net asset value per share or capital account, as applicable.

It is expected that a Managed Account's management fees will be calculated and payable monthly in arrears and will be deducted from the client's account. Any incentive fee will be calculated and payable at the end of each fiscal year and also deducted from the Managed Account.

***Additional Compensation Received by Affiliates***

Napier Park may also receive fees from an Investment Vehicle (the amount of which will be specified in the agreement) for the provision of administrative services, the responsibility for all or a portion of which may be subcontracted to other parties. Affiliates of Napier Park also may have relationships with, and provide certain services to, an Investment Vehicle for which the affiliate receives compensation.

***Additional Fees and Expenses***

As described in more detail in their respective offering or account documentation, each Investment Vehicle bears its organizational and initial offering expenses and its operating and other expenses, which may include, but not be limited to, direct investment-related expenses whether or not such investment are consummated (e.g. brokerage commissions, expenses related to short sales, clearing and settlement charges, custodial fees, bank service fees interest expense, consulting and other professional fees relating to particular investments including without limitation expenses of investment bankers, attorneys, accounts and other experts), investment-related travel expenses whether or not such investments are consummated, reporting, filing and legal expenses, accounting, audit and tax preparation expenses, ongoing expenses relating to the offering and sale of the Investment Vehicle's interests, remuneration to directors or managing members, as applicable, insurance, administrator fees, liability insurance premiums, compliance expenses incurred by Napier Park in connection with its services to Investment Vehicles (which includes but is not limited to Form PF, CPO-PQR and AIFMD Annex IV reporting, as applicable), fees and expenses incurred by Napier Park or its affiliates in connection with its services to an Investment Vehicle, fees and expenses relating to software tools, programs or other technology utilized in managing Investment Vehicles (including, without limitation, third party software licensing, implementation, data management and recovery services and custom development cost); research and market data (including Bloomberg market data, Intex, any connectivity hardware incorporated into the costs of obtaining such research and market data, indemnification expense any extraordinary expenses and other similar expenses related to the Investment Vehicle.

As described in more detail in each client's advisory agreement and related account documentation, each Managed Account client may incur other costs and charges in certain circumstances (for example where individual securities are held in the Managed Account).

### ***Compensation of Napier Park Personnel***

Napier Park's personnel or supervised persons do not receive commissions tied directly to the sale of any particular securities or other investment products advised by Napier Park in the form of asset-based sales or services fees.

### ***Payment of Fees in Advance and Arrears***

Generally fees payable to Napier Park are paid in arrears. Fees for Managed Accounts shall generally be payable in arrears or less than six months in advance as specific in such Alternative Investment's relevant documentation.

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

### ***Credit Strategies Products; Accounts:***

Napier Park and its affiliates receive performance-based fees from certain of our Investment Vehicles. Any performance fees charged by Napier Park will comply with the requirements of Section 205 of the Investments Advisers Act (the "Advisers Act") and all applicable rules thereunder. Other Investment Vehicle are charged fixed fees, including asset-based fees. The performance-based fees may create an incentive for Napier Park to cause the relevant Investment Vehicle to make investments that are riskier or more speculative than would be the case if Napier



Park did not receive a performance-based fee, or to direct investments in favor of a fund or account receiving a performance-based fee. Please refer to Item 11 “Code of Ethics Participation in Client Transactions and Personal Trading” and Item 12 “Brokerage Practices” for a discussion of Napier Park’s conflict management procedures, incentive compensation arrangements, managerial review and oversight and allocation policy, all of which are intended to mitigate conflicts.

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

Napier Park provides investment advice to Funds, Managed Accounts and other investment vehicles. However, the ultimate investors in Funds and Managed Accounts advised by Napier Park are institutional investors, registered funds, funds of funds, pension plans and state and municipal government entities.

*Credit Strategies Fund Products:* Ultimate investors in each Fund are required to make a minimum capital commitment generally ranging between \$250,000 and \$10,000,000 depending on the product. The minimum for a specific Fund will be set forth in the offering materials for that fund.

*Private Equity Fund Products:*

*Real Assets Business:* Ultimate investors in each Fund generally were required to make a minimum capital commitment of \$10,000,000.

*India Investment Business:* Ultimate investors in each Fund generally were required to make a minimum capital commitment of \$2,000,000.

*Managed Accounts:*

With respect to the Managed Accounts, the clients are the holders of the Managed Accounts. Napier Park expects that such clients may include individuals, trusts, institutions, investment funds and pension plans. Napier Park generally requires a minimum investment of \$50 million for both Discretionary Managed Accounts and Non-Discretionary Managed Accounts.

At its discretion, Napier Park may accept a lower capital commitment from an investor in a managed account operated by Napier Park.

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

#### ***CREDIT STRATEGIES PRODUCTS:***

Napier Park advises a number of strategies within its Credit Strategies products. Investments made in Napier Park Investment Vehicles, involve significant risks. Prospective investors in a Napier Park Investment Vehicles should carefully consider, among other factors, the risks described below. Such risk factors are not meant to be an exhaustive list of all potential risks associated with these investments and not all risks may be applicable to your investment. Prospective investors in Napier Park Investment Vehicles should carefully review the relevant offering and governing documents and any other documents received prior to making an investment and pay particular attention to the risk factors contained within those documents.

Clients should have the financial ability and willingness to accept the risk characteristics of their particular investments. There can be no assurance that Napier Park will be able to achieve its investment objectives or that investors will receive a return of their capital. Investing involves, significant risks, including potential loss of the entire investment.

Napier Park advises the following strategies:

**Credit Strategies:**

***Investment Strategy and Method of Analysis:***

The strategy's objective is to achieve long-term returns through a combination of long and short positions involving corporate credit-related products, including, but not limited to, unsecured or secured corporate debt securities and their derivatives, bespoke risk tranches, equity and equity-related securities and various other similar investments. The strategy may invest in credit-related instruments and securities directly or indirectly by investing in derivative or synthetic instruments, including, without limitation, credit default swaps, various credit indices, credit index tranches and credit options. The strategy intends to be active in the secondary market for such investments and may source long and short positions in both the cash and synthetic markets. The strategy expects that the nature of its assets and the relative value strategies it intends to pursue should result in a low long-term correlation between the performance of the strategy and the performance of the equity or corporate debt markets. In the view of Napier Park, a relative value strategy that is deliberately oriented towards both long and short opportunities is a superior way to earn consistent risk-adjusted returns as compared to a pure "directional trading" or "long" only strategy.

The strategy's investment strategy is two-fold. Firstly, Napier Park will set the strategy's overall investment strategy based on its forward view of the credit markets. At any time during the life of the strategy its risk profile may be long, short or neutral credit risk as determined by, and in the discretion of Napier Park. Within this directional view, Napier Park will seek to invest in securities positions and credit-related instruments on the strategy's behalf which it believes best express the directional strategy. The strategy will seek to deliver superior risk-adjusted returns for its investors by carefully selecting investments that are positively correlated to certain risks ("long-risk" or "long" positions) as well as investments that are negatively correlated to certain risks ("short-risk" or "short" positions).

Secondly, the strategy will seek to identify undervalued assets and intends to efficiently utilize a variety of investment techniques to maximize the strategy's total return. Undervalued "out of favor" financial instruments may include securities which sell at a significant discount to their underlying economic value due to market imperfections or inefficiencies or have catalysts viewed by Napier Park as being in place for the realization of their underlying value.

Napier Park's credit analyst team relies heavily on bottom-up analysis, which may include analysis of an issuer's current and future revenues, EBITDA, free cash flow generation, liquidity, balance sheet quality, capital structure, corporate structure, enterprise valuation, balance sheet and operational leverage, fixed charge coverage and industry comparables. Qualitative factors considered by the analyst team may include evaluation of management and financial sponsors, secular and cyclical trends, industry structure, local and U.S. federal regulations, international and

domestic competition, potential and existing litigation, post-retirement and other legacy obligations, competitive advantages, barriers to entry, market share, customer analysis, corporate strategy and future prospects. In addition, Napier Park's analysts consider the potential for event risk or liability restructuring that could affect an issuer's creditors. Individual issuer debt ratings are considered but are not viewed a proxy for credit quality. There is no minimum credit rating for instruments in which the strategy may invest and the strategy may invest in securities below investment grade, distressed or defaulted securities.

Napier Park's analysts review the pricing, restrictive covenants and market liquidity of all instruments in an issuer's capital structure vis-à-vis industry comparables to gauge the attractiveness of a particular security. These investments may be made in the form of notes, bonds, loans or other cash instruments. Investments may also be expressed in single name credit default swap contracts.

***Strategy Risks:***

***Relative Value Strategies.*** Napier Park intends to pursue a relative value strategy which may entail offsetting long and short positions in comparable securities that have either an economic or mathematical relationship to each other or where a distortion exists with reference to either the historical price relationship or fair values of such positions. Although there is an economic or mathematical relationship between such long and short positions, there is no guarantee that Napier Park's assessment of that relationship will be correct or that such relationship will continue. While this strategy is designed to be relatively non-correlated to movements in markets in general, the Investment Vehicle's performance may nevertheless be adversely affected by events that are unanticipated or beyond Napier Park's control, such as changes in interest rates, general macroeconomic trends, regulatory changes or political crises.

***Fixed Income Securities.*** The Investment Vehicle may invest in a wide variety of fixed income securities of varying maturities issued by business entities organized in the US or in other jurisdictions with varying credit ratings. Fixed income securities are subject to market and credit risk and have varying levels of sensitivity to changes in interest rates and varying degrees of credit quality. Investments in debt obligations of an issuer will subject the Investment Vehicle to credit risk of the issuer's ability to make payments of principal and interest when due and payable. The market prices of fixed income securities in the lowest investment grade categories may fluctuate more than higher-quality securities and may decline significantly in periods of general or regional economic difficulty. Early repayment of principal on the underlying corporate debt obligations of a fixed income security may expose the Investment Vehicle to a lower rate of return upon reinvestment of principal. This risk will be greater for long-term securities than for short-term securities. In addition, the value of securities or other instruments may be adversely affected by a negative trend in the market's perception of the creditworthiness of the issuers or counterparties which could adversely affect the value of the Shares.

***Non-Investment Grade Securities.*** The Investment Vehicle may invest in non-investment grade securities that are considered speculative. Non-investment grade securities and unrated securities of comparable credit quality are subject to the increased risk of an issuer's inability to meet principal and interest payment obligations. These securities may be subject to greater price volatility due to such factors as specific corporate or municipal developments, interest rate sensitivity, negative perceptions of the junk bond markets generally and less secondary market liquidity. A number of instruments and strategies used by the Investment Vehicle may involve

non-investment grade securities, including without limitation distressed securities, special situation investments and CLOs.

***Asset Backed Securities.*** The Investment Vehicle may invest in collateralized debt obligations (“CDOs”), which include collateralized bond obligations (“CBOs”), collateralized loan obligations (“CLOs”) and other similarly structured securities across all risk tranches. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of typically high-risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The Investment Vehicle may also invest in other asset-backed securities. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO. In addition to the normal risks associated with credit-related securities (e.g., interest rate risk and default risk), CDOs carry additional risks including, but not limited to, the risk that: (i) distributions from collateral securities may not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the Investment Vehicle may invest in CDOs that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

***Structured Credit Products.*** Special risks may be associated with the Investment Vehicle’s investments in other structured credit products, such as synthetic credit portfolio transactions. For example, synthetic portfolio transactions may be structured with two or more classes of tranches that receive different proportions of the interest and principal distributions on a pool of credit assets. The yield to maturity of a tranche may be extremely sensitive to the rate of defaults in the underlying reference portfolio. A rapid change in the rate of defaults may have a material adverse effect on the yield to maturity. It is therefore possible that the Investment Vehicle may incur losses on its investments in structured products regardless of their ratings by rating agencies. Additionally, Napier Park may invest in securities that are subject to legal or contractual restrictions on their resale or for which there is a relatively inactive trading market. Securities subject to resale restrictions may sell at a price lower than similar securities that are not subject to such restrictions. Certain financial institutions and trust companies have recently established central clearing facilities for credit default swaps and other structured credit products including CDS indices and single-name CDS instruments, with the intent of increasing liquidity and transparency in the market for CDS instruments. These clearing facilities establish a daily settlement price for listed CDS instruments and conduct auctions for such instruments among participating members. The ICE Trust, which serves as a clearinghouse for credit default swaps, has set criteria for eligible derivatives clearing members, imposes margin requirements, provides monitoring, and has established guaranty funds available in certain cases. Certain clearinghouses attempt to function as the buyer to every seller, and the seller to every buyer, but subject to certain conditions, such clearinghouses may also permit bilateral trades among participants and non-participants, in which case there may be counterparty credit risk involved in the execution of the trade. Central clearing facilities or exchanges may impose restrictions on opening transactions or closing transactions. The capacities of such exchanges may not at all times be adequate to handle current trading volume and may not list each of the CDS instruments in which the Investment Vehicle invests. Until the use of such exchanges is widely adopted, the utility of such exchanges may be limited. When a particular position may not be traded on a clearinghouse or centralized exchange, effecting such a trade may entail entering into a bilateral transaction with the trade

counterparty, subject to counterparty credit risk. Additionally, one or more of such exchanges or clearing facilities could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of CDS products (or a particular class or series of CDS products).

***Convertible Securities Risk.*** The Investment Vehicle may invest in convertible securities. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock.

***Illiquidity of Investments.*** The Investment Vehicle may purchase securities which become illiquid or which are illiquid due to events relating to the issuer of the securities, market events, economic conditions investor perceptions, or subject to legal or other restrictions on the transfer of such assets. The market prices, if any, for such assets tend to be volatile and may fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry and the financing condition of the obligors on the Investment Vehicle's assets. Napier Park may not be able to sell assets when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of illiquid assets and restricted securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Moreover, during periods when the market for such assets are illiquid, it may not be feasible to efficiently dispose of or accurately determine the value of the Investment Vehicle's investments in such assets, in which case redemptions may be suspended or the payment of all or a portion of redemption proceeds may be delayed.

***Borrowings; Leverage; Interest Rates.*** The Investment Vehicle may borrow or utilize other forms of leverage on a secured or an unsecured basis for any purpose, including increasing investment capacity, covering operating expenses, making redemption or dividend payments or for clearance of transactions. There are no contractual limitations on the amount or use of such forms of leverage by the Investment Vehicle. In connection with those investment activities in which the Investment Vehicle utilizes borrowings, the possibilities for profit and the risk of loss will be increased and the debt that the Investment Vehicle has outstanding at any time may be large in relation to its assets. The level of interest rates generally and the rates at which the Investment Vehicle can borrow in particular, will affect the operating results of the Investment Vehicle. The Investment Vehicle may borrow from broker-dealers that act as its prime brokers. In the future, the Investment Vehicle may seek additional or alternative standby or permanent financing from one or more banks or other lenders and it may seek to borrow funds from institutions, foreign or domestic, by means of privately placed notes or debentures. It may enter into other types of financing arrangements, including swaps and derivative transactions, that Napier Park considers appropriate. The Investment Vehicle may enter into reverse repurchase agreements and dollar rolls on its assets. A reverse repurchase agreement or dollar roll involves the sale of a security by the Investment

Vehicle and its agreement to repurchase the instrument at a specified time and price and may be considered a form of borrowing for some purposes. Reverse repurchase agreements, dollar rolls and other forms of borrowings may create leveraging risk for the Investment Vehicle and may adversely affect values. The Investment Vehicle may be subject to an increase in borrowing costs if the counterparty to a reverse purchase agreement seeks to increase the rate of the borrowing upon a roll of the repurchase agreement. Furthermore, because of the leverage employed by the Investment Vehicle, a relatively small movement in the market price of traded instruments may result in a disproportionately large profit or loss. If income and appreciation on investments made with borrowed funds are less than the cost of the leverage or, under certain circumstances, if the borrowing is terminated by the lender or counterparty in advance of its stated term, the value of the Investment Vehicle's net assets will decrease. Accordingly, the Investment Vehicle may lose more than its initial investment in such an instrument as a result of a small change in the market price of such an instrument. The cumulative effect of the use of leverage in a market that moves adversely to a leveraged investment could result in a substantial loss which would be greater than if leverage were not used. Further, most leveraged transactions require the posting of collateral. Increases in the amount of collateral the Investment Vehicle is required to post could result in a disposition of Investment Vehicle's assets at times and prices which could be disadvantageous to the Investment Vehicle and could result in substantial losses. To the extent that a creditor has a claim on the Investment Vehicle, such claim would be senior to the rights of the Investment Vehicle and its Shareholders. However, a Shareholder cannot lose more than its investment in the Investment Vehicle.

***Long/Short Strategies.*** Napier Park may employ a long/short strategy which involves identifying debt or equity securities which are generally undervalued (or, in the case of short positions, overvalued) by the marketplace. Success of this strategy necessarily depends upon the market eventually recognizing such value in the price of the security, which may not necessarily occur or may occur over extended time frames which limit profitability. Positions may undergo significant short-term declines and experience considerable price volatility during these periods. In addition, long and short positions may or may not be correlated to each other. If the long and short positions are not correlated, it is possible to have investment losses in both the long and short sides of the portfolio.

***Use of Hedges.*** Napier Park may also utilize hedging strategies to take advantage of overvalued or undervalued components of the market. Hedging strategies may be implemented through transactions and investments in a broad variety of financial instruments, which subject the Investment Vehicle to the risks inherent in such instruments. No assurance can be given that Napier Park will successfully implement its hedging activities. Furthermore, Napier Park's implementation of hedging activities may negatively affect the value of the Investment Vehicle.

***Options and Derivative Transactions.*** The purchase or sale of an option involves the payment or receipt of a premium payment by the investor and the corresponding right or obligation, as the case may be, either to purchase, or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that the option expires worthless and the investor loses its premium. The Investment Vehicle may engage in various types of options, swap transactions and other derivative transactions, including hedging and arbitrage in options on securities and in contracts involving a return on an index of securities or basket of securities, in connection with the foregoing strategies. The prices of derivative instruments, including option

prices, may be highly volatile. When the Investment Vehicle purchases an option, it must pay the price of the option and transaction charges to the broker effecting the transaction. If the option is exercised, the total cost of exercising the option may be more than the brokerage costs that would have been payable had the underlying security been purchased directly. If the option expires, the Investment Vehicle indirectly or directly will lose the cost of the option. When the Investment Vehicle engages in an over-the-counter derivatives transaction, it is exposed to the risk of a failure by the counterparty to perform its contractual obligations, either as a consequence of financial weakness or other factors. Furthermore, the ability of the Investment Vehicle to close out a position as purchaser of an exchange-listed option would be dependent upon the existence of a liquid secondary market on an exchange.

**Swaps.** Investments in swaps involve the exchange by the Investment Vehicle with another party of all or a portion of their respective interests or commitments. For example, in the case of currency swaps, the Investment Vehicle may exchange with another party their respective commitments to pay or receive currency. In the case of a credit default swap, one party makes periodic payments to the counterparty in return for a specified payment if a third-party defaults on an underlying reference obligation. Use of swaps may subject the Investment Vehicle to risk of default by the counterparty upon specified credit events. The Investment Vehicle may participate in credit default swaps as either a "buyer" of credit protection or a "seller" of credit protection. If there is a default by the counterparty to such a transaction, the Investment Vehicle will have contractual remedies pursuant to the agreements related to the transaction. The Investment Vehicle may enter into currency, interest rate, credit default, total return or other swaps which may be surrogates for other instruments such as currency forwards, interest rate options, credit instruments and equity instruments and indices on the foregoing. The value of such instruments generally depends upon changes in volatility, price movements in the underlying assets and counterparty risk. Additionally, Title VII of the Financial Reform Act gives primary authority to the Commodity Futures Trading Commission (the "CFTC") and the Securities Exchange Commission (the "SEC" and together with the CFTC, the "Commissions") to regulate the swaps market and impose additional rules consistent with the Financial Reform Act. The effect of the rulemaking by the Commissions on the ability of the Investment Vehicle to realize its investment strategy is uncertain. The Financial Reform Act includes a number of significant changes effecting the markets for swaps, including, without limitation: (i) requiring that certain "swaps" be traded on exchanges, centrally cleared and publicly reported; (ii) requiring the registration of both dealers in swaps and large end users with one or both of the Commissions; (iii) authorizing the Commissions to establish a comprehensive regulatory system applicable to these registered dealers and end users; (iv) requiring the establishment of new swap market mechanisms, including exchanges, clearing organizations and swap information "repositories"; and (v) providing the Commissions broad and often overlapping powers that they would, in many instances be required to use jointly, sometimes in conjunction with, or under the direction of, the various banking regulators.

**Short Sales.** The Investment Vehicle may sell securities short, thereby increasing the possibility of profit and the risk of loss. Short selling allows one to profit from declines in market prices to the extent such decline exceeds the transaction costs and any costs of borrowing. A short sale involves the sale of a security that is not owned in the expectation of purchasing the same security at a later date at a lower price. To make delivery to the buyer, the Investment Vehicle must borrow the security and the Investment Vehicle will be obligated to pay the lender of the security any dividend or interest payable on the security until it returns the security to the lender. This is accomplished by a later purchase of the security by the Investment Vehicle. A short sale involves

the risk that the market price of the security will increase as any appreciation in the price of the borrowed assets would result in a loss, which is theoretically unlimited in amount. In addition, the person from whom the security was borrowed to effect the short sale may demand the return of the security before the Investment Vehicle had planned. In this situation, the Investment Vehicle may be forced to cover the short position in the market at a higher price than its short sale.

***Futures Transactions.*** The Investment Vehicle may have interests in financial futures contracts. A principal risk in futures trading is the volatility in the market prices of the underlying assets. The profitability of such activities depends on Napier Park's ability to predict fluctuations in market prices. Prices of futures contracts are affected by a wide variety of complex factors that are difficult to predict, such as supply and demand of a particular asset, weather and climate conditions, governmental activities and regulations, political and economic events and characteristics of the marketplace.

***Volatile Markets.*** Movements in the price of credit related securities can be volatile and are influenced by, among other things: changing supply and demand relationships; interest rates, inflation, government trade and fiscal policies; national and international political and economic events and changes in exchange rates and interest rates. Such volatility may adversely affect the value of the Shares.

***Inflation/Deflation.*** The Investment Vehicle may be exposed to inflation and deflation risk as a result of market conditions which affect purchasing power of such cash flows in the future. For all but adjustable bonds or floating rate bonds, the Investment Vehicle is exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk. As inflation increases, the real value of the Shares and the Investment Vehicle's investment portfolio can decline. In addition, during any periods of rising inflation, the dividend rates or borrowing costs associated with the Investment Vehicle's leverage would likely increase, which would tend to further reduce returns to Shareholders. Deflation risk is the risk that prices throughout the economy decline over time and may have an adverse effect on the creditworthiness of issuers, increasing the likelihood of issuer defaults, which may result in a decline in the value of the Investment Vehicle's portfolio.

***Government Regulation – Short Sales and Swaps.*** As part of the global governmental and private sector efforts to stabilize financial markets, there have been certain well-publicized regulatory changes or interpretations that have prohibited or significantly impacted investment strategies that have been implemented by investors in a variety of formats for many years. For instance, in February 2010 the SEC adopted rules to place certain restrictions on short selling when a stock is experiencing significant downward price pressure, and the SEC and various non-U.S. regulatory bodies have previously imposed temporary bans on short-selling in a variety of stocks and adopted permanent regulations that may have the effect of making short-selling more difficult or costly. These actions were generally regarded as causing unexpected and volatile increases in the stock prices of a variety of issuers as short sellers closed out their positions by buying securities. Of particular relevance to the Investment Vehicle, certain governmental entities have indicated that they intend to regulate the market in credit default swaps, including imposing eligibility restrictions that could prevent the Investment Vehicle from trading in the credit default swap market. As discussed above, the Financial Reform Act imposes a number of significant changes for reporting and clearing swap transactions. It is difficult to predict the impact of any such regulation on the Investment Vehicle, but such regulation could cause significant and unexpected



market disruptions or significant additional compliance costs that could in turn adversely affect the value of the Investment Vehicle.

***Loans of Portfolio Securities.*** The Investment Vehicle may lend its portfolio securities on terms customary in the securities industry, enter into reverse repurchase agreements or enter into other transactions constituting a loan of the Investment Vehicle's assets. By doing so, the Investment Vehicle would seek to increase its income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan or a default by the borrower of the securities, the Investment Vehicle could experience delays in recovering the securities it lent and may be able to recover only some of their value, if it is able to recover them at all.

***Directional Investing.*** Directional investing is dependent upon Napier Park's research and Napier Park's ability to select individual securities and to correctly interpret market data and predict future market movements. The rationale for a trade may be incorrect or the market's response to it may be contrary to that which was expected. Any factor that would make it more difficult to execute more timely trades, such as a significant lessening of liquidity in a particular market, may also be detrimental to profitability.

***Risks Associated with Investments in Companies in Distressed Situations.*** The Investment Vehicle may invest in securities, loans, claims or other obligations of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although the terms of such financing may result in significant financial returns to the Investment Vehicle, they involve a substantial degree of risk. Investments in companies involved in reorganization proceedings typically entail a number of risks that do not normally apply to investments in financially sound companies. For example, if Napier Park's evaluation of the anticipated outcome of a reorganization or the timing of such outcome should prove incorrect, the Investment Vehicle could experience losses. There is no assurance that Napier Park will correctly evaluate the value of the assets collateralizing the Investment Vehicle's participation in the loans, claims or other obligations of the company or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company which the Investment Vehicle has invested in, the Investment Vehicle may lose all or part of its investment or may be required to accept collateral with a value less than the amount of the Investment Vehicle's investment. In addition, such investments could subject the Investment Vehicle to certain additional potential liabilities that may exceed the value of the Investment Vehicle's original investment therein. For instance, under certain circumstances, payments to the Investment Vehicle and distributions by the Investment Vehicle to its shareholders may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable bankruptcy and insolvency laws.

***General Risks of Owning Debt Instruments.*** The value of the Investment Vehicle's investment in both secured and unsecured loans (and hence, each Shareholder's interest) may be detrimentally affected to the extent a borrower defaults on its obligations, there is insufficient or no collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted loan. Napier Park will attempt to minimize this risk by maintaining low loan-to-liquidation values with each loan and the collateral underlying each secured loan. However, there can be no assurance that the value assigned by Napier Park to collateral underlying a secured loan can be realized upon liquidation, nor can there be any assurance that collateral will retain its value or that there will be any collateral. In addition, certain of the Investment Vehicle's loans will be supported, in whole

or in part, by personal guarantees made by the borrower or a relative or guarantees made by a corporation affiliated with the borrower. The amount realizable with respect to a loan may be detrimentally affected if a guarantor fails to meet its obligations under the guarantee. Moreover, loans may also be supported by collateral, the value of which may fluctuate. In addition, active lending by the Investment Vehicle may subject it to additional regulation, as well as possible adverse tax consequences to the Investment Vehicle and/or its investors. It is anticipated that certain debt instruments purchased by the Investment Vehicle will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor also may be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such loans. Napier Park will seek to adopt appropriate procedures to minimize such risk. Finally, there may be a monetary, as well as a time cost involved in collecting on defaulted loans and, if applicable, taking possession of various types of collateral.

***Bank Loans.*** Loans may become nonperforming for a variety of reasons. Such nonperforming loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the loan. In addition, because of the unique and customized nature of a loan agreement and the private syndication of a loan, certain loans may not be purchased or sold as easily as publicly traded securities, and, historically, the trading volume in the loan market has been small relative to other markets. Loans may encounter trading delays due to their unique and customized nature, and transfers may require the consent of an agent bank or borrower. Risks associated with bank loans include the fact that prepayments may occur at any time without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause the Investment Vehicle to reinvest prepayment proceeds in lower-yielding investments.

Purchasers of loans are predominately commercial banks, investment strategies and investment banks. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate loan trading that may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because holders of such loans are provided confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not purchased or sold as easily as publicly-traded securities are purchased or sold.

***Loan Participations and Assignments.*** The Investment Vehicle may invest in corporate loans acquired through assignment or participations. In purchasing participations, the Investment Vehicle will usually have a contractual relationship only with the selling institution, and not the borrower. The Investment Vehicle generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor will it have the right to object to certain changes to the loan agreement agreed to by the selling institution. The Investment Vehicle may not directly benefit from the collateral supporting the related secured loan and may not be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the states thereof, the Investment Vehicle may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the secured loan. Consequently, the Investment Vehicle may be subject to the credit risk of the selling institution as well as of the borrower. Certain loans or loan participations may be governed by the laws of a jurisdiction other

than a United States jurisdiction, which may present additional risks as regards the characterization under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

***Possible Limited Availability of Senior Loans.*** Although there is currently an excess of leveraged loans available for investment, the supply of and demand for senior loans are cyclical in nature and depend on current market conditions. There is a risk that market demand for senior loans will increase at a time when direct investments in senior loans and, to a lesser degree, investments in participation interests in or assignments of senior loans may be limited. The limited availability may be due to a number of factors. Direct lenders may allocate only a small number of senior loans to new investors, including the Investment Vehicle. There may be fewer loans available for investment that meet Napier Park's credit standards, particularly in times of economic downturns. Also, lenders or agents may have an incentive to market the less desirable senior loans to investors such as the Investment Vehicle while retaining attractive loans for themselves. This would reduce the amount of attractive investments for the Investment Vehicle. If market demand for senior loans increases, the interest paid by senior loans that the Investment Vehicle holds may decrease.

***General Risks of Secured Loans.*** Certain loans held by the Investment Vehicle may be secured. While secured loans purchased by the Investment Vehicle will often intend to be over-collateralized, the Investment Vehicle may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Investment Vehicle cannot guarantee the adequacy of the protection of the Investment Vehicle's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Investment Vehicle cannot assure that claims may not be asserted that might interfere with enforcement of the Investment Vehicle's rights. In the event of a foreclosure, the Investment Vehicle or an affiliate of the Investment Vehicle 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 the Investment Vehicle. 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.

***Unsecured Loans Risk.*** Unsecured loans have lower priority in right of payment to any higher - ranking obligations of the borrower and are not backed by a security interest in any specific collateral. They are subject to risk that the cash flow of the borrower and available assets may be insufficient to meet scheduled payments after giving effect to any higher-ranking obligations of the borrower. Unsecured loans are expected to have greater price volatility than senior loans and secured loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in unsecured loans, which would create greater credit risk exposure.

***Risks Associated with Investments in High Yield Securities.*** The Investment Vehicle may invest in "high yield" bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominately speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated

securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

***Corporate Debt Obligations.*** Napier Park may invest in corporate debt obligations, including commercial paper. Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (i.e., credit risk). Napier Park may actively expose the Investment Vehicle to credit risk. However, there can be no guarantee that the Investment Vehicle will be successful in making the right selections and thus fully mitigate the impact of credit risk changes on the Investment Vehicle.

***Debt Securities.*** The Investment Vehicle may take positions in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. The Investment Vehicle may take positions in debt securities which are not protected by financial covenants or limitations on additional indebtedness. The Investment Vehicle may invest in securities which are moral obligations of issuers or subject to appropriations. The Investment Vehicle will therefore be subject to credit and liquidity risks.

***Interest Rate Risk.*** The Investment Vehicle is subject to interest rate risk. Generally, the value of fixed income instruments will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income instruments tends to decrease. Conversely, as interest rates fall, the market value of fixed income instruments tends to increase. This risk will be greater for long-term securities than for short-term securities. The Investment Vehicle may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures, interest rate options and/or other hedging strategies. However, there can be no guarantee that Napier Park will be successful in mitigating the impact of interest rate changes on the portfolios.

***Extension Risk.*** During periods of rising interest rates, the average life of certain fixed rate debt is extended because of slower than expected principal payments. This may lock in a below-market interest rate and extend the duration of these securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, these securities may exhibit additional volatility and additional loss in value. This is known as extension risk.

***Contingent Liabilities.*** The Investment Vehicle may from time to time incur contingent liabilities in connection with an investment. For example, the Investment Vehicle may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Investment Vehicle would be obligated to strategy the amounts due. Also, by way of further example, in order to procure financing in connection with its investment activities, the Investment Vehicle may enter into agreements pursuant to which it agrees to assume responsibility for default risk or other risk presented by a third-party, a warehouse financing vehicle or an investment vehicle. The Investment Vehicle may incur numerous other types of contingent liability. There can be no assurance that the Investment Vehicle will adequately reserve for its contingent liabilities and that such liabilities will not have an adverse effect on the Investment Vehicle.

See also “*General Risks*” below.

### **Mortgage Credit Strategies**

#### ***Investment Strategy and Method of Analysis:***

The Mortgage Credit team follow two strategies. One strategy’s objective is to achieve long-term returns through a combination of long and short positions on securitized, mortgage-related and corporate credit-related products, including, but not limited to, asset-backed securities (“ABS”), CDOs, CLOs, mortgage-backed securities (“MBS”), unsecured or secured corporate debt, bespoke risk tranches, equity and equity-related securities, cash-settled commodity instruments and various other similar investments and their derivatives. In particular, the strategy will seek exposure to both long and short positions primarily in securitized residential mortgages (prime, Alt-A, sub-prime), CDOs, and other mortgage-related debt, equity and derivative instruments (including credit default swaps). The strategy intends to be active in the secondary market for such investments and may source long and short positions in both the cash and synthetic markets. A minority of positions may be sourced in the primary market or via construction of bespoke trades. The strategy expects that the nature of its assets and the relative value strategies it intends to pursue should result in a low long-term correlation between the performance of the strategy and the performance of the equity or corporate debt markets.

The other Mortgage credit strategy’s objective is to achieve superior risk-adjusted returns through investments in the primary and secondary ABS and MBS markets and will focus on agency MBS derivatives, non-agency MBS, CMBS, subprime auto mezzanine tranches and other ABS, both rated and unrated. There will be no restrictions on the ratings of securities held as part of this strategy.

Napier Park believes that the strategy has a significant opportunity to benefit from the ongoing repricing of risk across all ratings levels in securitized products. In the view of Napier Park, a relative value strategy that is deliberately oriented towards both long and short opportunities is a superior way to earn consistent risk-adjusted returns as compared to a pure “directional trading” or “long” only strategy.

Napier Park believes that the rapid growth of securitized products, along with their complexity and opacity, provides good opportunities for skilled investment professionals to create and capture value. Securitized products are usually created when an originating issuer segregates a pool of assets (e.g. corporate loans, mortgage loans, other complex bonds, credit default swaps, etc.) and then issues different classes or tranches of interests backed by the assets in the pool. These distinct tranches have different rights and priorities with respect to the asset pool and are typically sold to a variety of investors with differing risk-reward preferences. The tranches are paid interest and principal based on often complex rules governing their rights and priorities and have recourse only to the cash flows and liquidation proceeds of the pool. The values of different tranches are thus derivatives of the value of the underlying assets. Assessing the value of a particular tranche requires an in-depth analysis of the underlying portfolio assets as well as the covenants and applicable provisions for how value is distributed across different tranches in different

circumstances through structural nuances. This deal structure becomes particularly important when an asset portfolio has lost value or becomes impaired. As an example, in certain CDOs, cash interest may still be paid to junior tranches (e.g. subordinated debt) even if that tranche is impaired from a principal return point of view; while in other CDOs, junior tranches may stop receiving interest even if they are unimpaired from a principal return point of view.

Napier Park has developed a proprietary analytical platform that serves as the cornerstone of the investment process and helps model, analyze, and benchmark pools of mortgage loans on a loan by loan basis in great detail in order to help make absolute and relative value judgments throughout the investment selection process.

Napier Park will also consider certain qualitative factors which Napier Park believes are key drivers of value. Napier Park intends to consider, among other things, the structure of the investment including the offering memorandum, the governing documents for the entity and other documents related to the investment. Some key points on deal structure may be types of cash-flow triggers and their levels, subordination, waterfall rules, remedies upon events of defaults, and embedded hedges. In addition to deal structure, an additional and often vital determinant of value is the behavior of a manager or servicer where the asset pool is actively managed. The actions and historical performance of a portfolio manager are also significant considerations in the selection process because manager incentives and the behavior of various agents who are able to modify the asset portfolio may significantly affect the valuation of a tranche. Napier Park is acquainted with past practices followed by certain individuals and organizations involved in the securitized products markets and may use this industry experience to assess the management of such investments.

### ***Strategy Risks:***

***Mortgage-Backed Securities.*** The Investment Vehicle intends to invest in mortgage-backed and other mortgage-related instruments. Mortgage-related securities include mortgage pass-through securities, collateralized mortgage obligations (“CMOs”), commercial mortgage-backed securities, mortgage dollar rolls, CMO residuals, and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The value of some mortgage-related instruments may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on the mortgages underlying or associated with mortgage-related securities may expose the Investment Vehicle to a lower rate of return upon reinvestment of principal. When interest rates rise, the value of a mortgage-related security generally will decline; however, when interest rates are declining, the value of mortgage-related securities with prepayment features may not increase as much as the value of other fixed income securities. This risk will be greater for long-term securities than for short-term securities. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security and may shorten or extend the effective date of maturity of the security beyond that anticipated at the time of purchase. If unanticipated rates of prepayment on underlying mortgages increase the effective maturity of a mortgage-related security, the volatility of the security can be expected to increase. In addition, the value of securities or other instruments may be adversely affected by a negative trend in the market’s perception of the creditworthiness of the issuers or counterparties which could adversely affect the value of the Shares. Additionally, although mortgages and mortgage-related securities are generally supported by some form of government

or private guarantee and/or insurance, there is no assurance that private guarantors or insurers will meet their obligations.

***Commodity Instruments.*** The Investment Vehicle may invest in cash-settled commodity instruments (including options on, futures with respect to, forward contracts on, exchange traded instruments related to, and other synthetic instruments linked to the performance of one or more commodities), the prices of which can be volatile, particularly over short periods of time. Commodities markets may fluctuate widely based on a variety of factors, including changes in overall market movements, domestic and foreign political and economic events and policies, war, acts of terrorism, changes in domestic or foreign interest rates and/or investor expectations concerning interest rates, domestic and foreign inflation rates. In any over-the-counter transactions by the Investment Vehicle, including in connection with cash-settled commodity instruments, the Investment Vehicle may be exposed to the risk of a failure by the counterparty to perform its contractual obligations, either as a consequence of financial weakness or other factors. The Investment Vehicle may also be exposed to risk in its ability close out a position as purchaser of an exchange-listed option relating to commodities as a liquid secondary market on an exchange is necessary to timely and efficiently settle such trade. Additionally, the commodity markets are subject to comprehensive statutes, regulations and margin requirements. Recent legislation has created a new multi-tiered structure of exchanges in the U.S. subject to varying degrees of regulation, and rules and interpretations regarding various aspects of this regulatory structure have only recently been finalized. The regulation of commodity transactions in the U.S. is a rapidly changing area of law and is subject to ongoing modification by government and judicial action. In addition, various national governments have expressed concern regarding the disruptive effects of speculative trading in the currency markets and the need to regulate the derivatives markets in general. The effect of any future regulatory change on the Investment Vehicle is impossible to predict, but could be substantial and adverse.

***Investments in Indexes.*** The Investment Vehicle may invest in certain index products. An investment in an index product is subject to the risks and opportunities of the underlying securities which compose the index. Although the index may be managed by an administrator, Napier Park will not have control over the composition of the index, and the may be exposed to changes in value based upon the performance and management of the reference obligations or securities which constitute the index.

***Investments in Real Estate Securities and Loans.*** The Investment Vehicle may invest a portion of its assets in real estate-related securities including Real Estate Mortgage Investment Conduit (“REMIC”) securities that Napier Park believes are undervalued, non-recourse mortgages where the mortgagor is not a significant operating company, and in the securities or obligations of single-purpose companies whose primary asset is real estate. Special risks associated with such investments include changes in the general economic climate or local conditions (such as an oversupply of space or a reduction in demand for space), competition based on rental rates, attractiveness and location of the properties, changes in the financial condition of tenants, and changes in operating costs. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing and potential liability under changing environmental and other laws. Furthermore, many of the properties securing these loans may be suffering varying degrees of financial distress or may be located in economically distressed areas. Loans may become nonperforming for a wide variety of reasons, including, without limitation, because the mortgaged

property is too highly leveraged (and, therefore, the property is unable to generate sufficient income to meet its debt service payments), the property is poorly managed or because the mortgaged property has a high vacancy rate, has not been fully completed or is in need of rehabilitation.

***Short-Term Market Considerations.*** Napier Park's trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

***Structured Product Arbitrage.*** The success of the Investment Vehicle's structured product arbitrage strategy depends upon Napier Park's ability to identify and exploit the inefficient pricing of portfolio risk and the implicit correlations of time to default with respect to various categories of structured products and derivatives. In the event that the perceived mispricings underlying the Investment Vehicle's positions were incorrect, the Investment Vehicle could incur losses. In addition, the lack of an established, liquid secondary market for some structured products (including CDOs) may make it difficult to realize the perceived value of such Securities.

### ***Leverage and Borrowing.***

***Leverage for Investment Purposes.*** The use of leverage will allow the Investment Vehicle to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the Investment Vehicle's portfolio. The effect of the use of leverage by the Investment Vehicle in a market that moves adversely to its investments could result in substantial losses to the Investment Vehicle, which would be greater than if the Investment Vehicle were not leveraged. The Investment Vehicle may also borrow for cash management purposes, such as to satisfy withdrawal requests. To facilitate such borrowings, the Investment Vehicle may, among other things, enter into a credit facility with a service provider to the Investment Vehicle or a third-party credit institution.

***Borrowing for Cash Management Purposes.*** The Investment Vehicle has the authority to borrow for cash management purposes, such as to satisfy withdrawal requests. The rates at and terms on which the Investment Vehicle can borrow will affect the operating results of the Investment Vehicle.

***Collateral.*** The instruments and borrowings utilized by the Investment Vehicle to leverage investments may be collateralized by all or a portion of the Investment Vehicle's portfolio. Accordingly, the Investment Vehicle may pledge its Securities in order to borrow or otherwise obtain leverage for investment or other purposes. Should the Securities pledged to brokers to secure the Investment Vehicle's margin accounts decline in value, the Investment Vehicle could be subject to a "margin call", pursuant to which the Investment Vehicle must either deposit additional funds or Securities with the broker or suffer mandatory liquidation of the pledged Securities to compensate for the decline in value. The banks and dealers that provide financing to the Investment Vehicle can apply essentially discretionary margin, "haircut", financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to the Investment Vehicle may have similar rights. There



can be no assurance that the Investment Vehicle will be able to secure or maintain adequate financing.

*Costs.* Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Investment Vehicle's portfolio.

***Lending of Portfolio Securities.*** The Investment Vehicle may lend securities on a collateralized and an uncollateralized basis from its portfolio to creditworthy securities firms and financial institutions. While a securities loan is outstanding, the Investment Vehicle will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially.

***Diversification and Concentration.*** Napier Park may select investments that are concentrated in a limited number or types of Securities. In addition, the Investment Vehicle's portfolio may become significantly concentrated in Securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Investment Vehicle to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such Securities.

***Lack of Control.*** The Investment Vehicle may invest in debt instruments and equity securities of companies that it does not control, which the Investment Vehicle may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such Securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Investment Vehicle does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Investment Vehicle's interests. In addition, the Investment Vehicle may share control over certain investments with co-investors, which may make it more difficult for the Investment Vehicle to implement its investment approach or exit the investment when it otherwise would. The occurrence of any of the foregoing could have a material adverse effect on the Fund and the investors' investments therein.

***Hedging Transactions.*** The Investment Vehicle may utilize Securities for risk management purposes in order to: (i) protect against possible changes in the market value of the Investment Vehicle's investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Investment Vehicle's unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any Securities; (iv) enhance or preserve returns, spreads or gains on any Security in the Investment Vehicle's portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Investment Vehicle's securities; (vii) protect against any increase in the price of any securities the Investment Vehicle anticipates purchasing at a later date; or (viii) act for any other reason that Napier Park deems appropriate. The Investment Vehicle will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. Napier Park may be unable to anticipate the

occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While the Investment Vehicle may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Investment Vehicle than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

***Fundamental Analysis.*** Certain trading decisions made by Napier Park may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the Investment Vehicle's trading strategies, the Investment Vehicle may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that Napier Park misinterprets the meaning of certain data, the Investment Vehicle may incur losses.

***Derivative Instruments Generally.*** Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives are subject to change. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which the Investment Vehicle may participate is evolving, and changes in the regulation or taxation of such Securities may have a material adverse effect on the Investment Vehicle.

***Derivatives Regulation.*** Since the introduction of the Dodd-Frank Act in 2010, the CFTC has promulgated many final rules related to derivatives and such regulations may negatively affect the Investment Vehicle. Parties that act as dealers in swaps, for example are subject to extensive business conduct standards, additional "know your counterparty" obligations, recordkeeping, reporting, portfolio reconciliation, documentation standards and capital requirements and, when regulations are finalized, will become subject to margin requirements. Similar rules related to security-based swaps will soon be implemented. Requirements such as these will raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Investment Vehicle. The new rules also add additional operational and technological burdens on the Investment Vehicle. Currently, with respect to swaps, the Investment Vehicle must engage in portfolio reconciliation, recordkeeping, reporting and other transaction level obligations, which increase the compliance burdens and costs to the Investment Vehicle. These compliance obligations require certain training of employees and technology, and there are operational risks as the Investment Vehicle implements procedures to comply with many of these additional obligations. Certain swap transactions have become (or will become) subject to anonymous "real time reporting", meaning that transactions entered into by the Investment Vehicle will become visible to the market in ways that may harm the Investment Vehicle's ability to enter into additional transactions at comparable prices or could enable competitors to "front run" or replicate the Investment Vehicle's strategies. In addition,

certain swap transactions have become (or will become) subject to mandatory trading on regulated trading venues such as swap execution facilities ("SEFs"), which will require the Investment Vehicle to subject itself to regulation by these venues and subject the Investment Vehicle to the jurisdiction of the CFTC. It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading on these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively expensive for the Investment Vehicle to obtain tailored swap products to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of the new regulations. The SEC still is at a nascent stage for implementing rules related to security-based swaps. It is possible that security-based swaps will be subject to different rules and regulations than swaps. Since the division of "swaps" (regulated by the CFTC) and "security-based swaps" (regulated by the SEC) is a regulatory distinction rather than a product distinction, substantively similar products may have significantly different regulatory treatment. This may mean that the operational complexities of trading various derivative instruments is increased. Overall, new regulations may also render certain strategies in which the Investment Vehicle might otherwise engage impossible or so costly that they will no longer be economical to implement. The impact of the Dodd-Frank Act or comparable regulations in other jurisdictions on the Investment Vehicle is uncertain, and it is unclear how the over-the-counter derivatives markets will adapt to this new regulatory regime or any additional regulation in the future.

*Call Options.* The seller (writer) of a call option which is covered (*i.e.*, the writer holds the underlying Security) assumes the risk of a decline in the market price of the underlying Security below the purchase price of the underlying Security less the premium received, and gives up the opportunity for gain on the underlying Security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying Security above the exercise price of the option. The Securities necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing Securities to cover the exercise of an uncovered call option can cause the price of the Securities to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

*Put Options.* The seller (writer) of a put option which is covered (*i.e.*, the writer has a short position in the underlying Security) assumes the risk of an increase in the market price of the underlying Security above the sales price (in establishing the short position) of the underlying Security plus the premium received, and gives up the opportunity for gain on the underlying Security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying Security 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.

*Index or Index Options.* The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or

index option depends upon movements in the level of the index rather than the price of a particular asset, whether the Investment Vehicle will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

*Index Futures.* The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by the Investment Vehicle also is subject to Napier Park's ability to correctly predict movements in the direction of the market.

*Credit Default Swaps.* Credit default swaps can be used to implement Napier Park's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Investment Vehicle may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Investment Vehicle to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Investment Vehicle may also buy credit default protection with respect to a referenced entity if, in Napier Park's judgment, there is a high likelihood of credit deterioration. In such instance, the Investment Vehicle will pay a premium regardless of whether there is a credit event.

*Futures Contracts.* The value of futures contracts depends upon the price of the Securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Investment Vehicle's positions trade or of its clearinghouses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Investment Vehicle from promptly liquidating unfavorable positions and subject the Investment Vehicle to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price

of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

*Forward Contracts.* The Investment Vehicle may enter into forward contracts and options thereon, including non-deliverable forwards, which are currently not traded through clearinghouses, although this is expected to change. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which Napier Park would otherwise recommend, to the possible detriment of the Investment Vehicle. In its forward trading, the Investment Vehicle will be subject to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the Investment Vehicle trades. Investment Vehicle assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. Napier Park may order trades for the Investment Vehicle in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Investment Vehicle to the risk of loss.

*Contracts for Differences.* Contracts for differences ("CFDs") are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. A CFD is usually terminated at the buyer's initiative. As is the case with owning any financial instrument, there is the risk of loss associated with buying a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the buyer to post additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require the buyer to make additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Investment Vehicle's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Investment Vehicle's financial risk.

***ABS and MBS Generally.*** The investment characteristics of ABS and MBS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

***ABS and MBS Subordinated Securities.*** Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

***Commercial MBS.*** Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

***ABS.*** ABS are not secured by an interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of U.S. federal and state consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is

a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

*RMBS.* Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so called "jumbo" mortgage loans, having original principal balances that are higher than Fannie Mae and Freddie Mac loan balance limitations. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment,

which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, conditions in credit markets and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Prepayments on the underlying residential mortgage loans backing an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

Certain mortgage loans may be of subprime credit quality (*i.e.*, do not meet the customary credit standards of Fannie Mae and Freddie Mac). Originators of loans make subprime mortgage loans to borrowers that typically have limited access to traditional mortgage financing for a variety of reasons, including impaired or limited past credit history, lower credit scores, high loan-to-value ratios or high debt-to-income ratios. As a result of these factors, delinquencies and liquidation proceedings are more likely with subprime mortgage loans than with mortgage loans that satisfy customary credit standards. The RMBS also may be backed by non-conforming mortgage loans that do not qualify for purchase by government-sponsored agencies, such as Fannie Mae and Freddie Mac, because of characteristics and size that do not satisfy Fannie Mae and Freddie Mac guidelines. Non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines. The principal differences between conforming mortgage loans and non-conforming mortgage loans include the applicable loan-to-value ratios, the credit and income histories of the related mortgagors, the documentation required for approval of the related mortgage loans, the types of properties securing the mortgage loans, the loan sizes and the mortgagors' occupancy status with respect to the mortgaged properties. As a result of these and other factors, the interest rates charged on non-conforming mortgage loans are often higher than those charged for conforming mortgage loans. The combination of different underwriting criteria and higher rates of interest may also lead to higher delinquency, foreclosure and losses on non-conforming mortgage loans as compared to conforming mortgage loans.

RMBS may contain certain credit enhancement features intended to enhance the likelihood that holders of such securities will receive regular payments of interest and principal. If delinquencies or defaults occur on the mortgage loans underlying such RMBS, neither the related servicers nor any other entities will advance scheduled monthly payments of interest



and principal on delinquent or defaulted mortgage loans if such advances are not likely to be recovered within those transactions. If substantial losses occur as a result of defaults and delinquent payments on the mortgage loans, the Investment Vehicle may suffer losses with respect to its ownership of such RMBS.

Recently, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of RMBS. Delinquencies and losses with respect to residential mortgage loans generally have increased in recent months, and may continue to increase, particularly in the subprime sector. In addition, in recent months housing prices and appraisal values in many states have declined or stopped appreciating. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on RMBS generally.

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of RMBS.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have recently experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may adversely affect the performance and market value of RMBS originated, serviced or subserviced by these companies. As a result, the performance and market value of derivatives backed by RMBS also may be adversely affected.

The mortgage loans underlying certain of the RMBS may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the monthly payments are not enough to cover both the interest and principal payments on the loan, the shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. During periods in which the outstanding principal balance of any such mortgage loan is increasing due to the addition of deferred interest, the increasing principal balance of such mortgage loan may approach or exceed the value of the related mortgage property, thus increasing the likelihood of defaults as well as the amount of any loss experienced with respect to any such mortgage loan that is required to be liquidated.

Furthermore, each such mortgage loan generally provides for the payment of any remaining unamortized principal balance (due to the addition of deferred interest, if any, to the principal balance of such mortgage loan) in a single payment at the maturity of the loan. Because the related mortgagors may be required to make a larger single payment upon maturity, it is possible that the default risk associated with such mortgage loans is greater than that associated with fully amortizing mortgage loans. If the pool of mortgage loans underlying any RMBS owned by the Investment Vehicle were to contain loans with negative amortization features, the yield on such RMBS could be adversely affected.

RMBS have structural characteristics that distinguish them from other asset-backed securities. The rate of interest payable on RMBS is often set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an "available funds cap". Other factors, such as the use of interest rate derivatives, may also affect the returns on RMBS. The U.S. Service members' Civil Relief Act of 2003, as amended (the "Relief Act"), provides relief to mortgagors who enter into active military service or who were on reserve status but are called to active duty after the origination of their mortgage loans. Under the Relief Act, during the period of a mortgagor's active duty, the rate of interest that may be charged on such mortgagor's loan will be capped at a rate of 6% per annum, which may be below the interest rate that would otherwise have been applicable to such mortgage loan. In light of current United States involvement in Iraq and Afghanistan, a number of mortgage loans in the mortgage pools underlying RMBS are or may become subject to the Relief Act. As a result, the weighted average interest rate on RMBS may be reduced. If such RMBS are subject to weighted average net coupon caps, investors' return on their investment in such RMBS will be similarly affected.

Violations of consumer protection laws may result in losses on RMBS. Applicable state laws generally regulate interest rates and other charges, require licensing of originators and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the loans backing RMBS. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of a RMBS to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement.

The mortgage loans backing a RMBS also are subject to U.S. federal laws, including:

- the U.S. Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;
- the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;

- the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation;
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower's credit experience;
- the Home Ownership and Equity Protection Act of 1994, which regulates the origination of high cost loans;
- the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws; and
- the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions.

Violations of particular provisions of these U.S. federal laws may limit the ability of the issuer of RMBS to collect all or part of the principal of or interest on the related underlying loans and in addition could subject such issuer to damages and administrative enforcement. In this event, the issuer, as a holder of such RMBS may suffer a loss.

Some of the mortgages loans backing a RMBS may have been underwritten with, and finance the cost of, credit insurance. From time to time, originators of mortgage loans that finance the cost of credit insurance have been named in legal actions brought by U.S. federal and state regulatory authorities alleging that certain practices employed relating to the sale of credit insurance constitute violations of law. If such an action were brought against such issuer with respect to mortgage loans backing such RMBS and were successful, it is possible that the borrower could be entitled to refunds of amounts previously paid or that such issuer could be subject to damages and administrative enforcement.

In addition, numerous U.S. federal and state statutory provisions, including the U.S. federal bankruptcy laws, the Relief Act and state debtor relief laws, also may adversely affect the ability of an issuer of a RMBS to collect the principal of or interest on the loans, and holders of the affected RMBS may suffer a loss if the applicable laws result in these loans becoming uncollectible.

In addition to the U.S. federal laws described above, however, a number of legislative proposals have been introduced at the U.S. federal, state and municipal levels that are designed to discourage predatory lending practices. Some states have enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in mortgage loans that have mortgage rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of such mortgage loans. In some cases, state law may impose requirements and restrictions greater than those in the Homeownership Act. An originator's failure to comply with these laws could subject the issuer of a RMBS to monetary penalties and could result in the borrowers rescinding the loans underlying such RMBS. Lawsuits have been brought in various states making claims against assignees of high cost loans for violations of state law. Named defendants in these cases include numerous participants within the secondary mortgage market, including some securitization trusts.

***Rehab Loans Generally.*** The investment characteristics in Rehab Loans differ from traditional debt securities. Among the major differences are that interest and principal payments are made more

frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

*Rehab Loans.* Holders of Rehab Loans bear various risks, including credit, market, interest rate, extension, structural and legal risks. Typically, such loans may be prepaid at any time. Rehab Loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on mortgage loans (such as Rehab Loans) will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a mortgage loan is in default, foreclosure of such mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted mortgage loans or foreclosed properties may be very limited. At any one time, a portfolio of Rehab Loans may consist disproportionately of loans with large aggregate principal amounts secured by properties in only a few states or regions. As a result, the Rehab Loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations and loan sizes. As a result, such portfolio of loans may experience increased losses as compared to a more diversified portfolio. A Rehab Loan may have a balloon payment due on its maturity date. Balloon mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, conditions in credit markets and general economic conditions. If the borrower is unable to make such balloon payment, the Rehab Loan will likely default. Prepayments on Rehab Loans will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related mortgage loans, the rate of prepayment on the underlying mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on a portfolio of Rehab Loans. Rehab Loans are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the Rehab Loans, resulting in a reduction in yield to maturity for holders of such securities. Rehab Loans may be non-conforming mortgage loans that do not qualify for purchase by government-sponsored agencies, such as Fannie Mae and Freddie Mac, because of characteristics and size that do not satisfy Fannie Mae and Freddie Mac guidelines. Non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines. The principal

differences between conforming mortgage loans and non-conforming mortgage loans include the applicable loan-to-value ratios, the credit and income histories of the related mortgagors, the documentation required for approval of the related mortgage loans, the types of properties securing the mortgage loans, the loan sizes and the mortgagors' occupancy status with respect to the mortgaged properties. As a result of these and other factors, the interest rates charged on non-conforming mortgage loans are often higher than those charged for conforming mortgage loans. The combination of different underwriting criteria and higher rates of interest may also lead to higher delinquency, foreclosure and losses on non-conforming mortgage loans as compared to conforming mortgage loans. If there are significant number of defaults and delinquent payments on the Rehab Loans, the Investment Vehicle may suffer significant losses. In recent years, the mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of a portfolio of Rehab Loans. Delinquencies and losses with respect to mortgage loans have been and may continue to be volatile. In addition, in recent months housing prices and appraisal values in many states have declined or stopped appreciating. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on housing loans generally. Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their mortgaged properties to permit them to refinance. Furthermore, borrowers who intend to sell their mortgaged properties on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell such properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of a portfolio of Rehab Loans. In addition, a mortgage loan originator may experience financial difficulties or bankruptcy. These difficulties may result from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may adversely affect the performance and market value of Rehab Loans originated, serviced or subserviced by these companies. Certain Rehab Loans may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the monthly payments are not enough to cover both the interest and principal payments on the loan, the shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. During periods in which the outstanding principal balance of any such mortgage loan is increasing due to the addition of deferred interest, the increasing principal balance of such mortgage loan may approach or exceed the value of the related mortgage property, thus increasing the likelihood of defaults as well as the amount of any loss experienced with respect to any such mortgage loan that is required to be liquidated. Furthermore, each such mortgage loan generally provides for the payment of any remaining unamortized principal balance (due

to the addition of deferred interest, if any, to the principal balance of such mortgage loan) in a single payment at the maturity of the loan. Because the related mortgagors may be required to make a larger single payment upon maturity, it is possible that the default risk associated with such mortgage loans is greater than that associated with fully amortizing mortgage loans. To the extent the Fund invests in loans with negative amortization features, the Investment Vehicle's returns could be adversely affected. Laws such as the Relief Act provides relief to mortgagors who enter into active military service or who were on reserve status but are called to active duty after the origination of their mortgage loans. Under the Relief Act, during the period of a mortgagor's active duty, the rate of interest that may be charged on such mortgagor's loan will be capped at a rate of 6% per annum, which may be below the interest rate that would otherwise have been applicable to such mortgage loan. In light of current United States' involvement in Iraq and Afghanistan, a number of Rehab Loans are or may become subject to the Relief Act. If the loans in the Fund's portfolio are or become subject to such caps, the Investment Vehicle's returns could be adversely affected. Violations of loan origination or servicing laws may result in losses on a portfolio of Rehab Loans. Applicable state laws generally regulate interest rates and other charges, require licensing of originators and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of Rehab Loans. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of a lender to collect all or part of the principal of or interest on the Rehab Loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a Rehab Loan to damages and administrative enforcement.

***Collateralized Loan Obligations Generally.*** CLOs are subject to concentration and leverage risks (as leverage is embedded in all classes of a CLO other than the most senior tranche) and various other risks including, without limitation, the following risks:

*General.* The value of CLOs generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CLO ("CLO Collateral"), market conditions, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. CLOs are issued on a non-recourse basis and holders of CLOs must rely solely on distributions on the CLO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CLO Collateral are insufficient to make payments on the CLOs, no other assets will be available for payment of the deficiency and following liquidation of the CLO Collateral, the obligations of such issuer to pay such deficiency will be extinguished.

*Lower Credit Quality Securities.* There are limited restrictions on the credit quality of the investments of the Investment Vehicle. CLOs in which the Investment Vehicle may invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may have the lowest quality ratings or may be unrated. The Investment Vehicle may purchase CLOs which have ratings that have been downgraded or placed on "credit watch" for future downgrading.

*Liquidity of Markets.* At times, the fixed income markets have in the past experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, a CLO may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of the Investment Vehicle's portfolio, and may be difficult or impossible to hedge against.

*Subordination of CLOs.* A portion of the Investment Vehicle's portfolio may consist of subordinate CLOs. Thus, investments of the Investment Vehicle in a CLO could rank behind other creditors of the CLO and an investment by the Investment Vehicle in the equity tranche of a CLO could rank behind all creditors of the CLO. To the extent that any losses are incurred by a CLO in respect of its related CLO Collateral, such losses will be borne first by the holders of the related CLO equity, next by the holders of any related subordinated CLO debt and finally by the holders of the related CLO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CLO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CLO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CLO debt or CLO equity.

*Optional Redemption of CLO Senior Tranches.* An optional redemption by a CLO of its notes could require the collateral or portfolio manager of the related CLO to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the items of CLO Collateral sold (and which in turn could adversely impact the holders of any related CLO equity securities, including the Investment Vehicle).

***Collateralized Debt Obligations Generally.*** There are a variety of different types of CDOs, including CDOs collateralized by trust preferred securities and asset-backed securities and CDOs collateralized by corporate loans and debt securities called CLOs. CDOs may issue several types of securities, including, without limitation, CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity, bespoke CDO obligations (*i.e.*, CDO obligations for which only a single tranche of securities is issued) and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail above. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity, the Investment Vehicle will have limited remedies available upon the default of the CDO. The Investment Vehicle may be unable to find a sufficient number of attractive opportunities to meet its investment objective or fully invest its committed capital. For example, from time to time, the market for CDO transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. CDOs often invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the related CDOs to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry.

The value of CDOs generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events,

developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished. CDO Collateral may consist of high-yield debt securities, loans, asset-backed securities and other securities, which often are rated below investment grade (or of equivalent credit quality). High-yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.

*Subordination of CDO Debt and CDO Equity.* Subordinate CDO debt generally is fully subordinated to the related CDO senior tranches. CDO equity generally is fully subordinated to any related CDO debt and is not secured by any collateral. Distributions to holders of CDO equity will generally be made solely from distributions on the assets of the CDO issuer after all other payments have been made pursuant to the priority of payments of such CDO. To the extent that any losses are incurred by a CDO in respect of its related CDO Collateral, such losses will be borne first by the holders of the related CDO equity, next by the holders of any related subordinated CDO debt and finally by the holders of the related CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CDO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CDO debt and/or the holders of the related CDO equity, as applicable. Subordinate CDO debt and CDO equity represent leveraged investments in the assets of the CDO. Therefore, the leveraged nature of such securities may magnify the adverse impact on the market value of such securities caused by changes affecting the assets underlying such securities, including, without limitation, changes in the market value of such assets, changes in distributions on such assets, defaults and recoveries, capital gains and losses on such assets, prepayments and the availability, prices and interest rates of such assets. Accordingly, subordinate CDO debt and CDO equity may not be paid in full and may be subject to up to 100% loss.

*Control by Senior CDO Debt.* In a typical CDO, the most senior CDO debt (the "Controlling Class") will control many rights under the CDO indenture and therefore, holders of subordinate CDO debt and CDO equity will have limited rights in connection with an event of default or distributions thereunder. Remedies pursued by the holders of the Controlling Class upon an event of default could be adverse to the interests of the holders of subordinate CDO debt and CDO equity. If an event of default has occurred and is continuing, the holders of CDO equity will not have any creditors' rights against the CDO issuer and will not have the right to determine the remedies to be exercised under the CDO indenture. There is no guarantee that any funds will remain to make distributions to the holders of subordinate CDO debt and CDO equity following any liquidation of the CDO assets and the application of the proceeds from the CDO assets to pay senior classes of CDO debt and the fees, expenses, and



other liabilities payable by the CDO issuer. The Controlling Class may also have consent rights in respect of amendments and CDO manager removal rights in connection with certain events.

*Mandatory Redemption of CDO Senior Tranches and CDO Debt.* Under certain circumstances, cash flows from CDO Collateral that otherwise would have been paid to the holders of any related CDO debt and the related CDO equity will be used to redeem the related CDO senior tranches. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other payments made to the holders of such CDO debt or such CDO equity, which could adversely impact the returns to the holders of such CDO debt or such CDO equity.

*Optional Redemption of CDO Senior Tranches and CDO Debt.* An optional redemption of a CDO could require the collateral or portfolio manager of the related CDO to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the realized value of the items of CDO Collateral sold (and which in turn could adversely impact the holders of any related CDO debt, and/or the holders of the related CDO equity).

*Rating Agencies.* Future actions of any rating agency can adversely affect the market value or liquidity of CDOs. Rating agencies rating a CDO may change their published ratings criteria or methodologies for CDOs at any time in the future. Further, such rating agencies may retroactively apply any such new standards to the ratings of the CDO securities purchased by Investment Vehicle. Any such action could result in a substantial lowering (or even withdrawal) of any rating assigned to any such CDO security, despite the fact that such CDO security might still be performing fully to the specifications set forth for such CDO security in the related transaction documents. The rating assigned to any CDO may also be lowered following the occurrence of an event or circumstance despite the fact that the related rating agency previously provided confirmation that such occurrence would not result in the rating of such CDO being lowered. Additionally, any rating agency may, at any time and without any change in its published ratings criteria or methodology, lower or withdraw any rating assigned by it to any class of CDO security. If any rating initially assigned to any CDO security is subsequently lowered or withdrawn for any reason, holders of such security may not be able to resell their security without a substantial discount. Any reduction or withdrawal to the ratings on any class of CDO security may significantly reduce the liquidity thereof and may adversely affect the CDO issuer's ability to make certain changes to the composition of the CDO assets since the CDO's indenture may contain restrictions on portfolio modifications that are tied to the ratings on the CDO's securities. A rating agency may also revise or withdraw its ratings of a CDO security as a result of a failure by the issuer or the manager of such CDO to provide it with information requested by such rating agency or comply with any of its obligations contained in the engagement letter with such rating agency, including the posting of information provided to the rating agency on a website that is accessible by rating agencies that were not hired in connection with the issuance of the CDO securities as required by law. In addition, a CDO security may receive an unsolicited rating, which may have an adverse effect on the liquidity or the market price of such CDO security. Any such revision or withdrawal of a rating as a result of such a failure might adversely affect the liquidity and value of the CDO security.

*Effects of Regulation on CDO Market.* Legislative or regulatory action taken by the U.S. federal government or any U.S. regulatory body (or other authority or regulatory body) in response to economic conditions or otherwise may negatively impact the liquidity and value of CDOs. For example, the "Volcker Rule" contained in the Dodd-Frank Act, which imposes limitations on the ability of banking entities and their affiliates to invest in private investment funds such as CDO issuers, may have a substantial negative impact on the liquidity and value of CDOs. No prediction can be made as to how any modifications made to the Volcker Rule will affect the liquidity and value of CDOs purchased by Investment Vehicle.

***Warehouse Agreements.*** The Investment Vehicle may enter into warehouse agreements ("Warehouse Agreements") with certain collateral managers, including Napier Park. Pursuant to such Warehouse Agreements, the Investment Vehicle may provide financing, either directly or indirectly, for the purchase of assets, or may own certain assets ("Warehouse Securities") in anticipation of such assets constituting the collateral of a CDO, CLO or other structured transaction (a "Structured Transaction"). Upon the closing of the Structured Transaction to which the Warehouse Agreement relates, the Investment Vehicle may or may not purchase securities issued in such Structured Transaction. The Investment Vehicle may not achieve its investment objective in financing the warehouse if the Warehouse Securities are not purchased in the Structured Transaction or where the Structured Transaction fails to close. A collateral manager will purchase Warehouse Securities from the warehouse for a Structured Transaction only to the extent that the collateral manager determines that such purchases are consistent with the investment guidelines of the Structured Transaction, the restrictions contained in the collateral management agreement and applicable law. If Warehouse Securities are not purchased for a Structured Transaction, depending on the terms of the Warehouse Agreement, Warehouse Securities may be liquidated, which may result in a profit or a loss to the Investment Vehicle, or the Investment Vehicle may take possession of the Warehouse Securities. In either case, the Investment Vehicle will bear the risk that the value of such Warehouse Securities may be below their purchase price. If a Structured Transaction fails to close, in addition to the foregoing risks, the Investment Vehicle may not be paid for financing the warehouse facility.

***American Depositary Receipts and Global Depositary Receipts.*** American Depositary Receipts ("ADRs") are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by non-U.S. issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts ("GDRs") are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U.S. company's publicly traded securities that are traded on non-U.S. stock exchanges or non-U.S. over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depositary receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale of disposition proceeds, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of

U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

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

***Expedited Transactions.*** Investment analyses and decisions may be undertaken on an expedited basis in order for the Investment Vehicle to take advantage of available investment opportunities. In such cases, the information available at the time of an investment decision may be limited, and Napier Park may not have access to the detailed information necessary for a thorough evaluation of the investment opportunity. Further, Napier Park may have to conduct its due diligence activities over a very brief period.

***Debt Securities Generally.*** Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

***Interest Rate Risk.*** Changes in interest rates can affect the value of the Investment Vehicle's investments in fixed-income instruments. Increases in interest rates may cause the value of the Investment Vehicle's debt investments to decline. The Investment Vehicle may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

***Prepayment Risk.*** The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow. In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact the Investment Vehicle's portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment

of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that Napier Park may have constructed for these investments, resulting in a loss to the Investment Vehicle's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

*Zero-Coupon and Deferred Interest Bonds.* Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

*High-Yield.* Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities 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. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the Investment Vehicle may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. The Investment Vehicle may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically, such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

*Corporate Debt.* Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the Investment Vehicle may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.*, the principal owed to the Investment Vehicle in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Investment Vehicle may experience substantial losses.

*Mezzanine Debt.* Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Investment Vehicle to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of the Investment Vehicle or similar event, the Investment Vehicle's debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

*Stressed Debt.* Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

*Non-Performing Nature of Debt.* Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

*Troubled Origination.* When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

*Sovereign Debt.* Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"), including securities that Napier Park believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z)

level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

***Equitable Subordination.*** Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). If the Investment Vehicle engages in such conduct, the Investment Vehicle may be subject to claims from creditors of an obligor that debt held by the Investment Vehicle should be equitably subordinated.

***Preferred Stock.*** Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

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

***Restricted Securities.*** Restricted securities cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (*e.g.*, under Rule 144A of the Securities Act). Although these securities may be resold in privately negotiated transactions, because there is often little liquidity for these securities, they may be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by the Investment Vehicle. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.

***Structured Notes.*** Structured notes, variable rate mortgage-backed and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

***Undervalued Securities.*** The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities 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 the Investment Vehicle's investments may not adequately compensate for the business and financial risks assumed.

***Unlisted Securities.*** Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

***When-Issued and Forward Commitment Securities.*** The purchase of securities on a "when-issued" basis involves a commitment by the Investment Vehicle to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the Investment Vehicle. When-issued securities may be sold prior to the settlement date. If the Investment Vehicle disposes of the right to acquire a when-issued security prior to its acquisition, it may incur a gain or loss. In addition, there is a risk that securities purchased on a when-issued basis may not be delivered to the Investment Vehicle. In such cases, the Investment Vehicle may incur a loss.

***Non-U.S. Investments.*** Investing in the Securities of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in Securities of U.S. companies or the U.S. Government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with

currency conversion; and certain government policies that may restrict the Investment Vehicle's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Investment Vehicle may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Investment Vehicle's rights in such markets. For example, Securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Investment Vehicle under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

See also *“Relative Value Strategies”, “Asset Backed Securities”, “Structured Credit Products”, “Convertible Securities Risk”, “Illiquidity of Investments”, “Borrowings; Leverage; Interest Rates”, “Directional Investing”, “Long/Short Strategies”, “Use of Hedges”, “Risks Associated with Investments in Companies in Distressed Situations”, “Options and Derivative Transactions”, “Swaps”, “Short Sales”, “Government Regulation – Short Sales and Swaps”, “Futures Transactions”, “Volatile Markets” “Inflation/Deflation” and “Loans of Portfolio Securities”* above.

See also *“General Risks”* below.

### **US Leveraged Loans**

#### ***Investment Strategy and Method of Analysis:***

The investment objective of the strategy is to achieve a rate of total return, primarily through income generation, and to a limited extent, capital appreciation, over a medium term investment horizon through investments in a diversified portfolio of loans and debt securities, subject to various guidelines and restrictions, including concentration limits.

The majority of the strategy's portfolio (by principal amount) must be U.S. dollar denominated investment grade and non-investment grade senior secured loans and investment grade and non-investment grade senior secured debt securities, including senior classes of issues of asset-backed securities, issued by U.S. Obligors (as defined below) and Non-Emerging Market Obligors (as defined below) (collectively, "Senior Secured Debt"). The balance of the portfolio may be invested in U.S. Dollar denominated investment grade and non-investment grade senior unsecured loans and investment grade and non-investment grade senior unsecured debt securities made to or issued by U.S. Obligors and Non-Emerging Market Obligors (collectively, "Other Permitted Assets"). The strategy may invest in collateralized debt obligations, credit linked notes and indices of obligors domiciled in any jurisdiction, if the underlying assets of such securities would qualify as portfolio assets.



Napier Park's primary consideration in selecting portfolio assets for investment by the strategy is the creditworthiness of the obligor. Napier Park performs its own independent credit analysis of the obligor and, if purchased through a participation interest, the financial institution from which the strategy purchases its interest in a portfolio asset. Napier Park's analysis will continue on an ongoing basis for any portfolio assets purchased and held by the strategy based on information available to it that it deems relevant.

The strategy typically invests in a portfolio asset if, in Napier Park's judgment, the obligor of such portfolio asset can meet the debt service on such portfolio asset. In addition, Napier Park may consider factors deemed by it to be appropriate to its analysis of the obligor and the portfolio asset, including (without limitation) such financial ratios of the obligor as interest coverage, debt coverage and debt to equity. In its analysis, Napier Park also examines the nature of the industry in which the obligor is engaged, the nature of the obligor's investments, the management of the obligor, the adequacy of collateral and the general quality and liquidity of the obligor. Napier Park also considers, among other things, the overall economic environment, the obligor's capital structure, public debt ratings, legal, tax and environmental issues and lender liability and fraudulent conveyance risks.

Napier Park also reviews (with counsel or other advisers if deemed necessary) such documentation and financial information as it deems appropriate. In particular, Napier Park may consider financial, affirmative and negative covenants, events of default and conditions requiring prepayment (which may include, among other things, excess cash flow recapture, asset sales and debt and equity offerings). The structure and documentation review of a portfolio asset also takes into account the portfolio asset's assignability and liquidity, representations and warranties and other provisions of the respective loan agreement and supporting documentation. Napier Park also reviews the terms and conditions of the obligor's other indebtedness. Although such reviews are generally exhaustive, they do not eliminate the risks inherent in the Strategy's investments.

The strategy may invest in portfolio assets with respect to which the obligors are Non-Emerging Market Obligor. Napier Park applies the same credit standards to such Non-Emerging Market Obligor as it applies to U.S. Obligor.

### ***Strategy Risks:***

***Credit Spread Risk.*** The strategy is vulnerable to a decline in the market values of loans and a reduction in income to the Investment Vehicle due to adverse movements in credit spreads over LIBOR. It is anticipated that loans will typically pay interest at rates which float at a margin above a generally recognized base lending rate such as the prime rate of a designated U.S. bank, or which adjust periodically at a margin above a certificate of deposit rate or LIBOR. An increase in spreads over the base rate of obligors of loans that are of comparable credit quality to any given portfolio asset could cause a decline in market value of the related loan.

***Credit Risks of Loans.*** Loans are subject to risks of creditworthiness of the obligors on such loans (each, an "Obligor") for payment of interest and principal. The non-receipt of scheduled interest and/or principal payments on a loan constituting a portfolio asset will adversely affect the income

of the Investment Vehicle or the market value of such portfolio asset, which may in turn reduce the net asset value of the strategy.

Loans may be rated below investment grade or be of similar credit quality. The lower rating of obligations in the non-investment grade market reflects a greater possibility that adverse changes in the financial conditions of an obligor on such obligations, in general economic conditions, or both, may impair the ability of such obligor to make payments of principal and interest or may cause the bankruptcy or insolvency of such obligor. In the case of bankruptcy or insolvency of an Obligor, recovery of the principal or interest on such obligor's loans is highly uncertain, both as to amount, if any, and timing.

Loans made in connection with leveraged buy-outs, recapitalizations and other highly leveraged transactions may be subject to greater credit risks than other types of loans. However, loans in which the strategy invests will generally (although not necessarily in all cases) hold the most senior position in the capitalization structure of an obligor, and will usually be secured by assets of such obligor. The capitalization of many obligors can include significant leverage and may include non-investment grade subordinated debt. During periods of deteriorating economic conditions, such obligors may experience difficulty in meeting its payment obligations under its debt obligations. Such difficulties may detract from the obligor's perceived or actual creditworthiness or its ability to obtain short-term financing and could force such obligor into bankruptcy or other forms of credit restructuring, all of which could adversely affect the market value of, timing and eventuality of recovering cash flow on, any senior debt included in the loans held by the strategy.

The Investment Vehicle may acquire interests in loans that are designed to provide temporary or "bridge" financing to an Obligor pending the sale of identified assets or the arrangement of longer-term loans or the issuance and sale of debt or equity obligations. An Obligor's use of bridge loans involves a risk that the Obligor may be unable to locate permanent financing to replace the bridge loan, which may impair the Obligor's perceived creditworthiness.

For a typical loan, an agent for the lenders administers the terms of a particular loan agreement. The Investment Vehicle must generally rely upon the agent or intermediate participant to receive and forward to the Investment Vehicle its portion of the principal and interest payments on the loan. The agent is typically responsible for monitoring compliance with covenants contained in the loan agreement based upon reports prepared by the applicable Obligor. In addition, the Investment Vehicle will be bound by provisions of underlying loan agreements that require the preservation of the confidentiality of information provided by the Obligor.

***Assignments and Participations in Loans.*** Loans owned by the Investment Vehicle at any time are expected to consist of Loans acquired through assignments or participations.

The purchaser of an assignment of an interest in a loan typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the loan agreement with respect to such loan. As a purchaser of an assignment, the Investment Vehicle generally will have the same voting rights as other lenders under the applicable loan agreement, including the right to vote to waive enforcement of breaches of covenants or to enforce compliance by the Obligor with the terms of the loan agreement, and the right to set-off claims against the Obligor and to have recourse to collateral, if any, supporting the loan.

Holders of loan participations are subject to additional risks not applicable to a holder of a direct interest in a loan. If the Investment Vehicle purchases a participation in a loan, the Investment Vehicle will generally have the right to receive payments of principal, interest and any other amounts to which it is entitled only from the selling institution and only to the extent actually received by such selling institution from the Obligor. The Investment Vehicle may generally not directly benefit from the collateral, if any, supporting the related loan and may be subject to any rights of set-off the Obligor has against the selling institution. As a result, the Investment Vehicle will assume the credit risk of both the Obligor and the institution selling the participation, which will remain the legal owner of record of the applicable loan. A participant in a loan will generally not have any right to enforce compliance by the Obligor with the terms of the loan agreement or any right to vote under the applicable loan agreement with respect to any matter that arises thereunder. Selling institutions voting in connection with such matters may have interests different from those of the Investment Vehicle and may fail to consider the interests of the Investment Vehicle in connection with their administration of, or vote on, a loan.

In the event of insolvency of the selling institution, the owner of a participation interest may be treated as a general creditor of the selling institution and may not have any exclusive or senior claim with respect to the institution's interest in, or the collateral, if any, with respect to, the applicable loan and may not benefit from any set-off between the selling institution and the Obligor. As a result, a concentration of participations from any one selling institution subjects the Investment Vehicle to an additional degree of risk with respect to defaults by such selling institution. Such concentrations are limited by the investment restrictions set forth herein.

Certain loans may be governed by the law of a jurisdiction other than a United States jurisdiction. The Investment Vehicle is unable to provide any information with respect to the risks associated with purchasing a participation under an agreement governed by the laws of any jurisdiction other than United States jurisdictions, including characterization under such laws of such participation in the event of the insolvency of the institution from whom the Investment Vehicle purchases such participation.

***Collateral Impairment Risks.*** Loans may be secured by assets or property pledged by the Obligor ("Loan Collateral"). For each type of loan that the Investment Vehicle holds, Loan Collateral is generally evaluated on the basis of the Obligor's status as a going concern and such valuation may exceed the immediate liquidation value of the Loan Collateral. There is no assurance that the liquidation of the Loan Collateral would satisfy the Obligor's obligation in the event of nonpayment of scheduled interest or principal, or that Loan Collateral could be readily liquidated.

If an Obligor becomes involved in bankruptcy proceedings, a court may invalidate the Investment Vehicle's security interest in the Loan Collateral or subordinate the Investment Vehicle's right under the loan to the interests of the Obligor's unsecured creditors. Such action by a court could be based, for example, on a fraudulent conveyance claim to the effect that the Obligor did not receive fair consideration for granting the security interest in the Loan Collateral to the holders of interests in such loan (including the Investment Vehicle). For loans made in connection with a highly leveraged transaction, consideration for granting a security interest may be deemed inadequate if the proceeds of the loan were not received or retained by the Obligor, but were instead paid to other persons (such as shareholders, subsidiaries, or affiliates of the Obligor) in an amount which left the Obligor insolvent or without sufficient working capital. There are also other events,

such as the failure to perfect a security interest due to faulty documentation or faulty official filings, which could lead to the invalidation of the security interest in the Loan Collateral. If the Investment Vehicle's security interest in Loan Collateral is invalidated or the loan is subordinated to other debt of an Obligor in bankruptcy or other proceedings, it may significantly reduce the probability that the Investment Vehicle would be able to recover the full amount of the principal and interest due on the loan.

***Lender Liability and Equitable Subordination Considerations.*** The Investment Vehicle or the grantor of a participation in a loan may be subject to "lender liability" claims or to claims that such loan should be equitably subordinated to the claims of other lenders. Lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the Obligor or has assumed a degree of control over the Obligor resulting in a creation of a fiduciary duty owed to the Obligor or its other creditors or shareholders. In addition, courts have in some cases applied the doctrine of equitable subordination to subordinate the claim of a lending institution against an Obligor to claims of other creditors of the Obligor, when the lending institution is found to have engaged in unfair, inequitable, or fraudulent conduct.

***Potential Effects of Prepayments.*** The documentation for loans in which the Investment Vehicle invests may give the Obligor the right to prepay or require, in addition to scheduled payments of interest and principal, the prepayment of loans from free cash flow. The degree to which the Obligors prepay loans, whether as contractual requirement or at their election, may be affected by general business conditions, the financial condition of the Obligor and competitive conditions among lenders, among others. As such, prepayments cannot be predicted with accuracy. Upon a prepayment, either in part or in full, the actual outstanding debt from which the Investment Vehicle derives interest income will be reduced. Prepayments generally should not materially affect the Investment Vehicle's relative performance under normal market conditions because Napier Park will attempt to reinvest prepayments in loans and in other Investment Vehicle assets and because, in some cases, receipt of penalty or upfront fees may mitigate any reinvestment losses.

### ***Risks of Debt Securities.***

Portfolio assets may include high yield debt securities that are rated below investment grade, which will be obligations of corporations, partnerships or other entities that are Non-Emerging Market Obligors.

Obligors of debt securities, like any obligation rated below investment grade, will have greater credit and liquidity risks than investment grade obligations. Debt securities may be unsecured and may be subordinated to other obligations of the Obligors thereof. The lower ratings of obligations in the non-investment grade market reflect a greater possibility that adverse changes in the financial condition of an Obligor of such obligations may impair that ability of such Obligor to make payments of principal and interest. Factors adversely affecting the market value of such debt securities are likely to adversely affect the net asset value of the notes.

Risks of debt securities may include (among others): (i) limited liquidity and secondary market support, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the prior claims of banks and other senior lenders, (iv) the operation of

mandatory sinking strategy or call/redemption provisions during periods of declining interest rates that could cause the Investment Vehicle to reinvest premature redemption proceeds in lower yielding debt securities, (v) the possibility that earnings of the Obligor on such debt securities may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of such Obligor. An economic downturn or an increase in interest rates could be adverse to the creditworthiness of such Obligor, severely disrupt the market for its debt securities and adversely affect the value of outstanding debt securities and the ability of the Obligor thereof to repay principal and interest.

Obligors of debt securities may be highly leveraged and may not have available to them more traditional methods of financing. The risks associated with owning the securities of such Obligors generally are greater than in the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, such Obligors may be more likely to experience financial stress, especially if such Obligors are highly leveraged. During such periods, timely service of debt obligations may also be adversely affected by specific Obligor developments, or such Obligor's inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by the Obligor is significantly greater for the holders of debt securities because such securities may be unsecured and may be subordinated to other creditors of the Obligor of such debt securities. In addition, the Investment Vehicle may incur additional expenses to the extent it is required to seek recovery upon a default on a debt security or participate in the restructuring of such obligation.

The performance of debt securities is subject to the risk of market changes in prevailing interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially if the interest rate paid by such instrument is fixed). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price.

Debt securities may have call or redemption features that would permit the Obligor thereof to repurchase the debt securities from the Investment Vehicle. If a call were exercised by the Obligor of debt securities during a period of declining interest rates, the Investment Vehicle may have to replace such called debt securities with lower yielding portfolio assets. Redemption by Obligors of debt securities generally should not materially affect the Investment Vehicle's relative performance because Napier Park will attempt to reinvest prepayments of debt securities in other Investment Vehicle. The Investment Vehicle may receive redemption premiums from the prepayment of debt securities and the receipt of such redemption premiums may mitigate any adverse impact on the Investment Vehicle's yield. The necessity of reinvesting, however, does pose risks, among others, that (i) credit spreads on newly acquired debt securities may be lower than on previously held debt securities and (ii) delay in reinvesting could result in holdings of investments providing lower yields to the Investment Vehicle.

The prices of debt securities have at times experienced significant and rapid decline when a substantial number of holders decided to sell. In addition, the Investment Vehicle may have difficulty disposing of certain debt securities because there may be a thinly traded market for such securities. To the extent that a secondary trading market for non-investment grade debt securities does exist, it is generally not as liquid as the secondary market for higher rated securities. Limited secondary market liquidity may have an adverse impact on market price and the Investment

Vehicle's ability to dispose of particular issues when necessary to meet the Investment Vehicle's liquidity needs or in response to a deterioration in the creditworthiness of the Obligor of such securities. Limited secondary market liquidity for certain debt securities may also make it more difficult for the Investment Vehicle to obtain accurate market quotations for purposes of valuing the portfolio assets. Market quotations are generally available on many debt securities from only a limited number of dealers and may not in every instance represent executable bids of such dealers for actual sales.

***Risk of Lower Rated Securities.*** As part of its investment in portfolio assets, the Investment Vehicle may invest in portfolio assets rated below B-/B3 or similar unrated securities. These portfolio assets may include securities of issuers that are involved in bankruptcy or insolvency proceedings. Risks of investment in such assets are generally exacerbated in connection with these lower rated or unrated securities, which are often riskier, and could include: limited liquidity and secondary market support, substantial market price volatility, subordination to the prior claims of other creditors as determined during bankruptcy or insolvency proceedings, declining creditworthiness and potential for insolvency of such Obligors not already subject to such conditions, resulting in a total loss of the investment.

***Asset-Backed Securities.*** The Investment Vehicle may invest in Senior Secured Debt that includes senior classes of issues of asset-backed securities ("Asset-Backed Securities"). Asset-Backed Securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from, or market value of, a specified pool of financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the Asset-Backed Securities. In addition, the Investment Vehicle may invest in collateralized debt obligations, credit linked notes and indices.

The holders of Asset-Backed Securities, collateralized debt obligations, credit linked notes and indices also bear various additional risks, including credit risks, operational risks, structural risks and legal risks, all of which affect the price and liquidity of the market with respect to those assets and the valuation of these assets upon settlement.

***Withholding Tax on Portfolio Assets.*** The portfolio assets are required to not be subject to withholding tax unless the issuer thereof is required to make "gross-up" payments. With respect to portfolio assets that are not subject to withholding tax at the time of their inclusion in the portfolio, however, there can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on such portfolio assets might not in the future become subject to U.S. or other withholding tax. In the event that any withholding should become applicable to payments on any portfolio asset which is not compensated for by a "gross-up" provision under the terms of such portfolio assets, such tax would reduce the amounts available to make payments.

***Liquidity of Portfolio Assets.*** Any portfolio assets rated below investment grade will generally have greater liquidity risks than investment grade portfolio assets. In addition, certain portfolio assets may be subject to restrictions on transfer. There can be no assurance that a liquid market exists for portfolio assets. To the extent that the portfolio assets are affected by market illiquidity, the ability to dispose of such assets at prices and times may be limited. These risks may be more

pronounced, and the Investment Vehicle may be affected by widening bid-offer spreads or more volatile trading prices, if the Investment Vehicle is required to liquidate its positions to generate cash in order to redeem notes or meet other obligations. Such liquidations may lead to the need for the Investment Vehicle to incur capital losses in connection with dispositions of assets to meet such cash requirements. Even in the absence of default with respect to a portfolio asset, market volatility could cause the market value of a portfolio asset to vary over time, and to vary substantially, from its initial purchase price. A disruption in the secondary markets for the Investment Vehicle's assets may cause market value declines for any number of its assets. Any such decline, even if temporary, could have a material adverse effect upon value.

***Non-Emerging Market Obligors.*** As discussed herein, the Investment Vehicle may acquire loans made to, and Debt Securities issued by, (a) Obligors headquartered in the United States (including its territories and possessions) or Canada (collectively, "U.S. Obligors") and (b) Obligors which are not U.S. Obligors and which are headquartered in Non-emerging market countries ("Non-Emerging Market Obligors"). In general, since Non-Emerging Market Obligors may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. Obligors, there may be less publicly available information about these entities than about U.S. Obligors. Volume and liquidity in most non-U.S. trading markets is less than in the United States and, at times, price volatility can be greater than in the United States. Fixed commissions in non-U.S. markets are generally higher than negotiated commissions in United States markets, although the Investment Vehicle will endeavor to achieve the most favorable net results on its portfolio transactions. There is generally less governmental supervision and regulation of financial markets, brokers and listed entities in non-U.S. markets than in the United States. Napier Park believes, however, that U.S. Dollar denominated loans to and debt securities of entities organized in United States territories and possessions (such as Puerto Rico) and in Canada generally present no material incremental political, exchange control or accounting risks as the relevant laws and accounting standards are substantially similar to those of the United States. Loans to and debt securities of non-U.S.-based entities will in some cases be issued by a special purpose vehicle formed under United States law by a non-U.S. entity that does not have a substantial operation in the United States and/or Canada but has significant operations outside North America. These assets may carry additional risks similar to those of Non-Emerging Market Obligors.

The economies of other countries may differ favorably or unfavorably from the United States economy. Nationalization, expropriation or confiscatory taxation, currency control, political changes, government regulation, political or social instability or diplomatic developments could adversely affect the economy of a non-U.S. country or the Investment Vehicle's investment in such country. In the event of nationalization, expropriation or other confiscation, the Investment Vehicle could lose all or a substantial portion of any portfolio assets in the country involved. In addition, laws in other countries governing business organizations, bankruptcy and insolvency may provide less protection to creditors such as the Investment Vehicle than that provided by United States laws.

***Insolvency Considerations With Respect to Loans.*** Various laws enacted for the protection of creditors may apply to portfolio assets issued by U.S. Obligors (each, a "U.S. Security"). Portfolio assets consisting of obligations issued by Non-Emerging Market Obligors may be subject to various laws enacted in the home countries of their issuance for the protection of creditors.

Insolvency considerations will differ depending on the country in which each Obligor is located and may differ depending on whether an Obligor is a non-sovereign or sovereign entity. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an Obligor of a U.S. Security, such as a trustee in bankruptcy of an Obligor, were to find that such Obligor did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the U.S. Security and, after giving effect to such indebtedness, such Obligor (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such Obligor constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine (a) to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, (b) to subordinate such indebtedness to existing or future creditors of such Obligor or (c) to recover amounts previously paid by such Obligor in satisfaction of such indebtedness. The measure of insolvency for purposes of the foregoing will vary. Generally, an Obligor would be considered insolvent at a particular time if the sum of its debts were then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether an Obligor was "insolvent" after giving effect to the incurrence of the indebtedness constituting the U.S. Security or that, regardless of the method of valuation, a court would not determine that such Obligor was "insolvent" upon giving effect to such incurrence. In addition, in the event of the insolvency of an Obligor of a U.S. Security, payments made on such U.S. Security could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year and one day) before insolvency.

In general, if payments on a U.S. Security are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient (such as the Investment Vehicle) or from subsequent transferees of such payments (such as an investor in an Investment Vehicles). To the extent that any such payments are recaptured from the Investment Vehicle, the resulting loss will be borne in the first instance by the investors in the Investment Vehicle. However, a court in a bankruptcy or insolvency proceeding would be able to direct the recapture of any such payment from an investor in the Investment Vehicle only to the extent that such court has jurisdiction over such holder or its assets. Moreover, it is likely that avoidable payments could not be recaptured directly from an investor that has given value in exchange for its investment, in good faith and without knowledge that the payments were avoidable. Nevertheless, since there is no judicial precedent relating to certain structured transaction, there can be no assurance that an investor will be able to avoid recapture on this or any other basis.

See also "*General Risks*" below.

### ***Municipal Bond Strategies***

#### ***Investment Strategy and Method of Analysis:***



Municipal Bond Strategies seek to generate an absolute return from municipal securities via (i) current income, (ii) relative value trading opportunities and (iii) the potential for longer-term capital appreciation should municipal/taxable yield ratios recover from currently distended levels and revert towards historical averages.

The strategy may trade both tax-exempt and taxable municipal bonds. Napier Park may also seek to exploit relative value trading opportunities created by differences in issuer geography (e.g., state, city), bond structure (e.g., coupon), placement along the yield curve, and arbitrage possibilities between municipal securities and taxable instruments. These trading opportunities may be achieved by means of long and/or short positions in municipal securities or derivatives.

The duration of a portfolio will depend on the relative value along the municipal yield curve, as well as the relative steepness of the municipal to taxable yield curves. Napier Park may utilize interest rate swaps, credit default swaps and other municipal-related derivative instruments, including BMA swaps, MMD rate locks, municipal total return swaps, and any other derivatives linked to municipal bonds or bond indices. Napier Park may seek to hedge interest rate risk within the portfolio as appropriate. Napier Park may utilize LIBOR swaps, swaptions, Treasuries, Treasury futures, and other interest rate derivatives.

The strategy will seek to generate alpha by capitalizing on relative value opportunities in the municipal market by capturing relative value by managing specific municipal bond positions.

As noted above, the municipal bond market is fragmented with thousands of municipal issuers and a variety of structures and maturities. These features provide ample opportunity to capture relative value in the municipal market. The relative value decisions Napier Park will make will be based on several factors, including those described below.

Maturity – The municipal curve, due to technical factors and sympathetic moves to the treasury market, provides opportunity to capture value as spreads between certain maturities of municipal bonds tighten and widen. The differing investment objectives of typical municipal investors has varying effects on the municipal yield curve potentially creating opportunities for Napier Park to strategically purchase maturities that offer the most relative value.

U.S. State – The municipal market can be broken down to a large degree by U.S. State. Individual states may have a positive or negative technical outlook completely different from that of the overall market. The performance of specific states relative to others and the overall market creates relative value opportunities.

Structure – The structure of municipal bonds provides relative value opportunities. The coupon and call spreads of specific bonds vary depending on overall rates and the relative attractiveness of each structure to different municipal buyers. The determination of what structure is in demand by municipal bond investors can lead to opportunities in capturing relative performance.

Credit – The vast array of issuers in the municipal market space creates a complex credit spectrum. The fact that such a large percentage of municipals are held by retail investors creates the need to understand how retail investors value specific credits in the market. Local general obligation bonds and local revenue bonds may trade tighter or wider depending on the local view of the

particular municipal issuer. The knowledge of nuances in credit spreads at such a detailed level is attained only through extensive trading experience.

**Liquidity** – Liquidity in the municipal market is cyclical and is typically driven by factors such as the supply of new bonds, the characteristics of the bonds in the marketplace and how they appeal to various municipal buyers. To the extent there is a large supply of new bonds in the marketplace and high interest from municipal buyers for such bonds, there is likely to be a high degree of liquidity in the municipal market. The liquidity inherent in any security is a factor in an investor's ability to extract relative value.

### ***Strategy Risks:***

***Reliance on Technology.*** Napier Park's trading strategy is dependent upon various computer and telecommunications technologies. While Napier Park intends to deploy such technology and programs correctly and effectively, there can be no assurance that it will prove successful in doing so. The successful deployment of these strategies, the implementation and operation of these strategies and any future strategies, and various other critical activities of Napier Park could be severely compromised by telecommunications failures, power loss, software related "system crashes," fire or water damage, or various other events or circumstances. Napier Park will make efforts to protect against such events, but does not provide comprehensive and foolproof protection against all such events (whether because it believes such to be impractical or prohibitively expensive in terms of financial expenditures and/or schedule delays, or for other reasons), and does not expect to secure such comprehensive or foolproof protection. Any event that interrupts Napier Park's computer and/or telecommunications operations, however, could result in, among other things, the inability to establish, modify, liquidate, or monitor the Investment Vehicle's investments and, for those and other reasons, could have a material adverse effect on the operating results, financial condition, activities and prospects of the Investment Vehicle.

***Municipal Market Securities Risk.*** Various factors may adversely affect the value and yield of municipal securities. These factors include imbalances in demand, potential legislative changes as well as uncertainties related to the tax status of municipal bonds or the rights of others holding these securities. Any of these factors could cause losses for the Investment Vehicle. In addition, unlike other financial markets, the municipal bond market has no centralized exchange and suffers from inconsistent disclosure. As liquidity becomes scarce, these factors put downward pressure on prices (upward on yields) as buyers seek to obtain the necessary data to understand and evaluate the bond's current credit fundamentals and performance.

***Recent Market Conditions; Rating Agencies; Bond Insurers.*** The Investment Vehicle is subject to the risk that the issuers of, as well as the insurers of, municipal bonds or other instruments in which the Investment Vehicle invests may default on their obligations under such instruments, or that the credit quality of those issuers or insurers may decline significantly. This risk has been further magnified in light of recent events in the credit market.

The market's perception of the creditworthiness of the monoline bond insurers affects the pricing of municipal bonds. Monoline insurers guarantee the timely repayment of principal and interest by municipal bond issuers. The major monoline insurance companies were recently reviewed and continue to be reviewed by one or more of the Nationally Recognized Statistical Rating

Organizations (“NRSROs”) for possible downgrades. Downgrades and other adverse ratings actions with respect to these monolines will likely exacerbate current market conditions and further increase illiquidity and negatively impact pricing in the municipal bond market. For example, due to a lack of confidence in the creditworthiness of the monoline insurers in early 2008, many municipal bonds were trading at prices as if they were uninsured, effectively discounting the monoline insurance completely.

Changes in the NRSROs’ capital models and rating methodology with respect to the monoline insurers may lead to a requirement of increased capital reserves for specified credit risks in the monolines’ insured portfolio. The current market has already precipitated changes in capital models and rating methodology, causing the monoline insurers to raise additional capital from the market. There can be no assurance that capital will be available to the monoline insurers on favorable terms and conditions, or if capital will be available at all, and the failure to raise such capital could have a material adverse impact on their business, results of operations and financial condition, possibly creating a further devaluation of, and increased credit risk in, the municipal bond issuances that they insure.

Additionally, credit ratings of debt securities such as municipal bonds and other instruments in which the Investment Vehicle invests represent the opinions of the applicable NRSRO only and are not a guarantee of quality. NRSROs may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer’s current financial condition may be worse than a particular credit rating indicates.

***Margin Calls.*** Under certain circumstances, a broker-dealer or counterparty may unilaterally demand an increase in the collateral that secures the Investment Vehicle’s obligations and if the Investment Vehicle were unable to provide additional collateral, the broker-dealer or counterparty could liquidate assets held in the account to satisfy the Investment Vehicle’s obligations to the broker-dealer or counterparty. Liquidation in that manner could have extremely adverse consequences to the Investment Vehicle.

***Municipal Bonds Are Not General Government Obligations.*** Even though municipal bonds are issued by state and local governments or their agencies and authorities, none of the municipal bonds will constitute a general obligation of any of the municipalities issuing such bonds nor is the general taxing power of any government pledged to the payment of principal or interest on the municipal bonds, unless otherwise stated in the bond documents.

***Possible Increases in State and/or Federal Regulation.*** The monoline financial guarantee insurance industry has historically been, and will continue to be, subject to the direct and indirect effects of a variety of U.S. governmental regulation, including insurance laws, securities laws, tax laws and legal precedents affecting asset-backed securities and municipal debt obligations, as well as changes in those laws and regulations. Failure to comply with applicable laws and regulations could expose the monolines to fines, the loss of their insurance licenses and/or the inability to engage in certain business activity. Additionally, any changes to such laws and regulations could subject the monolines to increased reserving and capital requirements and/or more stringent regulation generally, which could materially adversely affect their ability to make payments under their insurance policies. This inability, or perceived inability, to make such payments may negatively impact the municipal bonds insured by such monoline insurers.

***Failures in the Auction-Rate Preferred Securities Market.*** Many municipalities also issue debt through investments known as auction-rate preferred securities. In February of 2008 auctions for these securities began to fail en masse. The failure in the auction-rate preferred market forced many investment funds holding municipal bonds to liquidate large portions of their portfolios to satisfy their obligations to pay penalty interest rates due to such failed auctions. This forced selling has had the effect of driving the yields on municipal debt to high levels, making it very expensive for municipalities to issue new debt, which is an increasing concern as tax revenues are beginning to reflect the overall market slowdown. If municipalities begin defaulting on their obligations, this will adversely affect the value of the Investment Vehicle's investment portfolio.

***Reimbursement Agreements.*** The Investment Vehicle will enter into reimbursement agreements with various third party financial institutions which will require the Investment Vehicle to reimburse the financial institutions for payments made by the financial institutions under certain conditions. These agreements will also require that the Investment Vehicle post collateral, in the form of cash or securities, to secure the Investment Vehicle's reimbursement obligation to the financial institutions. Any collateral posted would be pledged to such financial institutions and may not be available to investors in the Investment Vehicle in the event the Investment Vehicle failed to perform under its reimbursement agreement with a financial institution. Further, the Investment Vehicle will likely be required to post collateral to the financial institutions at a time when either interest rates have risen or the value of the municipal securities underlying certain of the Investment Vehicle's investments have declined in value. While the Investment Vehicle expects to be able to perform under the reimbursement agreements and expects to be able to post collateral as required by the reimbursement agreements, there can be no guarantee that the Investment Vehicle will in fact be able to perform its obligations under the reimbursement agreements. Failure of the Investment Vehicle to perform under the reimbursement agreements could result in the financial institutions liquidating the collateral posted by the Investment Vehicle and exercising legal remedies against the Investment Vehicle for the payment of amounts due. Such actions would likely have an adverse effect on the Investment Vehicle's financial performance.

***Imperfect Hedges.*** The pricing relationship between the municipal bonds controlled directly or indirectly by the Investment Vehicle and the hedging strategies used by the Investment Vehicle will be imperfect. An absence or imperfect level and/or application of hedges could result in losses. This may occur, for example, where the price of a debt security falls as a result of an increase in interest rates and such price loss is not offset by an increase in the related hedge position. Moreover, Napier Park may choose not or determine that it is economically unattractive to hedge certain risks -- either in respect of particular positions or in respect of the Investment Vehicle's overall portfolio. This could result in various portions of the directional market risks remaining unhedged and in subsequent losses for the Investment Vehicle.

***Short Sales.*** Although it is not practicable to "short" municipal bonds directly, the Investment Vehicle's ability to take short positions through municipal bonds derivatives and taxable instruments is essentially unrestricted. A short sale involves the sale of a security that the Investment Vehicle does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. In addition, a short sale involves the risk that borrowed securities will have to be returned to the lender at a time when such

securities cannot be borrowed from other sources, potentially requiring the Investment Vehicle to close a short sale transaction under disadvantageous circumstances.

***Derivative Risks.*** The Investment Vehicle will use derivative fixed-income instruments for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the degree of leverage often embedded in such instruments and the possibility of counter party non-performance and/or disputes over the terms of the contract as well as material deviations between the performance of the derivative and the instrument hedged by the derivative. In addition, the markets for certain derivatives may be characterized by limited liquidity, which may make it difficult as well as costly for the Investment Vehicle to close out positions. As well, since many derivatives are valued on the basis of dealers' pricing of these instruments, the price at which a dealer values a particular derivative and the price at which the same dealer executes may be materially different. This can result in an overstatement of the Investment Vehicle's net asset value, or result in requiring the Investment Vehicle to meet more onerous collateral provisions to secure such derivative position(s) than would be the case otherwise.

***Credit Default Swaps.*** The "buyer" in a credit default swap contract is obligated to pay the "seller" a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred (a "credit event"), in return for a contingent payment upon the occurrence of a credit event with respect to the underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay, obligation acceleration or modified restructuring. A seller receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the "par value" (full notional value) of the reference obligation. The contingent payment may be either a cash settlement or physical delivery of the reference obligation in return for payment of the face amount of the obligation. A buyer, if no credit event occurs, will lose its investment and recover nothing. However, if a credit event occurs, the buyer will receive the full notional value of the reference obligation that may have little or no value. Credit default swap agreements may involve greater risks than those associated with a direct investment in the reference obligation. Credit default swap agreements are subject to general market risk, liquidity risk and credit risk.

***Futures Contracts.*** Trading in futures contracts may involve substantial risks. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for futures contracts or options purchased or sold, and the Investment Vehicle may be required to maintain a position until exercise or expiration, which could result in losses.

Futures positions may be illiquid because, for example, most U.S. exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent Napier Park from promptly liquidating unfavorable positions and subject the Investment Vehicle to substantial losses. In addition, Napier Park may

not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that may be held in particular instruments. Trading in futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks.

***Portfolio Concentration.*** Because the Investment Vehicle's investment portfolio may not necessarily be widely diversified, the portfolio may be subject to more rapid changes in value than would be the case if the Investment Vehicle were required to maintain a wide diversification among different types of regions, markets and/or securities and other instruments. Losses in one or more large positions, or a downturn in a region's municipal securities or market sector in which the Investment Vehicle is concentrated, could materially adversely affect the Investment Vehicle's performance in a particular period and could have a material adverse effect on the Investment Vehicle's overall financial condition.

***Relative Value Trading Risks.*** Although the Investment Vehicle's focus on a relative value strategy is considered to have a lower risk profile than a directional trading strategy, it is by no means without risk. The success of such a strategy will depend on Napier Park's ability to exploit relative inter- and intra-market opportunities. Mispricings, even if correctly identified, may not converge within the time frame in which the Investment Vehicle maintains its positions. A relative value strategy is also subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of valuation models belonging to the Investment Vehicle or third parties. Market disruptions may also force the Investment Vehicle to close out one or more positions prematurely. Any of these factors could cause losses for the Investment Vehicle.

Please also refer to "*General Risks*" below.

### ***Real Assets:***

#### ***Investment Strategy and Method of Analysis:***

The Real Assets team seeks differentiated investment opportunities to generate attractive long-term returns, primarily by investing in cash-generating real assets with an emphasis on inflation resistant distributions and residual values. Each of Napier Park's Real Asset Investment Vehicles has been developed with a leading industry partner to benefit from specialized operating expertise while maintaining independent governance and a strong alignment of interests. To date, Napier Park Real Assets has organized and manages Investment Vehicles in railcar leasing, aircraft leasing and a multi-asset fund.

The Real Assets team will also target other assets related to the transportation industry that (i) are critical-use, typically deployed in the core business of the operator or leased to third parties on multiple full-service or net operating leases, (ii) serve markets whose depth and breadth provide attractive re-deployment

opportunities, and (iii) have a capital cost that can be amortized over a period of time significantly shorter than their useful lives through committed cash flows. Similar to the rail and commercial aviation investment programs that Napier Park also anticipates targeting attractive risk-adjusted returns through the acquisition and long-term ownership of interests in portfolios of essential-use equipment on long-term leases, potentially in partnership with an operator with equipment-specific expertise that provides day-to-day servicing of the assets.

The Real Assets team will seek to the target investments with the following characteristics:

- Programmatic in nature, with significant visibility into future cash flows, or will represent attractively priced opportunistic investments;
- Focus on downside protection and “quality of return” with regard to both financing and asset selection;
- Target periodic cash distributions, beginning at purchase and leading to an eventual liquidity event;
- Mitigate equipment selection and lease placement risk through diversification, while prioritizing alignment with Operating Partners and strong governance through careful structuring.

### **Strategy Risks:**

***Unspecified Investments.*** A purchaser of the interests must rely upon the ability of Napier Park to identify, structure and implement investments consistent with the Investment Vehicles’ investment objectives and policies. Accordingly, a prospective investor will not have complete information as to the characteristics and terms of investments to be made by the Investment Vehicle. Napier Park may be unable to find a sufficient number of attractive opportunities to meet the Napier Park Investment Vehicles’ investment objectives. The success of the Napier Park Investment Vehicles will depend on the ability of the Napier Park to identify suitable investments, to negotiate and arrange the closing of appropriate transactions and to arrange the timely disposition of portfolio investments.

***Illiquid and Long-Term Investments.*** Although portfolio investments by the Investment Vehicles may generate current income, the return of capital and the realization of gains, if any, from a portfolio investment may occur only upon the partial or complete disposition of such portfolio investment. While a portfolio investment may be sold at any time, it is generally not expected that this will occur for a number of years after the portfolio investment is made. It is unlikely that there will be a public market for the securities held by the Investment Vehicles at the time of their acquisition. Therefore, no assurance can be given that, if the Investment Vehicles are determined to dispose of a particular portfolio investment, they will be able to dispose of such portfolio investment at a prevailing market price, and there is a risk that the disposition of such portfolio investment may require a lengthy time period or may result in distributions in kind to investors. The Investment Vehicles will generally not be able to sell portfolio investments through the public markets unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. Additionally, there can be no assurances that the portfolio investments can be sold on a private basis. In addition, in some cases the Investment Vehicles may be prohibited by contract or legal or regulatory reasons from selling certain securities for a period of time.

***Highly Competitive Market for Investment Opportunities.*** The activity of identifying, completing, and realizing attractive investments that fall within the investment objectives of the Investment Vehicles is highly competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions. The Investment Vehicles will be competing for investments with other private investment vehicles, as well as individuals, companies, financial institutions, and other

investors. Further, over the past several years, an ever-increasing number of private equity funds have been or are being formed (and many such existing funds have grown in size). Additional funds with similar investment objectives may be formed in the future by other unrelated parties. It is possible that competition for appropriate investment opportunities may increase, which may also require the Investment Vehicles to participate in auctions, the outcome of which cannot be guaranteed, thus possibly reducing the number of investment opportunities available to the Investment Vehicles and potentially adversely affecting the terms upon which investments can be made. Participation in auctions may also increase the pressure on the Investment Vehicles with respect to pricing a transaction. Moreover, the Investment Vehicles may incur due diligence costs, bidding costs, or other expenses on potential investments that may not be successful. As a result, the Investment Vehicles may not recover all of their costs, which would adversely affect returns. There can be no assurance that the Investment Vehicles will be able to locate, complete, and exit investments that satisfy their investment objective, or realize upon the investment's values, or that they will be able to invest substantially all their committed capital.

***Emerging Markets Risk.*** The Investment Vehicles may make portfolio investments in emerging markets. Emerging market countries have less developed economies and infrastructure and are often more vulnerable to economic and geopolitical challenges and may experience significant fluctuations in gross domestic product, interest rates and currency exchange rates, as well as civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by government authorities. The occurrence of any of these events could negatively affect the value of the Investment Vehicles' investments. In addition, legal systems in emerging market countries may be less developed, which could make it more difficult for the Investment Vehicles to enforce their legal rights in such countries.

***Risk of Limited Number of Investments; Dependence on Performance of Certain Investments.*** The Investment Vehicles may participate in a limited number of portfolio investments and, as a consequence, their aggregate return may be substantially adversely affected by the unfavorable performance of any single portfolio investment. Moreover, since all of the portfolio investments cannot reasonably be expected to perform well or even return capital, for the Investment Vehicles to achieve above-average returns, one or a few of the portfolio investments likely must perform very well. There can be no assurance that this will be the case. Investors have no assurance as to the degree of diversification of the portfolio investments, either by geographic region or asset type. In addition, the Underlying Funds each invest exclusively or primarily in a particular asset type or category (*i.e.*, aircraft and railcars), which may reduce the overall diversity of the Investment Vehicles' assets and increase risk for investors. To the extent the Investment Vehicles concentrate investments in a particular issuer, sub-sector, security or geographic region, the portfolio investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect thereto.

***Recourse to the Napier Park Investment Vehicles' Assets.*** The assets of an Investment Vehicle, including any portfolio investments made by it and any capital held by it, are available to satisfy all of the liabilities and other obligations of such Investment Vehicle. If such Investment Vehicle becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Investment Vehicle's assets generally and not be limited to any particular asset, such as the asset representing the portfolio investment giving rise to the liability.

***Interest Rate Risks.*** Changes in interest rates may adversely affect the Investment Vehicles' investments. Changes in the general level of interest rates can affect the Investment Vehicles' income by affecting the spread between the income on its assets and interest-bearing liabilities, as well as the value of its interest-earning assets and its ability to realize gains from the sale of assets. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Investment Vehicles. The Investment Vehicles may finance their activities with



both fixed- and floating-rate debt. With respect to their floating-rate debt, the Napier Park Investment Vehicles' performance may be affected adversely if the Investment Vehicles choose not to implement a strategy to limit the effects of changes in interest rates on its operations by employing an effective hedging strategy, including engaging in interest rate swaps, caps, floors or other interest rate contracts or buying and selling interest rate futures or options on such futures.

**Foreign Currency Risks.** Some portfolio investments may be denominated in foreign currencies. Changes in foreign currency exchange rates may affect the value of securities in the Investment Vehicles' portfolios. Governmental policies in some countries may result in artificially pegged exchange rates that may distort the results of and returns on portfolio investments in such countries. Moreover, the Investment Vehicles may incur costs in connection with conversions between various currencies. The Investment Vehicles may conduct foreign currency exchange transactions in anticipation of funding investment commitments or receiving proceeds upon dispositions, but they will ordinarily not attempt to hedge currency risks over the long term.

**Speculative Nature of Investments.** Portfolio investments will be subject to the risks inherent in all private investments. Portfolio investments may not be profitable at the time of investment and may experience substantial fluctuations in their operating results. Some portfolio investments will depend for their success on the management talents and efforts of one person or a small group of persons whose death, disability or resignation would adversely affect their businesses. Portfolio investments may have highly leveraged capital structures that make them more vulnerable to adverse financial or business developments than less highly leveraged companies.

**Co-Investments.** The Investment Vehicles may acquire interests in certain companies in cooperation with others through co-investment arrangements. The Investment Vehicles' ability to exercise significant influence over management in these cooperative efforts will depend upon the nature of the co-investment arrangement. Such investments may, under certain circumstances, involve risks not otherwise present, including the possibility that the Investment Vehicles' co-investor may not be able to satisfy its financial obligations, that such co-investor might at any time have economic or business interests or goals that are inconsistent with those of the Investment Vehicles, and/or that such co-investor may be in a position to take action contrary to the instructions or requests of the Investment Vehicles or contrary to the Napier Park Investment Vehicles' policies or objectives. In addition, such arrangements are likely to involve additional restrictions on the resale of the Investment Vehicles' interest in the company.

**Director Liability.** The Investment Vehicles may have the right to appoint one or more representatives to the boards of directors (or comparable governing bodies) of companies in which they may invest. Serving on such boards will expose the Investment Vehicles' representatives, and ultimately the Investment Vehicles, to potential liability. Although companies often purchase insurance to protect directors and officers from such liability, certain companies may not obtain such insurance and there can be no assurance that such insurance will prove sufficient even if obtained. In addition, representation of the Investment Vehicles on a company's board of directors may also have the effect of impairing the ability of the Investment Vehicles to sell their securities in that company at such times and upon such terms as it might otherwise desire. If the Investment Vehicles are a significant shareholder with board representation or are otherwise involved with the management of a company, the Investment Vehicles could be subject to legal claims they would not otherwise be subject to as investors, including claims of breach of the duty of loyalty, securities law claims and other claims.

**Availability of Insurance Against Certain Catastrophic Losses.** With respect to portfolio investments, the Investment Vehicles will maintain insurance with insured limits and policy specifications that Napier Park believes are customary for similar investments. However, certain losses of a catastrophic nature, such as wars, earthquakes, floods, terrorist attacks or other similar events, may be either uninsurable or insurable at such high rates that to maintain such coverage would cause an adverse impact on the related investments.

As a result, all portfolio investments might not be insured against these events. If a major uninsured loss occurs, the Investment Vehicles could lose both invested capital in, and anticipated profits from, the affected investments.

***Disclosure of Confidential Information.*** Napier Park and/or certain investors in an Investment Vehicle may be required by law, regulation or otherwise to disclose certain confidential information relating to the Investment Vehicle and/or its investments. Such disclosure may affect the ability of such Investment Vehicle to realize a portfolio investment and may affect the price that the Investment Vehicles are able to obtain upon any subsequent realization or may otherwise adversely affect the Investment Vehicles.

***Minority Holdings.*** In certain circumstances, the Investment Vehicles may have minority ownership interest in companies they hold and may thus have limited ability to protect their position in, or liability arising from, such companies and might not always be in a position to protect their interests effectively, particularly if the management team pursues objectives which are inconsistent with those of the Investment Vehicles.

***Regulatory Matters.*** The industries in which the Investment Vehicles expect to invest may be subject to new or increased regulation by various governmental agencies and industry trade associations, including transportation agencies, environmental agencies and community governments. These regulations may require modifications to the products in which the Investment Vehicles invest or otherwise increase operational costs, and any such modification may increase costs which can adversely affect the Investment Vehicles' returns. Any inability to maintain compliance with such regulations may adversely impact the Investment Vehicles' business and results of operation.

***Environmental Matters.*** The Investment Vehicles may be liable under certain environmental statutes for claims arising from accidents, spills or other casualties involving their portfolio investments. Under some of these statutes, the Investment Vehicles could be held strictly liable for such claims and such liability, in certain cases, could be joint and several among the Investment Vehicles and any other responsible parties. In such a case, the Investment Vehicles could be responsible for all such liability if other potentially responsible parties were not financially capable of discharging, or otherwise do not discharge, their liability.

***Technology.*** The Investment Vehicles' portfolio investments may encounter difficulty to the extent that newer, more technologically advanced products render any of the portfolio investments less competitive. The extent to which the Investment Vehicles are able to manage these technological risks may be limited. Any adverse impact on the Investment Vehicles due to technological obsolescence could have an adverse effect on the Investment Vehicles' business and operating results.

***Certain Risks Related to Leasing Activities.*** The portfolio investments may include the leasing of equipment, aircraft, railcars and other assets.

In general, leased assets lose value over a lease term. In negotiating leases, Napier Park will assume a value for the asset at the end of the lease. At the end of these leases, the Investment Vehicles must either renew the lease, find a new lessee or sell the asset to cover their investment and make a profit.

The value of the Investment Vehicles' assets at the end of a lease will depend on a number of factors, including: (i) the condition of the asset, (ii) the cost of similar new assets, (iii) the supply and demand for similar assets; and (iv) whether the asset has become obsolete. There can be no assurance that Napier Park's value assumptions will be accurate or that the asset will not lose value more rapidly than anticipated. There can also be no assurance that an asset can successfully be sold or re-leased upon termination of the existing lease.

If a lessee does not make lease payments when they are due or violates the terms of its contract in another significant way, the Investment Vehicles may be forced to cancel the lease and recover the asset. The

Investment Vehicles may do this at a time when Napier Park may be unable to arrange for a new lease or the sale of such asset right away. The Investment Vehicles would then lose the expected revenues and might not be able to recover the entire amount of their original investment. If a lessee files for protection under the bankruptcy laws, the Investment Vehicles may experience difficulties and delays in recovering the asset from the defaulting lessee. The asset may be returned in poor condition and the Investment Vehicles may be unable to enforce important lease provisions against an insolvent lessee, including the contract provisions that require the lessee to return the asset in good condition. In some cases, a lessee's deteriorating financial condition may make trying to recover what the lessee owes the Investment Vehicles impractical. The costs of recovering assets upon a default, enforcing the lessee's obligations under the lease terms, and transporting, storing, repairing and finding a new lessee or purchaser for the asset may be high and may affect the Investment Vehicles' profits.

The use, maintenance and ownership of certain types of assets are regulated by U.S. or foreign federal, state and/or local authorities. Regulations may impose restrictions and financial burdens on the Investment Vehicles' ownership and operation of certain assets. Changes in government regulations, industry standards or deregulation may also affect the ownership, operation and resale value of certain assets. For example, certain assets, such as subway cars, are subject to extensive safety and operating regulations imposed by government and/or industry organizations which may make such assets more costly to acquire, own, maintain under lease and sell. These agencies or organizations may require changes or improvements to assets and the Investment Vehicles may have to spend their own capital to comply. These changes may also require the asset to be removed from service for a period of time. The terms of leases may provide for rent reductions if the asset must remain out of service for an extended period or is removed from service. The Investment Vehicles may then have reduced operating revenues from the leases for these assets. If the Investment Vehicles did not have the capital to make a required change, they might be required to sell the asset or to sell other assets in order to obtain the necessary cash; in either event, the Investment Vehicles could suffer a loss on their investment and might lose future revenues, and might also incur adverse tax consequences.

The Investment Vehicles may lease assets to non-U.S. subsidiaries of United States corporations and to non-U.S. lessees. The Investment Vehicles may also lease assets to U.S. lessees which are to be used outside the United States. The laws, courts and tax authorities of a foreign country may govern the Napier Park Investment Vehicles' assets that are leased or used in that country. The Investment Vehicles may find it difficult or impossible to enforce judgments against non-U.S. lessees, recover leased assets or enforce the Investment Vehicle's rights under the lease. Also, the use and operation of certain assets in foreign countries may result in unanticipated taxes or confiscation without fair compensation.

If lease payments or other investment terms involve payments in non-U.S. currency, the Investment Vehicles will be subject to the risk of currency exchange rate fluctuations, which could reduce the Investment Vehicles' overall profit on an investment. Many countries also have laws regulating the transfer and exchange of currencies, and these laws may affect a non-U.S. lessee's ability to comply with transaction terms. Finally, certain depreciation or cost recovery methods used in calculating taxable income may not be available for assets leased by a non-U.S. lessee or "used predominantly outside the United States."

***Industry Concentration.*** The Investment Vehicles will make direct and indirect investments primarily in the transportation industry. Consequently, any significant economic downturn in the transportation industry in general or in any segment of the transportation industry in which the Investment Vehicles invest may have a significant adverse impact on the capital of the Investment Vehicles.

***Investments in Highly Regulated and Highly Taxed Industries.*** The transportation industry is subject to significant government regulation and regulatory oversight. Various federal and state agencies and foreign regulators exercise broad regulatory powers over the transportation industry, generally governing such activities as operations of and authorization to engage in transportation, operations of carriers, safety,

contract compliance, insurance requirements, tariff and trade policies, taxation, and financial reporting. Failure to maintain continuous compliance with such regulations or to obtain licenses, consents or approvals can adversely affect the financial condition, cash flow and results of operations of transportation assets and therefore of the portfolio investments. Additionally, increases in license and registration fees, bonding requirements, or taxes, or the implementation of new forms of operating taxes on the industry could also have an adverse effect on the return on the assets in which the Investment Vehicles are directly or indirectly invested. Such assets could become subject to new or more restrictive regulations and compliance with all such regulations could substantially reduce return on investment.

***Transportation Assets May Be Subject to High Maintenance and Obsolescence Issues.*** Transportation assets are generally long-lived assets, requiring long lead times to develop and manufacture, with particular types and models becoming obsolete or less in demand over time when newer, more advanced assets are manufactured. The transportation assets in which the Investment Vehicles will be invested may become obsolete, particularly if unanticipated events occur which shorten their life-cycle. Such events include but are not limited to government regulation, technological innovations or changes in customer preferences. Further, variable expenses like fuel, crew or ageing corrosion control, among other factors, could make operation of assets more costly to maintain, and some of these expenses and costs may negatively affect a portfolio investment.

***Competition.*** The transportation industry is highly competitive and certain sectors of the transportation industry have been undergoing consolidation. Competitors to the portfolio investments may have greater resources or a lower cost of capital; accordingly, they may be able to compete more effectively in one or more of the markets in which the portfolio investments are concentrated.

***General Business Risks Affecting the Transportation Industry.*** The transportation industry is affected by risks that are largely unpredictable and beyond Napier Park's control, but which could have a material adverse effect on the financial condition, results of operations, liquidity and cash flows of transportation assets. Such factors include health of the economy, political instability, international hostilities, weather and other seasonal factors, excess capacity in the transportation industry, supply chain disruptions, interest rates, fuel costs, fuel taxes, license and registration fees, healthcare costs and insurance premiums. Additionally, transportation assets continue to be a target of terrorist activities, and federal, state and municipal governments are adopting or are considering adopting stricter security requirements that will increase operating costs and potentially slow service in the transportation industry. Safety requirements affecting transportation assets may change periodically in response to evolving threats and as the result of regulatory and legislative requirements, imposing additional costs. It is possible that such requirements rules or other future security requirements could adversely impact the demand for assets in which the Investment Vehicles may be directly or indirectly invested.

***Cyclical.*** The transportation industry in North America and Europe historically has experienced cyclical fluctuations in demand and financial results due to economic recession, downturns in the business cycles of transportation asset consumers, changes in rates charged by transportation providers, interest rate fluctuations, inflation and other U.S. and global economic factors. Although macro-economic risk affects most industries, the transportation industry is particularly susceptible to changes in economic and market conditions as transportation relies on the strength of customers' businesses and the level of confidence customers have about future market conditions. During economic downturns, reduced overall demand for transportation services will likely reduce demand for the types of assets in which the Investment Vehicles may be invested.

## ***India Investment Business:***

### ***Investment Strategy and Method of Analysis:***

The investment strategy for this business generally seeks to take advantage of the robust demand for, and the constrained supply of, infrastructure assets in India. A key component of the investment strategy is to utilize a disciplined investment process that has been implemented numerous times in prior investments. The third-party advisor engaged by Napier Park employs an investment process that typically consists of five stages which combine comprehensive analyses, detailed asset-level due diligence and creative structuring/documentation. In stage one, the third-party advisor seeks to source an investment by leveraging its existing relationships with promoters, developers, and other third parties. In stage two, the third-party advisor determines whether an investment is potentially consistent with the Investment Vehicles' investment objectives. Upon such a determination, the investment would be subject to further investigation, which would typically involve additional meetings with the developer and internal research. During stage three, a detailed financial model reflecting the risk and return profile of the deal is prepared. Possible options for structuring would also be assessed. The members of the investment committee receive a brief write-up regarding each new deal after the deal team is satisfied that it has cleared all previous hurdles. During stage four, comprehensive due diligence are carried out to confirm that the opportunity is compelling. The findings of the due diligence process are then presented to the investment committee for further consideration. The final structure of the deal would be crafted to address any issues raised by the investment committee. During stage five, the third-party advisor monitors key milestones and seeks to add value to the investment/portfolio company.

### ***Strategy Risks:***

***Investments.*** The Investment Vehicles focus their investments in securities of Indian or other non-United States portfolio companies with underlying assets in India. Such investments may present a variety of risks not presented by investments in United States portfolio companies. Such risks may include: (i) increased risk of nationalization or expropriation of assets or confiscatory taxation, (ii) greater social, economic and political uncertainty, including war and terrorism, (iii) higher dependence on exports and the corresponding importance of international trade, (iv) greater volatility, less liquidity and smaller capitalization of securities markets, (v) greater volatility in currency exchange rates, (vi) greater risk of inflation, (vii) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars, (viii) increased likelihood of governmental involvement in and control over the economies, (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economy, (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers, (xi) less extensive regulation of the securities markets, (xii) longer settlement periods for securities transactions and less reliable clearance and custody arrangements, and (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and protection of investors.

***Potential Taxation of Capital Gains by India.*** It is expected that the benefits of certain tax treaties will be available with respect to the Investment Vehicles' investments in India, and thus, gain from the sale of any such investment is not expected to be subject to tax in India. However, there can be no assurance that the Investment Vehicles will continue to qualify for benefits under the tax treaties, particularly upon enactment of the proposed Direct Taxes Code Bill, 2010 (the "DTC").

Among other things, the DTC provides for certain situations in which the provisions of Indian law would override the treaty. Thus, there is a possibility that the tax treaties would no longer apply to eliminate the capital gains tax imposed by India, which could result in the imposition of tax on capital gains.

***Applicability of Tax Treaties to Avoid Taxation of Capital Gains by India.*** There is a risk that the Indian tax authorities could claim that the Investment Vehicles' activities result in a permanent establishment in India. If the Indian tax authorities succeeded in that claim, then the income of the Investment Vehicles (or their subsidiaries), to the extent attributable to the permanent establishment, would be subject to tax in India. In its comments to the OECD Model Tax Convention/Commentary in 2008, as an observer member, India has expressed a view that mere participation in investment negotiations may be sufficient to conclude that an agent has exercised authority to conclude contracts. In addition, Indian tax authorities are of the view that an agent who negotiates essential elements of the contract but not all elements and details, can be said to conclude contracts, thereby creating a permanent establishment. The Investment Vehicles and their subsidiaries intend to take the position that there is no permanent establishment in India. However, there can be no assurance that this position will be respected by the Indian tax authorities.

***Business Connection.*** Under current law, if the Indian tax authorities are able to establish that the Investment Vehicles have a business connection in India, any income of the Investment Vehicles that accrues or arises, whether directly or indirectly through or from such business connection will be subject to taxation in India. The term "business connection" includes any business activity carried out through a person acting on behalf of a non-resident if such person has, and habitually exercises in India, an authority to conclude contracts on behalf of the non-resident. Because the Investment Vehicles do not intend to make any direct investment in India or to grant any agent the authority to conclude contracts on behalf of the Investment Vehicles in India, the Investment Vehicles are not anticipated to have a business connection in India under current law. Nevertheless, a risk remains that the Indian tax authorities could seek to establish a business connection between the Investment Vehicles and India.

***Currency, Inflation and Foreign Exchange Risks.*** Many of the assets of the Investment Vehicles will be denominated in Indian rupees or other foreign currencies, whereas distributions from the Investment Vehicles will be made in U.S. dollars. Therefore, the Investment Vehicles' distributions may be adversely affected by reductions in the value of foreign currencies relative to the U.S. dollar. Accordingly, a change in the value of the Indian rupee (or other foreign currencies) against the U.S. dollar may result in a corresponding change in the value of the interests. Further, although inflation in India was relatively modest over the last ten years, there has been a sharp increase over the last year and there is no assurance that inflation rates will be stable.

The Investment Vehicles may (but are not obligated to) choose to hedge against currency exposure, but there can be no assurance that such hedging, if undertaken, will insulate the Investment Vehicles and their investments from currency risk. The values of the Investment Vehicles' investments may also be affected by developments relating to exchange control regulations. In the past, the Indian government has imposed substantial obstacles to the ability to repatriate income and capital. Repatriation of certain forms of income by the Investment Vehicles may currently require governmental consents. Delays in or refusal to grant any such approval, or a revocation or variation of consents granted prior to investments being made in any particular country may

adversely affect the Investment Vehicles' investments. There can be no assurance that future restrictions on the ability to exchange Indian rupees or other foreign currency into U.S. dollars and to repatriate income and capital will not adversely affect the ability of the Investment Vehicles to repatriate their income and capital. In the past, exchange rates have been subject to significant fluctuations and there can be no assurance that they will be stable.

***Ability to Enforce Legal Rights.*** Because the relative effectiveness of the judicial systems in India varies, the Investment Vehicles (or any portfolio companies) may have difficulties in successfully pursuing claims in the courts of India, as compared to the United States or other developed countries. Furthermore, to the extent that the Investment Vehicles or portfolio companies may obtain judgments but are required to seek enforcement in the courts of India or other countries, there can be no assurance that such courts will enforce such judgments.

An elaborate and extensive judicial and quasi-judicial system exists in India with courts being the judicial authority and regulators like SEBI being quasi-judicial authorities. A separate civil and criminal system exists in each state with the highest court for each state being the High Court. Appeals from the High Courts are made to the Supreme Court of India, which is the highest judicial authority of the country. A framework for arbitration, through the Arbitration and Conciliation Act, 1996 also exists and provides for minimum court intervention in the arbitral process. Arbitration is generally preferred to courts as a means of dispute resolution as the backlog of cases in courts is often a cause of delays.

While Indian laws provide for specific performance of contractual obligations as well as claims for damages in the event of breach of contract, and property rights may be enforced through the aforementioned judicial system, laws regarding the rights of creditors and the obligations of purchasers or lessees of property are generally significantly less developed in India than in the United States and may be less protective of rights and interests of non-Indian investors and owners of property in general. It may be difficult to obtain swift and equitable enforcement of such laws or to obtain enforcement of an arbitral award or a judgment in a local court. In addition, if a dispute arises between the Investment Vehicles and Indian joint venture partners, the ability to achieve final resolutions and timely and effective enforcements of judgments or arbitral awards in favor of the Investment Vehicles may be limited by one or more of the following factors: (a) delays in pursuing claims and/or enforcing judgments or arbitral awards through the Indian judicial system; (b) the unenforceability of certain types of shareholder arrangements under Indian law; and (c) public policy considerations that may disfavor the claims of the Investment Vehicles.

***Political Stability Risks.*** Political, economic and social factors, changes in Indian law or regulations and the status of India's relations with other countries may adversely affect the values of the Investment Vehicles' assets. In addition, the Indian economy may differ favorably or unfavorably from other economies in several respects, including the rate of growth of its gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency, and balance of payments position.

India is a country that comprises diverse religious and ethnic groups. Border disputes have, however, given rise to ongoing tension in the relations between India and Pakistan, particularly over the region of Kashmir. In addition, cross-border terrorism could weaken regional stability in South Asia, thereby hurting investor sentiment. Certain developments (such as the possibility of nationalization, expropriations or taxation amounting to confiscation, political changes,

governmental regulation, social instability, diplomatic disputes or other similar developments), which are beyond the control of the Investment Vehicles could adversely affect the Investment Vehicles' performance.

While fiscal and legislative reforms have led to economic liberalization and stabilization in India, the possibility that these reforms may be halted or reversed could significantly and adversely affect the value of investments in India. The investments could also be adversely affected by changes in laws and regulations or the interpretations thereof, including those governing the acquisition of land, the formation of joint ventures and foreign direct investment, anti-inflationary measures, laws governing rates and methods of taxation, and restrictions on currency conversion, imports and sources of supplies. More generally, although India has experienced significant growth and is projected to undergo significant growth in the future, there can be no assurance that such growth will continue.

***Financial Instability in Other Markets.*** The economic developments and volatility in securities markets in other countries directly impact the Indian economy and its securities market. The Indian market may be adversely affected by the investors' reactions to developments in one country. Worldwide financial instability could also have a negative impact on the movement of exchange rates and interest rates in India. The Indian financial markets and the Indian economy may also be influenced by economic and market conditions in emerging market countries in Asia and Latin America.

***Property Rights Risks.*** Legal and political developments in India may affect the ability of the Investment Vehicles, third parties with which the Investment Vehicles have contracts, or portfolio companies in which the Investment Vehicles have invested to enforce property rights. India has a history of internal political unrest, including peasant-based and communist-led movements to forcibly seize and expropriate privately-owned land. Such movements have in the past made use of violent methods to seize and expropriate land, and investors should be aware of the risks that portfolio companies in which the Investment Vehicles invest may suffer economic losses associated with land seizures. Likewise, Indian courts, legislative bodies or executive branch entities may modify or weaken the legal regime of property rights in the country. In the event of changes in the terms and conditions of property rights in India, the Investment Vehicles may suffer major financial losses.

Further, India lacks a fully computerized system of land records. Due to a heavy reliance on hand-recorded transactions, land transactions in which the Investment Vehicles engage may take unexpectedly long or result in unanticipated errors. As a result, the title to the properties owned directly or indirectly by the Investment Vehicles may not be clear or may be subject to competing claims.

More generally, the right to own property in India is subject to restrictions that may be imposed by the Government of India. In particular, the government has the right to acquire any land or a part thereof if such acquisition is for a 'public purpose' after paying the owner some compensation. However, this compensation may not be the rate that such a property might have obtained had it been sold in the market.

***Utilities and Infrastructure Risks.*** The Investment Vehicles anticipate making investments in portfolio companies that depend on local utilities to supply electricity, water and similar services.



Many major Indian cities experience regular disruptions in services provided by utilities companies. Such disruptions include power cuts, power surges, water shortages and water contamination. Disruptions in utilities' services may impair portfolio companies' ability to operate, leading to reduced earnings or even the complete loss of investments. Similarly, portfolio companies may depend on local, regional, national or international transportation facilities. The Investment Vehicles cannot guarantee that highways, airports, railways, ports, canals and shipping routes will always function properly. Weaknesses in, or impairments to, transportation facilities within or outside of India may affect the operation and profitability of portfolio companies.

***Real Estate Investment Risk.*** Real estate investments, like many other types of long-term investments, have historically experienced significant fluctuations in value, and specific market conditions and cycles may result in occasional or permanent reductions in the value of the Investment Vehicles' investments. Property cash flows and the marketability and value of real property will depend on many factors beyond the control of the Investment Vehicles, including, without limitation: adverse changes in international, national, regional and local economic and market conditions; changes in interest rates or financial markets; fluctuating local real estate conditions and changes in local laws and regulations; competition from other available properties; changes or promulgation and enforcement of governmental regulations relating to land use and zoning, environmental, occupational and safety matters; changes in real estate tax rates and other operating expenses; existence of uninsured or uninsurable risks; and natural disasters, acts of war or terrorism.

Investments of the Investment Vehicles may be subject to the risks incident to a passive investment in income-producing real estate properties in the particular markets in which the Investment Vehicles operate. Generally, there will be no readily available market for a substantial amount of the Investment Vehicles' investments. Market illiquidity could prevent the Investment Vehicles from effecting dispositions of their properties at desired times or require the Investment Vehicles to accept "in kind consideration" and consequently result in distributions "in kind" to investors, all of which could negatively impact the internal rate of return achieved on such investments.

***Real Estate Legal Risks.*** In India, certain lands are earmarked as agricultural lands, on which only agricultural activities may be carried out. In order for anyone to carry out non-agricultural activities, prior permission is required from the local authority of that particular area. Land use in India is also subject to various municipal legislation and zoning laws which sometimes contradict each other or are subject to revision and change from time to time. Therefore, land held or acquired by the Investment Vehicles may be adversely impacted by such restrictions, reducing the value of such investments.

No formal title insurance policies comparable to those typically available in the United States or other Western countries are currently available in India. The Investment Vehicles will conduct due diligence and use other appropriate measures to determine whether they are obtaining good titles to any of the properties they acquire, consistent with market practices in India. Property litigation in India is generally time-consuming, complicated and pervasive. If any property in which the Investment Vehicles have invested is subject to litigation, there could be adverse impacts, financial or otherwise to the Investment Vehicles.

The Investment Vehicles may acquire direct or indirect interests in undeveloped land or underdeveloped real estate assets, with either a freehold or leasehold interest in such property. To

the extent the Investment Vehicles invest in such assets, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the reasonable control of the Investment Vehicles, such as weather or labour conditions or material shortages) and the availability of both construction and financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities. Changes in market conditions during the course of development may also lead to an erosion of value of such development.

***General Risks Associated with Infrastructure Assets.*** Investments in infrastructure and infrastructure-related assets, will be subject to substantial governmental regulation, and governments have considerable discretion in implementing regulations that could impact the business of the portfolio companies. In addition, the operations of portfolio companies may rely on government permits, licenses, concessions, leases or contracts. Government entities generally have significant influence over such companies in respect of the various contractual and regulatory relationships they may have, and these government entities may exercise their authority in a manner that causes delays in the operation of the business of the portfolio companies, obstacles to pursuit of the portfolio companies' strategy or increased administrative expenses, all of which could materially and adversely affect the business and operations of the Investment Vehicles.

Where the ability to operate an infrastructure asset owned by a portfolio company is subject to a concession or lease from the government, the concession or lease may restrict the operation of such asset, including the portfolio company's ability to operate the business in a way that maximizes cash flows and profitability. Leases or concessions may also contain clauses more favorable to the government counterparty than would a typical commercial contract (for example, enabling the government to terminate a lease or concession in certain circumstances without paying adequate compensation). If an infrastructure asset owned by a portfolio company fails to comply with any regulation or contractual obligation, such asset, the portfolio company that owns it, or the Investment Vehicles could be subject to monetary penalties, loss of the right to operate affected businesses, or both. Furthermore, government permits, licenses, concessions, leases and contracts are generally very complex and may result in a dispute over interpretation or enforceability. In addition to any contractual rights they may enjoy, government counterparties may also have the independent discretion to implement or change laws or regulations affecting the operations of infrastructure investments. Further, the ability to grow future businesses will often require consents of numerous government regulators. These consents may be costly to seek, and portfolio companies or the Investment Vehicles may be unable to obtain them. The Investment Vehicles' ability to achieve their investment strategy could be adversely affected if they fail to obtain any required consents.

Infrastructure assets may be subject to rate regulation by government agencies because of their unique position as the sole or predominant providers of services that are often essential to the community. As a result, certain investments into portfolio companies might be subject to unfavorable price regulation by government agencies. For example, infrastructure companies engaged in businesses with monopolistic characteristics, such as electricity distribution, could face caps placed by regulators on allowable returns. Often these price determinations are final with limited or no right of appeal. Given the public interest aspect of the services that infrastructure

assets provide, political oversight of the sector is likely to remain pervasive and unpredictable and, for political reasons, governments may attempt to take actions which may negatively affect the operations, revenue, profitability or contractual relationships of portfolio companies, including through expropriation.

Certain portfolio companies may need to use public ways or may operate under easements. Under the terms of agreements governing the use of public ways or easements, government authorities may retain the right to restrict the use of such public ways or easements or to require portfolio companies to remove, modify, replace or relocate their facilities at the portfolio company's expense. If a government authority exercises these rights, the portfolio company could incur significant costs and its ability to provide service to its customers could be disrupted, which could adversely impact the performance of the relevant portfolio company.

**Capital Expenditures.** There is a risk that unforeseen factors may require capital expenditures in excess of forecasts and a risk that new or additional regulatory requirements, safety requirements or issues related to asset quality and integrity may result in the need for additional capital expenditure for replacement or reinforcement of infrastructure assets. While the Investment Vehicles intend to reasonably ensure that their purchased assets are in good condition and appropriate ongoing maintenance is provided for, no guarantee can be given that capital expenditures in excess of the anticipated levels will not be required.

**Bypass Risk.** Bypass risk arises where a change could occur in the way an infrastructure service or product is delivered, rendering it obsolete and allowing a competitor or user of such service or product to bypass it. If the portfolio companies are subject to bypass, they may lose revenues and cash flows may be adversely impacted. Further, if a change were to occur that made any infrastructure assets obsolete, such infrastructure assets would be likely to have few, if any, alternative revenue-generating uses.

**Strategic Assets Risk.** Investments in public infrastructure may be in assets that constitute significant strategic value to public and/or governmental bodies. The very nature of these assets could generate additional risks not common in other industry sectors. Given the national or regional profile and/or their irreplaceable nature, such strategic assets may constitute a higher-risk target for terrorist acts or political actions. Given the essential nature of the services provided by public infrastructure assets, there is also a higher probability that the services provided by such assets will be in constant demand. Should an owner of such assets fail to make such services available, users of such services may incur significant damage and may, due to the characteristics of the strategic assets, be unable to replace the supply or mitigate any such damage, thereby heightening any potential loss from third-party claims against the Investment Vehicles for such failures.

**Potential Environmental Liabilities.** Under Indian laws, an owner of real estate or infrastructure assets may be liable for the costs of removal or remediation of certain hazardous or toxic substances on, in or released from, such assets. The Indian environmental laws often impose a strict liability without regard to whether the owner had knowledge of, or was directly responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. While the Investment Vehicles will exercise reasonable care to ensure that the assets forming part of the

Investment Vehicles' investments do not present a material risk of such liability, environmental liabilities may arise as a result of a large number of factors, including changes in laws or regulations, accidental releases, and the existence of conditions that were unknown at the time of acquisition. The extent of the responsibility, if any, for the costs of abating environmental hazards may be unclear when the Investment Vehicles are considering a potential investment, and thus any liability resulting from non-compliance or other claims relating to environmental matters could have a material adverse effect on the Investment Vehicles' performance. In addition, portfolio companies can have a substantial environmental impact. As a result, community and environmental groups may protest about the development or operation of such assets, and these protests may induce government action to the detriment of the owner of the assets.

Please also refer to the "General Risks" below.

### ***General Risks***

Investment Vehicles entail a high degree of risk. Investors should give careful consideration to the following risk factors and conflicts of interest detailed in this Item 8 and other product-specific information provided by the product or Napier Park in evaluating the merits and suitability of any Alternative Investment products. The following does not purport to be a comprehensive summary of all the risks and conflicts of interest associated with Investment Vehicles. As used in this Item 8, "Investment Manager" means Napier Park unless the context indicates otherwise.

#### **Investment in General**

Any prospective client must be able to bear the risks involved and must meet the suitability requirements of the Investment Vehicles. Some or all alternative investment strategies employed by the Investment Vehicles may not be suitable for certain investors. No assurance can be given that the Investment Vehicles' investment objectives will be achieved. Investments in hedge funds, private equity funds, and other types of private investment funds are typically speculative and involve a substantial degree of risk. Past results of the Investment Vehicles or any other private investment funds managed are not necessarily indicative of future performance of any Investment Vehicle and the performance of such Investment Vehicle may be volatile. Such past performance may not be an accurate indicator of future returns. Investment results may vary substantially on a monthly, quarterly or annual basis. The establishment and use of an Investment Vehicle does not constitute a complete investment program. A prospective client must realize that it could lose all or a substantial amount of its investment in an Investment Vehicle.

Napier Park expects that certain Investment Vehicles may underperform or experience financial difficulties, which difficulties may never be overcome. Certain Investment Vehicles may be highly illiquid and/or permit redemptions infrequently and under very restrictive terms. Napier Park may utilize highly speculative investment techniques, including extremely high leverage, highly concentrated portfolios, workouts and startups, control positions and illiquid investments. No assurance can be given that an Investment Vehicle will achieve its goals or investment objectives.

**Legal and Regulatory Environment for Private Investment Funds and their Managers.** The legal, tax and regulatory environment worldwide for private investment funds and their managers is evolving. Changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of the Investment Vehicle to pursue its

investment program and the value of investments held by the Investment Vehicle. There has been an increase in scrutiny of the private investment fund industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Investment Vehicle to pursue its investment program or employ brokers and other counterparties could have a material adverse effect on the Investment Vehicle's investments therein. In addition, the Investment Manager may, in its sole discretion, cause the Investment Vehicle to be subject to certain laws and regulations if it believes that an investment or business activity is in the Investment Vehicle's interest, even if such laws and regulations may have a detrimental effect.

Dodd-Frank Act. The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in July 2010. The Dodd-Frank Act has resulted in extensive rulemaking and regulatory changes that affect private fund managers, the funds that they manage and the financial industry as a whole. Under the Dodd-Frank Act, the CFTC and the SEC have mandated (and will mandate) new recordkeeping, reporting, central clearing and mandatory trading on electronic facilities requirements for investment advisers, which add costs to the legal, operational and compliance obligations of the Investment Manager and the Investment Vehicle and increase the amount of time that the Investment Manager spends on non-investment-related activities. The Dodd-Frank Act affects a broad range of market participants with whom the Investment Vehicle interacts or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders and broker dealers, and may change the way in which the Investment Manager conducts business with its counterparties. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile and make it difficult for the Investment Manager to execute the investment strategy of the Investment Vehicle.

Regulation in the Derivatives Industry. The Dodd-Frank Act has had a significant impact on the derivatives industry. The Dodd-Frank Act divides the regulatory responsibility for derivatives in the United States between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The CFTC has regulatory authority over "swaps" and the SEC has regulatory authority over "security-based swaps". As a result of this bifurcation and the different pace at which the agencies have promulgated necessary regulations, different transactions are subject to different levels of regulation in the United States. Though many rules and regulations have been finalized, there are others that are still in the proposal stage and more that will be introduced. In addition, there has been and will be extensive rulemaking related to derivative products by non-U.S. regulatory authorities. Differences between regulatory regimes may make it more difficult or costly for dealers, prime brokers, futures commission merchants ("FCMs"), custodians, exchanges, clearinghouses and other entities, such as the Investment Vehicle, to comply with and follow various regulatory regimes. There are significant legal, operational, technological and trading implications that result from the Dodd-Frank Act and related rules and regulations that may make it difficult or impossible for the Investment Vehicle to enter into otherwise beneficial transactions.

Governmental Interventions. Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially

eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Investment Vehicle's strategies.

Potential Interest Rate Increases. The United States is experiencing historically low interest rate levels. However, the continued recovery of the U.S. economy and recent and potential future changes in U.S. government policy, including the tapering of the U.S. Federal Reserve Board's quantitative easing program, increase the risk that interest rates will rise in the near future. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by the Investment Vehicle to decrease, which may result in substantial withdrawals from the Investment Vehicle that, in turn, force the Investment Vehicle to liquidate such securities at disadvantageous prices, negatively impacting the performance of the Investment Vehicle.

Current Economic Conditions in European Countries. Certain European countries, including Greece, Ireland, Italy, Portugal and Spain, are currently experiencing varying degrees of financial distress. Risks from the debt crisis in Europe could result in a disruption of the financial markets, which could have a detrimental impact on global economic conditions. Recently, contagion fears have expanded to Spain and Italy, and credit spreads widened further in European peripheral countries and European banks. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on global financial markets. A significant deterioration of the European debt crisis could result in material reductions in the value of sovereign debt and other asset classes, disruptions in capital markets, widening of credit spreads, loss of investor confidence in the financial services industry, a slowdown in global economic activity, and other adverse developments that could negatively impact the performance of the Investment Vehicle.

#### Market Disruption and Political Risk

The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of asset prices, liquidity, interest rates and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Volatility, illiquidity, governmental action, currency devaluation, or other events in global markets in which the Investment Vehicles directly or indirectly hold positions could impair the Investment Vehicles' ability to achieve their investment objectives and could cause the Investment Vehicles to incur substantial losses.

#### Business and Regulatory Risks

The industry of hedge funds, real estate funds and other private investment funds has been and is expected to continue to be subject to increased regulation and public scrutiny. Legal, tax and regulatory changes are expected to occur that may adversely affect the Investment Vehicles. The regulatory environment for hedge funds, private equity funds, real estate funds and other private investment funds is evolving globally, and changes in the regulation of private investment funds may adversely affect the value of investments held by the Investment Vehicles and the ability to obtain the leverage the Investment Vehicles might otherwise obtain or the ability of the Investment

Vehicles to pursue certain trading strategies. The effect of any future regulatory change on the Investment Vehicles could be substantial and adverse.

#### Illiquidity of the Investment Vehicles

Interests in the Investment Vehicles will be offered without registration under the Securities Act, in reliance upon an exemption contained in Section 4(2) of the Securities Act and/or Regulation D under the Securities Act. There will be no public market for such interests in the Investment Vehicles and, for a variety of regulatory reasons, no such market will be permitted to exist. The only source of liquidity lies in an investor's right to redeem from the Investment Vehicles (if any such right even exists). Redemptions from the Investment Vehicles, may be subject to various restrictions, including prior notice and minimum redemption requirements, lock-up periods of one year or more, side-pocketed investments, and the right of the Investment Vehicles to reduce the amount of redemptions in accordance with a redemption gate. In addition, in the event of a complete redemption from an Alternative Investment, a portion of the redemption proceeds may be retained by such Alternative Investment until the completion of such Alternative Investment's annual audit. The Investment Vehicles may have discretion to further defer payment of redemption proceeds, to suspend redemptions indefinitely and to satisfy redemptions in kind. In addition, redemption payments from certain Investment Vehicles may be based on inaccurate/or estimated data, and may be subject to a return of any overpayments by the investor.

#### Lack of Regulation of Investment Vehicles

The Investment Vehicles are generally not subject to many provisions of the federal securities and commodities laws that are designed to protect investors in pooled investment vehicles offered to the public in the United States. The interests in Investment Vehicles generally are not offered pursuant to registration statements effective under the Securities Act. In addition, the Investment Vehicles generally are not subject to the periodic information and reporting provisions of the Exchange Act, nor in most cases will those Investment Vehicles be registered as investment companies under the Investment Company Act. Similarly, the Investment Manager of Investment Vehicles that trade in commodity interests may be exempt from the disclosure, reporting and record-keeping requirements of the Commodity Exchange Act of 1936, as amended.

#### Valuation Risks

Valuations of assets of the Investment Vehicles' directly or indirectly held positions may involve uncertainties and require the application of business judgment. If such valuations should prove to be incorrect, the net asset value of an Alternative Investment could be adversely affected. Valuation of assets of the Investment Vehicles is generally based on the net asset value of Investment Vehicles reported by Napier Park in accordance with its practices and policies.

#### Risk Management

Napier Park's risk analysis team includes professionals with technical expertise in analyzing the risks of investing in Investment Vehicles. Where applicable, Napier Park believes that risk management for a fund of funds requires an understanding of market risk and leverage, at both the Alternative Investment level and underlying fund level. Accordingly, Napier Park's risk analysts maintain a proprietary risk management system that provides processes and tools designed for the complex strategies used by Investment Vehicles. No risk management process is fail-safe, and no assurances can be given that Napier Park's risk management process will achieve its objective.

From time to time, Napier Park may modify or change its risk management system in its sole discretion.

### Leverage

The Investment Vehicles are generally authorized to borrow funds in order to employ leverage, to manage liquidity and for any other purpose (as specified in their respective account documentation and governing documents). Such borrowings may be secured by a pledge of assets to the lender. Borrowing money to purchase securities may provide an opportunity for greater capital appreciation by permitting greater economic exposure to profitable positions. At the same time, leverage increases the Investment Vehicles' exposure to capital risk and higher current expenses through greater exposure to losses, interest charges, fees imposed by lenders and transaction costs.

### Effect of Substantial Redemptions

Substantial redemptions by investors within a short period of time could require an Investment Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the value of the Investment Vehicle's assets. The resulting reduction in the Investment Vehicle's assets could make it more difficult to generate a positive rate of return or to recoup losses due to a reduced equity base. Because substantial redemptions may be funded by liquidating the more liquid assets in the portfolio, such redemptions may cause the remaining portfolio to be substantially less liquid overall.

### Effects of In-Kind Redemptions

Proceeds of an in-kind redemption may be distributed to an investor directly or indirectly through a distribution of, without limitation, interests in one or more special purpose vehicles holding assets owned by an Investment Vehicle or participations therein. To the extent an investor is distributed interests in one or more special purpose vehicles holding participation interests in the assets of such Investment Vehicle, an investor may continue to be at risk of such Investment Vehicle's business until all such assets are sold. The value of proceeds distributed in kind may increase or decrease before they can be sold either by an investor, if received directly, or by Napier Park, if held through a special purpose vehicle of such Investment Vehicle. In the case of interests in special purpose vehicles, an investor will share a proportionate portion of the operating and other expenses borne by such vehicle, including possibly fees to Napier Park. Additionally, proceeds distributed in kind, either directly or indirectly, may not be readily marketable. The risk of loss and delay in liquidating these assets will be borne by investors. Furthermore, to the extent that an investor receive interests in one or more special purpose vehicles, such investor will generally have no control over when and at what price the assets in which such vehicles have an interest are sold.

### Dependence on Key Personnel

The success of any Investment Vehicle depends in substantial part on the skill and expertise of the key members of the investment team. There can be no assurance that the key members of any investment team will continue to be employed by Napier Park or its affiliates throughout the life of the Investment Vehicle. The loss of the services of one or more of such officers or employees could have a material adverse effect on the performance and operation of the Investment Vehicle. In the event that the services of any such personnel are lost, the Investment Vehicle may not be



able to successfully recruit new personnel with the requisite skills, knowledge, relationships or experience.

#### Reliance on Management

Although Napier Park seeks to monitor the performance of each investment, an Investment Vehicle will rely upon management to operate the portfolio companies on a day-to-day basis. There can be no assurance that such management, or any new management, will continue to operate successfully.

#### Bankruptcy of Portfolio Companies

An Investment Vehicle may make investments in portfolio companies that may experience financial difficulties and become insolvent or file for bankruptcy protection. Various U.S. federal and state and non-U.S. laws in connection with such bankruptcy proceedings could operate to the detriment of such Investment Vehicle. There is also a risk that a court may subordinate the investment to other creditors or require the Investment Vehicle to return amounts previously paid to it by a portfolio company that became insolvent or files for bankruptcy, a risk that could increase if the Investment Vehicle has management rights in such portfolio company.

#### Investment Selection

Napier Park will select investments on the basis of information and data prepared by the issuers of such securities or made directly available to Napier Park by the issuers of the securities and other instruments or through sources other than the issuers. Although Napier Park evaluates available information and data and seeks independent corroboration when it considers it appropriate and when it is reasonably available, Napier Park is not in a position to confirm the completeness, genuineness or accuracy of such information and data.

#### Investment in Foreign Securities

The Investment Vehicles may, either directly or indirectly take positions in non-U.S. securities. Investment in non-U.S. securities may be subject to greater risks than purely domestic investments because of a variety of factors, including currency controls and the fluctuation of currency exchange rates, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. In addition, there may be less publicly available information about non-U.S. issuers than about U.S. issuers, and non-U.S. issuers are not subject to uniform accounting, auditing and financial reporting standards and requirements comparable to those of U.S. issuers.

#### Counterparty Risk

The Investment Vehicles are subject to the risk of the failure or default of any counterparty to the transactions of the Investment Vehicles. The institutions, including brokerage firms and banks, with which the Investment Vehicles do business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of an Investment Vehicle. Hedging transactions, margin trading and other financial mechanisms designed to implement various trading strategies involve counterparty risk elements that may be impossible or impractical to eliminate or may create unforeseen exposures. If there is a failure or default by the counterparty to such a transaction, the contractual and other legal remedies available may be limited or inadequate. Counterparty risk may be reduced but not eliminated through the selection of financial institutions and types of transactions employed.

### Correlation Risk

In many cases, the strategy will be based on an assumption that historical pricing correlations accurately represent future correlations. In contexts where a strategy is based on identifying apparent pricing anomalies based on historical correlations, a short- or long-term change in those correlations could adversely affect the anticipated market gain achievable from trading on the basis of the strategy.

Historical pricing patterns do not necessarily predict future relationships, particularly at times of serious market disruption or during unusual trading periods or market events. Consequently, the adoption of certain strategies will not necessarily eliminate or modulate market risk. Since many strategies assume a continuation of historical pricing patterns, any substantial deviation from those patterns can result in volatility and losses.

### No Current Income

An Investment Vehicle's investment policies should be considered speculative, as there can be no assurance that Napier Park's assessments of the short-term or long-term prospects of investments in the Investment Vehicles will generate a profit. In view of the fact that there may be no assurance the Investment Vehicles will make distributions, that such distributions may be infrequent and that investors may have limited rights to redeem from the Investment Vehicles, an investment in an Investment Vehicle is not suitable for investors seeking current income for financial or tax planning purposes.

### No Manager Liability Beyond Investment Assets

Subject to Napier Park's fiduciary responsibility to investors in an Investment Vehicle, such Investment Manager shall have no personal liability to an investor for the return of any investment in such Investment Vehicle, it being understood that any such return shall be made solely from such Investment Vehicle's assets.

### Indemnification; Return of Redemptions and Distributions.

Napier Park and other persons retained by an Investment Vehicle are entitled to indemnification and/or exculpation for liability and losses incurred or arising out of their performance of services, except under certain circumstances, from the respective Investment Vehicle as set forth in more detail in the respective account documents. An Investment Vehicle may also enter into indemnification arrangements and other arrangements that impose limitations on liability with its service providers and other parties

### Early Termination

In the event of the early termination of an Investment Vehicle, it is possible that, at the time of such sale or distribution, certain securities held by the Investment Vehicle would be worth less than the initial cost or previously reported value of such securities, resulting in a loss to investors.

### Limited Voting Rights

The documents governing the Investment Vehicles will generally provide that investors have no voting rights except in limited circumstances. Generally, investors will have no right to vote on many matters affecting the Investment Vehicles, including, without limitation, the election and dismissal of directors, most amendments, supplements or other modifications to the governing

documents of the Investment Vehicles or the merger and/or consolidation of the Investment Vehicles or the liquidation of the Investment Vehicles.

#### Defaulting Investors; Exclusion from Investments

Upon the failure of an investor in an Investment Vehicle to fund required capital contributions, such investor will be in default. The amount of such default will accrue interest. In addition, a number of remedies may be exercised against such investor including (i) causing the defaulting investor to forfeit a portion of future distributions made by the Investment Vehicle and (ii) causing the defaulting investor to be excluded from participating in future investments. In addition, the defaulting investor may have no rights to make capital contributions to the Investment Vehicle.

If investors fail to fund significant subscription obligations or to make required capital contributions when due, such failure could limit an Investment Vehicle's opportunities for investment diversification and could adversely affect returns as well as the Investment Vehicle's ability to implement its investment strategy or otherwise continue operations. The general partner (or similar party) of the Investment Vehicle will have the right in its discretion to take certain actions in order to cover shortfalls arising from the default of the investor or the exclusion or excuse of the investor as the general partner deems appropriate under the circumstances. The general partner may, for example, (i) require an increase in the capital contributions of all other investors or (ii) obtain the agreement of another investor or a third party to cover all or a portion of the shortfall. If the general partner elects to have the other investors cover the shortfall, such investors will have an increased share in such investments in proportion to their respective capital commitments, and accordingly in the risks associated with such investments.

An investor may be excluded or excused from participating in any portfolio investment if the general partner determines in its discretion that such participation might otherwise have certain materially adverse effects on a portfolio company, the Investment Vehicle, other investors or any of their respective affiliates, including if such participation would be likely to result in violations of law or the imposition of a material regulatory or legal burden, or as a result of certain circumstances relating to such investor.

#### Involuntary Sale of Interest

The general partner of an Investment Vehicle may cause an investor to sell its interest if the general partner determines that the continued participation of such investor would have a material adverse effect on the general partner, the Investment Vehicle, any portfolio company, any other investor or any of their respective affiliates.

#### Tax Risks

Tax consequences to investors from an investment in an Investment Vehicle are complex. There may be changes in tax laws or interpretations of such tax laws adverse to the Investment Vehicle or its investors. There can be no assurance that the structure of an Investment Vehicle or of any investment will be tax-efficient to any particular investor. Prospective investors are strongly urged to consult their own tax advisers with reference to their specific tax situations, including any applicable U.S. state or local or non-U.S. taxes and, in the case of U.S. tax exempt and non-U.S. investors, with reference to any special issues that investment in an Investment Vehicle may raise for such investors. For example, there can be no assurance that an Investment Vehicle will have sufficient cash flow to permit it to make annual distributions in the amount necessary to pay tax liabilities resulting from investors' ownership of interests in such Investment Vehicle.

### Political Risks and Catastrophic Events

Depending on the country in which a portfolio company is located, there may exist the risk of adverse political developments, including nationalization, confiscation without fair compensation or war. Portfolio investments may also be subject to catastrophic events and other force majeure events, such as fires, earthquakes, adverse weather conditions, changes in law, eminent domain, riots, terrorist attacks and similar risks. These events could result in the partial or total loss of a portfolio investment or significant down time resulting in lost revenues, among other potentially detrimental effects.

### Substantial Fees and Expenses

The Investment Vehicles are required to meet certain fixed costs, including organizational and offering expenses, investment-related expenses, and ongoing administrative and operating expenses (such as fees payable to the service providers). These fees and expenses may be substantial and are payable regardless of whether any profits are realized by the Investment Vehicles.

### Side Letters and Other Agreements

Some Investment Vehicles may enter into separate agreements with certain investors, such as those affiliated with the Investment Managers or those deemed to involve a significant or strategic relationship, to waive certain terms, or to allow such investors to invest in separate classes of interests with different terms than those of the other investors, including, without limitation, with respect to fees, liquidity or depth of information provided to such investors concerning the Investment Vehicle. Under certain circumstances, these agreements could create preferences or priorities for such investors with respect to other investors of the Investment Vehicle. In addition, Napier Park may specifically allocate capacity with respect to some of the Investment Vehicle's investments to clients or investors who desire increased exposure to such investments. New classes of interests of the Investment Vehicle may be established without the approval of the existing investors.

Some Investment Vehicles may offer certain investors additional or different information and reporting than that offered to other investors. Such information may provide the recipient greater insights into the Investment Vehicle's activities than is included in standard reports to investors, thereby enhancing the recipient's ability to make investment decisions with respect to the Investment Vehicle.

Business Continuity and Disaster Recovery. Napier's, the clients' and their portfolio companies' business operations may be vulnerable to disruption in the case of catastrophic events such as fires, natural disaster (e.g., tornadoes, floods, hurricanes and earthquakes), terrorist attacks or other circumstances resulting in property damage, network interruption and / or prolonged power outages. Although Napier has implemented various measures to manage risks relating to these types of events, there can be no assurances that all contingencies can be planned for. If such business operations are disrupted or suspended for extended periods of time, the Clients may be adversely affected.

Cyber Security Breaches and Identity Theft. Napier's, the clients' and their portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized

persons, other security breaches and / or usage errors by their respective professionals. Although Napier has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, Napier, a Client and / or portfolio company may have to make a significant investment to fix or replace them. The failure of these systems for any reason could cause significant interruptions in Napier's, such Client's and / or such portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm Napier's, such Client's and / or such portfolio company's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance.

**The foregoing list of risk factors is not a complete explanation of the risks involved in an investment in an Investment Vehicle.**

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

To the best of our knowledge, currently there are no legal or disciplinary events that may be material for a client or prospective client to disclose.

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

Napier Park may share resources, other employees and management, as well as investment ideas and opportunities, with any or all affiliates engaged in similar activities.

Napier Park may recommend that its clients invest in investment funds in which Napier Park or one of its affiliates is a managing or non-managing general partner (or equivalent).

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

##### Code of Ethics

Napier Park has adopted a Code of Ethics that memorializes its fundamental duties as a fiduciary and are intended to comply with the requirements of Rules 204A-1 under the Advisers Act and Rules 17j-1 under the 1940 Act, for registered Funds. The Code of Ethics includes standards of business conduct and incorporates a personal investments policy. Each employee receives a copy of the Code of Ethics upon hiring and annually thereafter and must provide an attestation that such employee has read and understood such Code of Ethics.

Napier Park's Code of Ethics requires each employee to prioritize the interests of the client, to avoid conflicts of interest, to never abuse such employee's position of trust and responsibility and to comply with all federal securities laws. Employees are required to safeguard material non-public information in such employee's possession and are prohibited from using such information to such employee's personal benefit. Each employee must treat information belonging to clients as confidential and take care to protect such information from unauthorized access by third parties.

To avoid any potential conflict of interest involving personal transactions, Napier Park requires each employee to notify compliance upon opening a personal account, to pre-clear certain personal transactions and disclose all potential conflicts of interest with regard to such a personal transaction before engaging in the transaction. Employees are also subject to a restricted list and blackout periods. In addition, access persons (defined as employees with access to non-public information regarding Napier Park's purchase or sale of securities and directors, officers and partners) will (i) upon starting employment, provide a complete record of his or her securities holdings to compliance and annually thereafter (ii) must arrange to have duplicate confirmations sent to compliance unless such information has been provided through other measures. All employees are required to inform compliance of any violation of the Code of Ethics that comes to his or her notice.

A copy of Napier Park's Code of Ethics will be provided to any client or prospective client upon request.

#### Trading Practices

*Participation and Interest in Client Transactions.* Napier Park has implemented policies and procedures that address affiliated transactions. Therefore, from time to time, Napier Park or its affiliates effect securities transaction between one or more Funds. In such case, one Fund will purchase securities held by another Fund. Napier Park effects these transactions only (i) when it deems the transaction to be in the best interests of both client accounts and (ii) at a price that Napier Park has determined by reference to its Valuation Policy, which Napier Park believes to constitute "best execution" for both accounts. Neither Napier Park nor its affiliates will receive any compensation, directly or indirectly, for arranging such a transaction. To the extent that Napier Park or its affiliates engage in principal agency, agency cross transactions or cross trades, such transactions will be consummated in accordance with Section 206(3) of the Advisers Act and, as applicable, Rule 206(3)-2 promulgated thereunder.

*Aggregation of Transactions.* If a portfolio manager believes that the purchase or sale of a security is in the best interests of more than one client, the portfolio manager may, but is not obligated to, aggregate the securities to be sold or purchased, to the extent permitted by applicable law and regulations. In such event, the transactions, as well as the expenses incurred in such transactions, will be allocated by the portfolio manager consistent with fiduciary duties to ensure that all clients are treated fairly. The portion of an aggregated order to be allocated to each client's account will be specified contemporaneously with the execution of the trade.

#### Interest in Client Transactions

Napier Park recommends securities in which it and/or certain of its affiliates directly or indirectly have a financial interest. Certain Napier Park affiliates also buy and sell securities that Napier Park recommends to advisory clients for purchase and sale. Napier Park may (on occasion) give advice and take action in the performance of its duties to clients which differs from the advice given, or the timing and nature of action taken, with respect to the accounts of its affiliates and/or the accounts of other clients.

In certain instances, affiliates of Napier Park have acquired investments in an issuer on a side-by-side basis with an investment vehicle managed by Napier Park. Such investments may provide

the vehicle with access to investments that it could not otherwise have obtained. This practice may give rise to potential conflicts of interest. Napier Park and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, investment opportunities between or among funds and its affiliates and other investment accounts. Please see Item 12 “Brokerage Practices”, - Allocation of Investment Opportunities for more details.

Temporary investments in which an account’s assets may be invested include instruments issued, or funds managed by, an affiliate of Napier Park, in which case such affiliate will receive fees or other compensation in connection with such investment. Such fees will be in addition to the advisory fees and other compensation paid to Napier Park.

#### Inside Information

In addition, Napier Park has adopted procedures to guard against insider trading. In the event that Napier Park obtains material, non-public information about an issuer, it is generally prohibited from trading the issuer’s securities until the information becomes public or is no longer material. Napier Park’s investment flexibility may be constrained as a consequence of Napier Park’s inability to use such information for investment purposes.

#### Other Conflicts of Interest

Napier Park or any of its respective affiliates or directors may (and do) have an interest in a Fund or in any transaction effected with or for it, or a relationship of any description with any other person, which may involve a potential conflict with their duties to an Investment Vehicle, and none of them will be liable to account for any profit or remuneration derived from doing so. If Napier Park has, or may have, in relation to a proposed transaction for an Investment Vehicle, a material interest or a relationship that gives or may give rise to a conflict of interest, Napier Park will not knowingly advise, or deal in the exercise of discretion in relation to that transaction, unless it takes reasonable steps to ensure fair treatment for the Fund.

For example, such potential conflicts may arise and have arisen on occasion because:

- (a) Napier Park or its affiliates undertake business for other clients;
- (a) a director or employee of Napier Park or its affiliates is a director of, holds or deals in securities of, or is otherwise interested in, any company the securities of which are held by or dealt in on behalf of an Investment Vehicle;
- (b) the transaction relates to an investment in respect of which Napier Park or one of its affiliates may benefit from a commission, fee, mark-up or mark-down payable otherwise than by the Investment Vehicle;
- (c) Napier Park or one of its affiliates may act as agent for an Investment Vehicle in relation to transactions in which it is also acting as agent for the account of other clients of Napier Park or its affiliates; or
- (d) a transaction of an Investment Vehicle may be in units or shares of a collective investment scheme or any company in relation to which Napier Park or one of its affiliates is the manager, operator, adviser or trustee.

Affiliates of Napier Park engage in a broad spectrum of activities, including financial advisory activities, and managing private investment funds, and other activities, and may from time to time present potential conflicts of interest with, Napier Park's clients. Many of these potential conflicts of interest arise in connection with other investment management activities of Napier Park affiliates. In these cases, these relationships or proprietary investment activities may result in an Investment Vehicle not being permitted to pursue certain investment opportunities. Accordingly, no assurances can be given that all potentially suitable investment opportunities will be offered to any given Investment Vehicle.

Napier Park affiliates provide services to, invest in, advise, sponsor and/or act as investment manager to investment vehicles and other persons or entities (including prospective investors in the Investment Vehicles which may have similar structures and investment objectives and policies to those of an Investment Vehicle, and which may compete with an Investment Vehicle for investment opportunities and which may co-invest with an Investment Vehicle, in certain transactions. In addition, Napier Park affiliates and their respective clients invest in securities that would be appropriate for an Investment Vehicle and may compete with the Investment Vehicle for investment opportunities.

Generally speaking, the officers and employees of Napier Park will devote such time as the general partners of their various Investment Vehicles deem necessary to carry out the operations of the Investment Vehicle. However, officers and employees of Napier Park are not necessarily required to devote full time to a given fund's business and they may have conflicts of interest in allocating their time between such fund and other related or unrelated activities.

It is also possible that Napier Park professionals will be permitted to co-invest in certain investment opportunities in which a given client Investment Vehicle invests as a further incentive and means of aligning such professionals' interests with the interests of the fund's investors.

Investors in Napier Park's various Investment Vehicles are expected to include entities and persons located in various jurisdictions, who may have conflicting investment, tax and other interests with respect to their various fund investments. As a result, conflicts of interest may arise in connection with decisions made by Napier Park or its affiliates that may be more beneficial for one type of investor than another type of investor. Napier Park will follow the investment objective and standards for resolving such conflicts set forth in each of the Investment Vehicle's governing documents—e.g., by focusing on the pre-tax investment objectives of a fund as a whole.

In certain situations, Napier Park is restricted or precluded from pursuing an investment with respect to a given investment due to certain regulatory considerations arising under ERISA, section 17 of the Investment Company Act of 1940, or similar laws.

#### Procedures for Resolving Conflicts of Interest

On any issues involving actual conflicts of interest, Napier Park will be guided by its legal obligations, including but not limited to the contractual requirements governing such situation, as well as its good faith judgment as to a client's best interests. Napier Park may refer the matter to a committee designed to monitor fiduciary relationships. Subject to the applicable investment



management agreement and other governing documents, Napier Park may take such actions as it may deem necessary or appropriate to ameliorate the conflict.

## **Item 12 Brokerage Practices**

### Brokerage Discretion

Napier Park generally is not limited in its authority to select broker-dealers for trade execution.

In selecting broker-dealers for trade execution, Napier Park uses its best judgment to select a broker-dealer that provides prompt and reliable execution at favorable securities prices and reasonable commission rates. Ordinarily, the best net price, giving effect to brokerage commissions and other costs, is the determining factor, but a number of other factors also may enter into the decision. These factors may include: the nature of the security being traded; the size and complexity of the transaction; the desired timing of the transaction; the existing and expected activity in the market for particular securities; confidentiality; and the execution, clearance, and settlement capabilities and financial condition and other relevant and appropriate services of the broker-dealer.

Napier Park may choose to participate in seminars or conferences, or other types of capital introduction service programs (collectively referred to as “Cap Intro Programs”) held by affiliated and/or non-affiliated prime brokers for their current or prospective clients that are hedge fund or investment managers that manage funds or other types of investment vehicles or who are otherwise eligible to invest in Napier Park products. Napier Park may have an incentive to select or recommend a broker-dealer based on its interests in receiving client referrals or invitations to participate in such Cap Intro Programs.

### Research and Other Soft Dollar Arrangements

Napier Park does not utilize client’s agency commission dollars to purchase research and other services i.e. soft dollars.

### Allocation of Investment Opportunities

Affiliates of Napier Park and other proprietary investment accounts managed by Napier Park may co-invest with a client advised by Napier Park on a side-by-side basis from time to time. Clients may, from time to time, compete with such other investors for access to potential investments. Napier Park and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, such investment opportunities between or among the funds and its affiliates and other proprietary investment accounts. However, such allocation will not necessarily be made pro rata based on available assets. There can be no assurance that a particular investment opportunity which comes to the attention of Napier Park’s affiliates will be referred to Napier Park and the funds it manages. Napier Park is not obligated to refer any specific investment opportunity to a client.

In the event that two or more Napier Park clients or portfolios managed by Napier Park officers through affiliates (including proprietary portfolios) have cash available for investment at the same time and an investment opportunity arises that may be appropriate for each client and the affiliated portfolio but whose availability to Napier Park and its affiliates is limited, Napier Park and its affiliates will seek to fairly and equitably allocate such investment opportunity between or among

such Funds and/or Managed Accounts, taking into account such factors including but not limited to each fund's investment objective, industry and sector focuses, size and available cash.

#### Aggregation of Transactions

If a portfolio manager believes that the purchase or sale of a security is in the best interests of more than one client, the portfolio manager may, but is not obligated to, aggregate the securities to be sold or purchased, to the extent permitted by applicable law and regulations. In such event, the transactions, as well as the expenses incurred in such transactions, will be allocated by the portfolio manager consistent with fiduciary duties to ensure that all clients are treated fairly. The portion of an aggregated order to be allocated to each client's account will be specified contemporaneously with the execution of the trade.

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

#### ***Review of Accounts***

##### *Credit Strategies Product and Managed Accounts:*

Fiduciary committees consisting of senior Napier Park professionals including legal, risk and compliance meet quarterly to review client accounts, fund performance and any significant events.

*Private Equity Products:* The funds relating to this business typically hold annual meetings with investors to review and discuss the funds' investment activities and portfolio. Valuation committee meetings are held quarterly to review the valuation of underlying investments.

#### ***Client Reports***

*Credit Strategies Fund Products:* Napier Park will report performances on at least a quarterly basis.

##### *Private Equity Fund Products:*

Napier Park's clients are funds, not the funds' underlying investors. Napier Park will provide each fund's general partner with periodic reports concerning the fund's investments. While the funds' underlying investors are not advisory clients of Napier Park and will not receive periodic reports from Napier Park as advisory clients, such investors will be provided by the funds with annual audited financial statements of the applicable fund and quarterly investor reports.

*Managed Accounts:* With respect to the Managed Accounts Napier Park's clients are the holders of the Managed Account. The relevant advisory agreement and related account documentation will specify the reports to be provided to the client, but generally holders of Managed Accounts receive at least a quarterly statement.

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

Napier Park does not receive any economic benefits from non-clients for providing investment advice or other advisory services to clients.

Napier Park may enter into agreements with its employees, and/or third parties to solicit clients for Napier Park's investment advisory services. Under such agreements, persons may refer or solicit clients and receive compensation for such services. The structure of any agreement with a third party, including the compensation payable to the solicitor, will be disclosed fully to the client in accordance with Rule 206(4)-3 of the Investment Advisers Act. Different solicitors, including affiliates, may receive varying amounts of compensation for their services.

In addition, Napier Park and its employees, as a matter of policy and practice, are prohibited from providing or agreeing to provide, directly, or indirectly, payment, consideration or any other item of value to any person unaffiliated with Napier Park to solicit a U.S. government entity for investment advisory services on Napier Park's behalf unless such person is a U.S. registered broker dealer and/or U.S. registered investment adviser. Any arrangement which may involve the solicitation of government entities must be in writing and shall contain provisions reasonably designed to ensure compliance with all applicable laws and rules by such person in connection with any solicitation of any governmental entities.

Napier Park also may also refer clients to its affiliates.

#### **Item 15 Custody**

Napier Park does not provide custodial services to its clients and is deemed not to have custody of client assets. Client assets are held with banks, registered broker-dealers, or other qualified custodians.

Napier Park will cause its Investment Vehicles and any related special purposes vehicles to maintain its funds and securities with a qualified custodian, which includes a U.S. bank, an SEC-registered broker-dealer, a CFTC-registered futures commission merchant, and a foreign financial institution that segregates client assets.

However, under Rules 206(4)-2 under the Advisers Act "custody", is broadly defined to also include holding indirectly funds or securities, or having any authority to obtain possession of them. In particular, Napier Park is considered to have custody with respect to Napier Park Funds to the extent Napier Park or an affiliate serves in a capacity that gives it legal ownership of or access to the Napier Park Funds' fund or securities (such as the general partner of a limited partnership, managing member of a limited liability company or a comparable position for another type of pooled investment vehicle). Napier Park is also considered to have custody with respect to certain Napier Park Funds if Napier Park is authorized to withdraw client funds or securities maintained with a third-party custodian upon Napier Park's instruction to the third-party custodian.

In order to avoid any conflict of interest that indirect custody of Client assets may cause, Napier Park complies with rule 206(4)-2 under the Adviser's Act by using the exemption for the annual audit of Napier Park financial Statements and the delivery of such financial statements to Napier Park clients. Each Alternative Investment or special purpose vehicle is required to be audited at least annually and to provide audited financial statements to its investors within 120 days after the end of its fiscal year, or 180 days in the case of funds of funds. (Otherwise, the relevant fund custodian will send each such fund investor a quarterly account statement showing such fund's quarter-end positions and NAV, and the fund's aggregate account transactions during the quarter.

In addition, a surprise examination of the relevant Fund will be conducted by a qualified independent accountant.)

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

Napier Park has the authority to determine, without obtaining specific client consent, the investments and temporary investments a Fund will acquire, subject in each case to the limitations and restrictions described in the funds' offering materials and governing documents (in the case of the funds) and the investment advisory agreements. A Fund may receive distributions in kind in the form of securities of portfolio companies, some of which may be illiquid or restricted securities. With respect to such distributions, Napier Park may have the discretion to sell such securities and distribute the cash proceeds, distribute such securities in kind or offer the funds' investors the option, subject to Napier Park's consent, either to receive the securities in kind or have the fund sell them and distribute the cash proceeds. While Napier Park will use reasonable efforts in such instances to sell or to distribute marketable securities promptly, investors will bear any associated costs or market risks during the disposition process.

*Managed Accounts.* The relevant advisory agreement and related account documentation will specify the investment authority (including limitations on it) granted to Napier Park by the holder of the Managed Account.

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

Napier Park has been delegated the authority to vote investment proxies on behalf of certain of its clients and has adopted written policies that are reasonably designed to ensure proxies are voted in the best interest of its clients and to resolve conflicts of interest (the "Policies"). The general policy is to vote 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 client accounts, as determined by Napier Park in its discretion. Clients may request a copy of the Policies and the proxy voting record relating to their account by contacting Napier Park.

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

All client fees owed to Napier Park are either paid in arrears or paid less than six months in advance. Under relevant SEC rules, this means that Napier Park is not required to disclose information about its financial position or balance sheets. Nonetheless, we confirm that we believe that Napier Park has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.