

## Phoenix Merchant Partners LP

555 Theodore Fremd Avenue  
Rye, NY 10580

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This “**Brochure**” provides information about the qualifications and business practices of Phoenix Merchant Partners LP. If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer, Mr. Timothy Throsby, at [info@phoenix-merchant.com](mailto:info@phoenix-merchant.com). The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

Phoenix Merchant Partners LP is a Registered Investment Adviser with the SEC. Registration as an investment adviser does not imply that Phoenix Merchant Partners LP or any of its principals or employees possesses a certain level of skill or training in the investment advisory business or any other business.

Additional information about Phoenix Merchant Partners LP is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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This Brochure dated January 2024, serves as an update to the Adviser's latest brochure dated December 22, 2023. There have been no material changes since the Adviser's latest Brochure other than the launch of an additional fund (see Item 4 - Advisory Business) for more information. In the future, if the Brochure contains material changes from our last update, we will identify and discuss those changes in this section.

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**Item 4: Advisory Business**

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Phoenix Merchant Partners LP is a Delaware limited partnership (hereinafter “**Phoenix Merchant**,” “**Investment Adviser**,” “**we**,” “**us**,” “**our**” or the “**Firm**”) established for the purpose of providing investment management and advisory services to qualified investors. Phoenix’s advisory clients may comprise funds (including single investor funds, parallel funds, feeder funds and alternative investment vehicles) and separately managed accounts (collectively, the “**Funds**”). The documentation governing each Fund (such as the limited partnership agreement, limited liability agreement or the other constituent documentation of a Fund as well as the investment management agreement applicable to Fund) is herein referred to as the “**Fund Documentation**”.

The Firm advises the following private, pooled investment vehicles:

- Phoenix Credit Partners Fund LP, a Delaware limited partnership (the “Delaware Fund”); and
- Phoenix Credit Partners Fund (Cayman) LP (the “Cayman Fund”)

Phoenix Credit Partners GP LLC serves as the “General Partner” to the Delaware Fund and the “Cayman Fund”)

The Funds are referenced herein collectively with future funds or vehicles as the “Client(s).”

Investment decisions and advice with respect to a Fund are subject to the investment objectives and guidelines of such Fund, as set forth in its respective Fund Documentation. In certain cases, the Investment Adviser will provide investment advice to a Fund where the Fund, or a representative acting on behalf of the Fund, have the ultimate discretion in approving Fund investments.

We do not currently participate in a Wrap Fee Program.

As of the date of the filing of this Brochure, the Firm’s regulatory assets under management with respect to the Fund is \$250,000,000.

*This Brochure does not constitute an offer to sell or a solicitation of an offer to buy any securities. The Funds’ securities are offered and sold on a private placement basis under exemptions promulgated under the “**Securities Act**” of 1933 and other applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in the Funds, including requirements that they be “accredited investors” as defined in Securities Act and “qualified purchasers” as defined in the Investment Company Act of 1940. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

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**Item 5: Fees and Compensation**

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The fees applicable to each Fund are set forth in detail in the respective Fund Documentation for such Fund.

**Management Fee**

Management Fees paid to Phoenix for services provided to a Fund are based on a specified percentage of capital commitments, invested capital (including borrowed amounts), net asset values or other similar metrics applicable to such Fund, in each case as set forth in the Fund Documentation of such Fund. In certain cases, investors in a Fund may negotiate reductions in their management fee obligations by way of side letters or otherwise.

Management Fees are paid to Phoenix by calling capital from or directly billing Fund investors or paying such fees from otherwise distributable cash or other cash on hand of the Fund.

**Other Types of Fees or Expenses**Expenses of the Investment Adviser

Subject to the Fund Documentation of each Fund, the Investment Adviser will pay all of their respective ordinary administrative and overhead expenses, and, except as provided herein or such Fund Documentation, the Investment Adviser and its affiliates, will be responsible for their overhead expenses (including general systems and technology, but excluding systems, data and technology developed or purchased for the predominant benefit of a Fund's investment program), office expenses and compensation of their employees. Fees for placement agents for the Funds will be borne by the Investment Adviser or its affiliates (either directly or by means of a setoff against management fees otherwise payable).

Expenses of the Fund

Subject to the terms of the Fund Documentation for a Fund, each Fund, will bear all organizational expenses, operating expenses and other expenses incurred by the Investment Adviser and its affiliates related to the formation and operation of such Fund and the execution of the Fund's investment strategy (and a share of any expenses incurred in respect of more than one Fund, with such expenses shared as provided for the relevant Fund Documentation or the Investment Adviser's expense policies) including, but not limited to:

- Expenses related to the formation of a Fund or any direct or indirect subsidiary of the Fund, including without limitation, any financing subsidiary of the Funds and the offering of interests in a Fund.
- Fees, costs and expenses (including out of pocket travel expenses) associated with identifying, consummate, monitoring, managing and monetizing investments and prospective investments (including the fees, costs and expenses related to sourcing, purchasing, structuring, originating, monitoring, disposing of, financing, hedging, developing, negotiating and structuring investments) including the fees, costs and expenses of brokers, legal counsel, accountants, consultants and other third parties, whether or not any such transaction is actually consummated (e.g. broken deal costs). In general, it is expected that a Fund will bear the portion of broken deal costs allocable to potential co-investors in an unconsummated investment.
- Costs and expenses relating to consultants, attorneys, or other professionals or advisers who provide research, advice, proxy voting services or due diligence services with regards to investments, research related expenses, appraisal fees and expenses (including obtaining an independent third-party valuation of assets) and investment banking expenses),

- Costs and expenses in connection with loan servicing and loan administration, expenses incurred in collection of monies owed to a Fund or any financing subsidiary, brokerage commissions, clearing and settlement charges, custodial fees.
- Costs and expenses associated with any subscription facility, credit facility or other borrowing made by a Fund or any financing subsidiary including documentation costs, upfront or other fees and interest charges.
- Costs and expense of legal counsel and regulatory consultants incurred in connection with legal and regulatory compliance relating to a Fund or a Fund's activities
- Costs and expenses of any D&O, E&O and other insurance relating to a Fund or a Fund's activities (including premiums for policies taken out to cover employees of or other persons associated with the Investment Adviser or its affiliates)
- Extraordinary expenses of a Fund or a financing subsidiary including indemnification costs, litigation or other adversarial expenses and tax, regulatory or other governmental proceeding, investigation or audit expenses.
- Accounting, audit, tax preparation and other tax-related expenses.
- Administration fees and related costs, out-of-pocket costs for investment operational services (e.g., trade administration, processing and settlement, and performance reporting).
- Any taxes, fees or other governmental charges levied against a Fund, or any financing subsidiary.
- Fees, costs and expenses associated with portfolio and risk management including currency and interest rate and other hedging transactions.
- Cost and expenses of liquidating the Fund, or any financing subsidiary.
- Expenses associated with a Fund's, or any financing subsidiary's administrative and reporting costs, financial statements and tax returns (including the cost of a third-party administrator that provides accounting and administrative services to the Fund, or any financing subsidiary).
- Costs and expenses associated with periodic reporting to investors and annual or other meetings with investors.
- Other expenses agreed to Fund investors (or, if applicable, a Fund advisory committee) or otherwise set forth in the Fund Documentation of a Fund.

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

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##### ***Performance-Based Compensation***

The Investment Adviser or its affiliates (including any affiliate serving as the general partner or its equivalent of a Fund) will receive performance-based compensation (e.g., carried interest, incentive allocations and/or incentive fees) in connection with the performance of a Fund's investment, the specific terms of which (including the priorities of distributions, preferred return rate (if any) and profit sharing) are set forth in the Fund Documentation of such Fund.

The receipt of such performance-based compensation from Funds may give rise to the following potential conflicts of interest, including, but not limited to, the following:

##### ***Speculative Investments***

Performance-based compensation may create an incentive for the Investment Adviser or its affiliates to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect.

#### *Allocation of Investment Opportunities*

Performance-based compensation may create an incentive for the Investment Adviser to offer investment opportunities to, or to allocate or sequence deals in favor of a particular Fund from which the Investment Adviser could receive greater performance compensation as compared to other Funds managed by the Investment Adviser. Phoenix will adopt Allocation Policies to mitigate potential conflicts of interest relating to the allocation of available investment opportunities among the Funds managed by the Investment Adviser or its affiliates.

#### *Valuation*

The existence of performance-based compensation and varying levels and calculations of Management Fees may create a conflict of interest in valuing investments and there will be situations in which the Investment Adviser is incentivized to influence or adjust the valuation of Fund assets ("Assets"). Phoenix will adopt Valuation Policies to address these potential conflicts

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

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Our clients will be the Funds. Any initial and additional investment minimums are disclosed in the governing documents for the relevant Clients.

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

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In managing Funds and providing recommendations to non-discretionary client accounts, the Investment Adviser employs what it believes is a distinctive structuring approach to credit investing, while focusing primarily on complex, privately negotiated transactions with middle-market companies. The investment approach is based on solving specific borrower requirements with dedicated credit and equity-like solutions. The Funds will not follow a typical direct lending or distressed debt strategy

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

To evaluate potential investments, Phoenix's investment process uses a combination of analyses, including:

- fundamental analysis of a company's financial statements, health, management, competitive advantages and position within its industry;
- cyclical analysis of opportunities in a given market based upon fluctuations due to seasonal, financial and economic factors;
- quantitative evaluation of the risk-return characteristics of potential investments using proprietary and 3<sup>rd</sup> party financial models (e.g. stress testing); and
- assessment of different capital structure instruments and structuring a bespoke solution

Instead of defining a “top-down” strategy focused on a single type of security (e.g., high yield, syndicated loans, mezzanine debt), we apply a “bottom-up” approach with the mandate and resources to act decisively on investment opportunities across the entire credit spectrum.

***Risk of Loss Factors***

Prospective Investors should carefully consider the risks involved in a Fund investment, including, without limitation, those discussed below. Further risks not addressed below may affect the Funds. The following list of risk factors cannot be and is not intended to be exhaustive. Prospective Investors should consult their own legal, tax and financial advisers about the risks of an investment in the Funds. The following risk factors and other relevant risks could have a material adverse effect on the Funds and the Investors' investments therein.

***Risks Relating to the Operations and Investment Activities of the Fund******Systems and Operational Risks***

The Fund depends on the Investment Adviser to develop and implement appropriate systems for the Fund's activities. The Fund relies on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain Assets, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of the Fund's activities. In addition, the Fund relies on information systems to store sensitive information about the Fund, the Funds, the General Partner, the Investment Adviser, their affiliates and the Investors. Certain of the Fund's and the Investment Adviser's activities will be dependent upon systems operated by third parties, including the Administrator, market counterparties and other service providers, and the Investment Adviser may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by the Investment Adviser, the Administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Fund's operations may cause the Fund to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Fund and the Investors' investments therein.

***Cybersecurity Risk***

As part of its business, the Investment Adviser processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Funds and personally identifiable information of the Investors. Similarly, service providers of the Investment Adviser, the Fund, the Funds, and especially the Administrator, may process, store and transmit such information. The Investment Adviser has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to the Investment Adviser may be susceptible to compromise, leading to a breach of the Investment Adviser's network. The Investment Adviser's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by the



Investment Adviser to the Investors may also be susceptible to compromise. Breach of the Investment Adviser's information systems may cause information relating to the transactions of the Funds and personally identifiable information of the Investors to be lost or improperly accessed, used or disclosed.

The service providers of the Investment Adviser and the Fund are subject to the same electronic information security threats as the Investment Adviser. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Funds and personally identifiable information of the Limited Partners may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of the Investment Adviser's or the Fund's proprietary information may cause the Investment Adviser or the Fund to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Fund and the Investors' investments therein.

#### *Valuation of Assets and Liabilities*

The Funds' assets and liabilities are valued in accordance with the Valuation Policy. The valuation of any asset or liability involves inherent uncertainty. The value of an Asset determined in accordance with the Valuation Policy may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of the Funds if the judgments of the Investment Adviser regarding the appropriate valuation should prove to be incorrect.

#### *Volatility Risk*

The Funds' investment program may involve the purchase and sale of relatively volatile Assets and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such Assets and/or markets can adversely affect the value of investments held by the Funds.

#### *Credit Ratings*

In general, the credit rating assigned by a nationally recognized rating agency to an Asset represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of such Assets. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. The Funds may incur losses if they make investments based on credit ratings that subsequently change in a way not favorable to the Funds' investment objective.

#### *Co-Investments with Third Parties*

The Funds may co-invest with third parties through joint ventures or other entities. Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of the Funds or is in a position to take (or block) action in a manner contrary to the Funds' investment objectives.

*Litigation Risk*

The Funds could become parties to lawsuits either initiated by it, or by a company in which the Funds invest, other shareholders of such company, or U.S. federal, state and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the Funds.

*Exposure to Material Non-Public Information*

From time to time, the Investment Adviser may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Funds may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

*Currency Exchange Exposure*

The Funds may invest in Assets denominated in currencies other than the U.S. dollar. The Fund, however, values its assets in U.S. dollars. The Funds may or may not seek to hedge their non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that Assets suitable for hedging currency or market shifts will be available at the time when the Funds wish to use them, or that hedging techniques employed by the Funds will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Funds' positions denominated in currencies other than the U.S. dollar will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

*Risks Relating to Investment Strategies**Risk of Loss*

No guarantee or representation is made that the Funds' investment program, including, without limitation, the Funds' investment objectives, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time.

**No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of the investments otherwise made by the investment professionals of the Investment Adviser are not necessarily indicative of their future performance.**

*Borrowing for Investment Purposes*

The use of leverage allows the Funds to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage also magnifies the volatility of changes in the value of the Funds' portfolio. The effect of the use of leverage by the Funds in a market that moves adversely to its investments could result in substantial losses to the Fund, which would be greater than if the Funds were not leveraged. Any agreements related to the Funds' use of leverage may contain covenants restricting the Funds' or the Investment Adviser's operating flexibility.

*Borrowing for Cash Management Purposes*

The Funds have the authority to borrow for cash management purposes, such as to satisfy withdrawal requests. The rates at and terms on which the Funds can borrow will affect the operating results of the Fund.

*Borrowing 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 Funds' portfolio.

*Diversification and Concentration*

The Investment Adviser may select investments that are concentrated in a limited number or types of Assets. In addition, the Funds' portfolio may become significantly concentrated in Assets 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 Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such Assets.

*Control Limitations*

The Funds will invest in debt instruments and equity exposures of companies that they do not control, which the Funds may acquire through market transactions or through purchases of interests directly from the issuer or other shareholders. Such Assets will be subject to the risk that the issuer may make business, financial or management decisions with which the Funds do 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 Funds' interests. In addition, the Funds may share control over certain investments with co-investors, which may make it more difficult for the Funds to implement their investment approach or exit the investment when they 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 Funds may utilize Assets for risk management purposes in order to: (i) protect against possible changes in the market value of the Funds' investment portfolio resulting from changes in interest rates; (ii) protect the Funds' unrealized gains in the value of their investment portfolio; (iii) facilitate the sale of any Assets; (iv) enhance or preserve returns, spreads or gains on any Asset in the Funds' portfolio; (v) hedge the interest rate, credit or currency exchange rate on any of the Fund's Assets; (vi) protect against any increase in the price of any Assets the Funds anticipate purchasing at a later date; or (vii) act for any other reason that the Investment Adviser deems appropriate. The Funds will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. The Investment Adviser may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

*Discretion of the Investment Adviser; New Strategies and Techniques*

While the Investment Adviser will generally seek to employ the representative investment strategies and techniques discussed herein, the Investment Adviser has considerable discretion in the types of Assets the Funds may be exposed to and has the right to modify the investment strategies and techniques of the Funds without seeking prior consent of the Investors. Any new investment strategy or technique developed by the Funds may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Fund.

***Risks Relating to Market Conditions Generally******General Economic and Market Conditions***

The success of the Funds' activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Funds' investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the Funds' investments. Volatility or illiquidity could impair the Funds' profitability or result in losses. The Funds may maintain substantial investment positions that can be adversely affected by the level of volatility in the financial markets.

***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 Fund's strategies.

***Inflation and Recession Risk***

The U.S. has experienced high levels of inflation during 2022 and such high inflation may persist for the foreseeable future. This inflation spike has been driven by a number of factors including (among others) global supply chain issues, the increased cost of oil and other commodities, changes in consumer buying patterns during the COVID-19 pandemic, the influx of dollars into the U.S. economy as a result of governmental rescue and stimulus programs implemented since the COVID-19 pandemic and higher energy and food prices resulting from Russia's invasion of Ukraine. To address high inflation rates, the Federal Reserve and other central bank authorities globally have announced significant increases to benchmark interest rates and may approve additional rate increases. Given this macroeconomic environment, the growth of US and other Western economies may contract, potentially resulting in a recession in the US and abroad. Any substantial economic slowdown could increase delinquencies, defaults and foreclosures on loan portfolios and/or reduce the rate of new loan origination. Periods of economic slowdown may be accompanied by decreased demand for credit and decreased asset values. A material decline in asset values would increase the loan-to-value ratios on existing loans, weaken the collateral coverage and increase the severity of a loss if a borrower defaults, which could adversely affect the performance of the Fund.

***COVID-19 Pandemic***

Currently, the United States and countries globally are in the midst of an ongoing COVID-19 pandemic, which has significantly and adversely affected business on a national and global scale and has introduced a considerable amount of uncertainty with regard to the future viability of a wide range of commercial enterprises. There are continuing concerns related to the effects of the COVID-19 pandemic on international trade and commerce (including supply chains and export levels), travel, employee productivity and other economic activities that may have a destabilizing effect on economic activity, potentially having an adverse effect on investments of the Fund

*War In Ukraine*

Russia's invasion of Ukraine in February 2022 has resulted in the United States and certain Western European and other developed countries imposing a substantial array of economic sanctions on Russia. The imposition of these sanctions, however justified, have had a profound impact on the U.S. national and global economy, including declines in the prices of major stock market indexes, an increase in trading volatility on these exchanges, a sharp increase in crude oil prices and the cessation of business activities, at least temporarily, by certain major U.S. consumer and other businesses operating in the Russian marketplace. In addition, there is an increased risk that hostilities may not remain confined to Ukraine's borders and that the war could expand to involve combat with Ukraine's non-NATO neighbors as well as NATO countries in Eastern and Western Europe. At a minimum, the global and national environment for business is facing a period of uncertainty and any escalation in the Russian-Ukrainian conflict could have a long-term negative impact on the world economy as well as adversely affecting the performance or the Fund

***Risks Relating to Specific Investments****Loan Origination*

The Funds' success in the area of loan investing will depend, in part, on their ability to obtain loans on advantageous terms. In originating loans, the Funds will compete with a broad spectrum of lenders, investors and institutions. Increased competition for, or a diminution in the available supply of, borrowers could result in lower yields on such loans, which could reduce returns to investors.

*Leveraged Loans*

"Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may perform poorly when the Funds acquire them. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Funds may lose their entire investment or may be required to accept cash, property or securities with a value less than the Funds' original investment and/or may be required to accept payment over an extended period of time.

*Second Lien Loans*

The Funds may invest in loans that are secured by a second lien on assets. Second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. There can be no assurance that market illiquidity in second lien loans will not adversely affect the Fund's performance.

*Bridge Loans*

It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However, the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer-term loan which could have an adverse effect upon the ability of the Investment Adviser to manage the Assets of the Funds in accordance with its models and projections or an adverse effect upon the Funds' performance.

*Debtor-in-Possession ("DIP") Loans*

Loans to companies that have filed for protection under Chapter 11 of the Bankruptcy Code, as amended, are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

*Fraud Associated with Loans*

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Funds to perfect or effectuate a lien on the collateral securing the loan. The Funds will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

*Investments in Middle Market Companies Carry Particular Risks*

The Funds primarily invest in middle-market companies based in North America. Investments in these companies involve specific risks, including that these companies may, relative to larger companies: (i) have more limited financial resources and may be more unable to meet their obligations, which may reduce the value of the Funds' collateral and reduce the Funds' ability to realize guarantees that it may have obtained in connection with its investment; (ii) be more susceptible to competitors, market conditions and general economic conditions, due to their shorter operating histories, narrower product lines, smaller market shares and greater reliance on key personnel; (iii) may not be subject to regulatory reporting requirements and, as such, may disclose very little public information regarding their operations and results,



which may adversely affect the Investment Adviser's and the Funds' abilities to make well-informed investment decisions; (iv) experience greater fluctuations in operating results and capital requirements to support operations, finance expansion or maintain competitive position; and (v) have increased difficulty accessing the capital markets to meet future capital needs.

#### *Fluctuations in Receipt of Proceeds*

It is possible that the Investment Adviser will experience fluctuations in the timing and amount of proceeds the Funds receive in the form of interest and fee income and in connection with the realization of investments in loans and other debt instruments in which the Funds have invested. Such fluctuations are generally due to, among other things, changes in the interest rates payable on the debt instruments acquired by the Funds, the default rate on such debt instruments, the level of the Funds' expenses (including the interest rates payable on the Funds' borrowings), variations in and the timing of the realization of investments, the degree to which the Funds encounter competition in the markets and general economic conditions. As a result of these factors, the amounts of distributions to Investors may fluctuate substantially.

#### *Incurrence of Additional Debt by Borrowers*

Although the Funds expect to negotiate approval rights limiting or preventing borrowers from incurring further debt in addition to the loans, any such increase of debt levels could impair the ability of borrowers to service their loans, which in turn could result in higher rates of delinquency and loss on the loans originated by the Funds or otherwise underlying the Funds' investments.

#### *Insufficient Collateral*

To the extent the Funds originate loans based upon the adequacy of the borrower's collateral, an incorrect valuation of such collateral may result in unforeseen losses. Despite performing due diligence on the collateral, including, where appropriate, by engaging third party independent valuers to estimate the value of the collateral pledged by the borrower, uncertainty of valuation of collateral may result in values that differ from the values that can ultimately be obtained for such collateral. In addition, even if collateral is initially valued correctly, changes in market conditions, regulations or other circumstances, or changes directly related to such collateral, may materially adversely affect the value thereof.

#### *Limited Liquidity*

The potential lack of liquidity in the Funds' investments may adversely affect the Fund's value. As the Funds primarily make loans to private companies, substantially all its investments are less liquid than publicly traded securities and may be subject to contractual, statutory or regulatory prohibitions on disposition. While the Investment Adviser anticipates that the Funds will hold a significant portion of such investments until realization, should the Investment Adviser determine it to be advisable to earlier dispose of any such investments, the Fund may have difficulty doing so and in certain cases may only be able to sell such investments at substantial discounts to face value. In addition, leverage facilities may be structured as CLOs. In connection therewith the Funds may hold a portion of the debt and/or subordinated debt or equity of such CLOs for extended periods of time.

#### *Secondary Market Sale of Loans*

The Funds may hold loans to maturity; however, the Funds reserve the right to sell or dispose of any loans prior to maturity if the Investment Adviser determines that such disposition is in the best interest of the Funds. Because of the provision to holders of such loans of 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 as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to other markets.

#### *Sub-Investment Grade Debt*

The Funds' debt investments may involve substantial risk and the Funds could lose all or part of their investment. Although it is expected that debt investments of the Funds will not typically be rated by any rating agency, the Investment Adviser believes that if such investments were rated, they would be below investment grade (*i.e.*, rated lower than "Baa3" by Moody's Investors Service, lower than "BBB-" by Fitch Ratings or lower than "BBB-" by Standard & Poor's Rating Service). Investments in debt rated below investment grade quality are speculative and involve substantial risk that the issuer/borrower may not pay interest or repay principal as required. As a result, the market prices of such debt investments may be subject to abrupt movements in price and liquidity. Borrowers that are the subject of such loans and that issue such debt instruments are often higher leveraged and may not have available to them more traditional methods of financing. Fluctuations in market value of certain of these instruments may impact the Funds' ability to utilize leverage. The Funds may also invest in assets other than first lien loans, including junior-ranking, less secure and riskier second lien loans, contractually subordinated mezzanine debt and "private for life" high-yield securities, which are all by their nature, riskier investments.

#### *Participation and other Indirect Exposures*

Although not currently anticipated, a portion of the assets of the Funds may consist of participation interests or other indirect economic interests in loans or other debt obligations. In such circumstances, the Funds will not directly own the debt obligations underlying such participation and/or have custody thereof. As a result, the Funds will be exposed to the risk that the assets of the holder/custodian of any such underlying debt obligation may be subject to the claims of third-party creditors or other parties. In addition, as an owner of participation interests or other indirect economic interests (including as a member of a loan syndicate), the Funds may not be able to assert any rights against borrowers of the underlying indebtedness and may need to rely on the holder/custodian (or other financial institution) issuing the participation interests or such other entity charged with the responsibility for asserting such rights, if any. Such holders/custodians and financial institutions or other entities may have reasons not to assert their rights, whether due to a limited financial interest in the outcome, other relationships with the underlying defaulting borrowers, the threat of potential counterclaims or other reasons, that may differ from the interests of the Funds. The failure of such holders/custodians and financial institutions or other entities to assert their rights (on behalf of the Funds) or the insolvency of such entities could materially adversely affect the value of the Assets of the Funds.

#### *Distressed Borrowers*

While it is currently not the primary focus of the Funds, the Funds may invest in loans and debt instruments of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to the Funds, they involve a substantial degree of risk. Distressed borrowers may be less likely to meet their obligations in connection with such loans or debt instruments, and the inability to meet such obligations may result in certain loans of the Funds becoming nonperforming. The level of legal and financial sophistication necessary for successful investment in the loans issued to, or the debt instruments of, companies experiencing significant business and



financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing the loans invested in by the Funds or the prospects for a successful reorganization or similar action, if any, or the general performance of such loans. In addition, to the extent that the Funds invest in loans or debt instruments with respect to companies that subsequently undergo bankruptcy or similar liquidation proceedings, such investments may be subject to additional risks. Many of the events within a bankruptcy case are adversarial and often beyond the control of creditors. Although creditors generally are afforded an opportunity to object to significant actions, there is the possibility that a bankruptcy court could approve actions that may be contrary to the interests of the Funds. The duration of bankruptcy proceedings is often difficult to accurately predict, and such proceedings may be lengthy. The administrative costs in connection with bankruptcy proceedings are frequently high and will be paid out of the debtor's estate (other than out of assets or proceeds thereof that are subject to valid and enforceable liens and other security interests) prior to any return to unsecured creditors and equity holders. In connection with a bankruptcy proceeding, the Investment Adviser, on behalf of the Funds, may seek representation on creditors' committees or other groups to ensure preservation or enhancement of the Funds' positions as creditors. If the Funds are represented on a committee or group, they may be restricted or prohibited under applicable law from disposing of their investments in such company while they continue to be represented on such committee or group. In addition, the Funds' return on investment can be adversely affected by the passage of time during which the plan of reorganization of a bankrupt debtor is being negotiated, approved by the creditors and confirmed by the bankruptcy court. Reorganizations outside of bankruptcy are also subject to unpredictable and potentially lengthy delays.

#### *Interest Rate Risk*

Changes in interest rates can affect the value of the Funds' investments in fixed-income instruments. Increases in interest rates may cause the value of the Funds' debt investments to decline. The Funds may experience increased interest rate risk to the extent they invest, 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.

#### *Future Funding Obligations*

The Funds may from time to time incur funding obligations that may arise in the future in connection with an investment. For example, the Investment Adviser may cause the Funds to 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 Funds would be obligated to fund the amounts due. If the Funds are unable to pay their obligations when due, the Funds could face significant penalties that could materially adversely affect their returns. The Funds may also enter into agreements pursuant to which they agree to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Funds.

#### *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 Funds may be paid interest in kind in connection with their investments in corporate debt and related financial instruments (*e.g.*, the principal owed to the Funds 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 Funds 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 Funds 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 Funds or similar event, the Funds' debt investment therein may 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.

#### *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 Funds engage in such conduct, the Funds may be subject to claims from creditors of an obligor that debt held by the Funds should be equitably subordinated.

#### *Lower Credit Quality Obligations.*

Most of the Funds' debt investments will likely be in lower grade obligations. The lower grade investments in which the Funds may invest may be rated below investment grade by one or more nationally recognized rating agencies at the time of investment or may be unrated but determined by the Investment Adviser to be of comparable quality. The Funds may invest without limit in debt of any rating, as well as debt that has not been rated.

Investment in lower grade investments involves a substantial risk of loss. Lower grade securities or comparable unrated securities are considered predominantly speculative with respect to the issuer's ability to pay interest and principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for lower grade debt tend to be volatile and are less liquid than investment grade securities. For these reasons, Investors' investments in the Fund will be subject to the following specific risks: increased price sensitivity to a deteriorating economic environment;

greater risk of loss due to default or declining credit quality; adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and if a negative perception of the lower grade debt market develops, the price and liquidity of lower grade securities may be depressed. This negative perception could last for a significant period of time.

Adverse changes in economic conditions are more likely to lead to a weakened capacity of a lower grade issuer to make principal payments and interest payments than an investment grade issuer. An economic downturn could severely affect the ability of higher leveraged issuers to service their debt obligations or to repay their obligations upon maturity. Similarly, downturns in profitability in specific industries could adversely affect the ability of lower grade issuers in that industry to meet their obligations. The market values of lower grade debt tend to reflect individual developments of the issuer to a greater extent than do higher quality investments. In addition, the Funds may incur additional expenses to the extent that Funds are required to seek recovery upon a default in payment of principal of or interest on Assets. In certain circumstances, the Funds may be required to foreclose on an issuer's assets and take possession of its property or operations. In such circumstances, the Funds would incur additional costs in disposing of such assets and potential liabilities from operating any business acquired.

The secondary market for lower grade debt may not be as liquid as the secondary market for more highly rated debt, a factor which may have an adverse effect on the Funds' ability to dispose of a particular Asset. The prices quoted by different dealers may vary significantly and the spread between the bid and asked price is generally much larger than higher quality instruments. Under adverse market or economic conditions, the secondary market for lower grade debt could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become highly illiquid. As a result, the Funds could find it more difficult to sell these instruments or may be able to sell the securities only at prices lower than if such instruments were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating our net asset value.

Since investors generally perceive that there are greater risks associated with lower grade debt of the type in which the Funds may invest in, the yields and prices of such debt may tend to fluctuate more than those for higher rated instruments. In the lower quality segments of the fixed income markets, changes in perceptions of issuers' creditworthiness tend to occur more frequently and in a more pronounced manner than do changes in higher quality segments of the income securities market, resulting in greater yield and price volatility.

#### *Distressed Obligations*

The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, re-characterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to

pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Funds' investments in any Assets. Obligations in which the Funds invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is high. There is no assurance that value of the assets collateralizing the Funds' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the Funds invest, the Funds may lose their entire investment, may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Funds' investments may not compensate the Investors adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new Asset the value of which will be less than the purchase price to the Funds of the Asset in respect to which such distribution was made.

#### *Bankruptcy Claims*

In case the Funds' investments include debt and equity of financially distressed companies, in the event that the issuer files for bankruptcy protection, the Funds will likely be unable to sell its claims without realizing a significant loss and may be unable to recover current interest on such claims during the course of the bankruptcy case. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. To the extent debt investment is unsecured (*i.e.*, has no collateral securing repayment), such claims may have a lower priority than secured claims (which have first recourse to the collateral securing such claim). In addition, the debt of an issuer in bankruptcy may be adversely affected by an erosion of the issuer's business and overall value. Accordingly, there can be no guarantee that a debtor will be able to satisfy all of its liabilities or that the Funds will be able to recover the entire amount of their bankruptcy claims.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, the approval of the plan by creditors and confirmation of the plan by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Funds; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the issuer may not be able to reorganize and may be required to sell its assets either as a going concern or as part of a liquidation. As a result, even in those circumstances where the Funds may recover the entire amount of their bankruptcy claims, the Funds may be adversely impacted by any costs incurred by the Funds in representing their interests in a debtor's bankruptcy case.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of

reorganization. Because the standard for classification is vague, there exists a significant risk that the Funds' influence with respect to a class of securities can be lost by virtue of the size of their claim relative to the claims of the entire class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for certain taxes) may impair the recovery of an investment in a bankruptcy claim.

The Funds intend to invest some of their assets in Assets of issuers domiciled, or assets located, globally. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

The Investment Adviser, on behalf of the Funds, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the Funds' positions as a creditor or equity holder. A member of any such committee or group may owe a fiduciary duty and be subject to certain obligations to all members the committee represents and/or to other similarly situated parties. The Investment Adviser may resign from that committee or group for any reason, including, for example, if the Investment Adviser concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Funds. In such case, the Funds may not realize the benefits, if any, of participation on the committee or group. In addition, if the Funds are represented on a committee or group, they may be restricted or prohibited under applicable law from disposing of or increasing their investments in such company while they continue to be represented on such committee or group.

The Funds may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of litigation and to engage in litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Funds.

#### *CLO Ratings*

Future actions of any rating agency can adversely affect the market value or liquidity of CLOs. Rating agencies rating a CLO may change their published ratings criteria or methodologies for CLOs at any time in the future. Further, such rating agencies may retroactively apply any such new standards to the ratings of the CLO securities purchased by the Funds. Any such action could result in a substantial lowering (or even withdrawal) of any rating assigned to any such CLO security, despite the fact that such CLO security might still be performing fully to the specifications set forth for such CLO security in the related transaction documents. 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 CLO security. If any rating initially assigned to any CLO 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 CLO security may significantly reduce the liquidity thereof and may adversely affect the CLO issuer's ability to make certain changes to the composition of the CLO assets since the CLO's indenture may contain restrictions on portfolio modifications that are tied to the ratings on the CLO's securities.

A rating agency may also revise or withdraw its ratings of a CLO security as a result of a failure by the issuer or the manager of such CLO 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 CLO securities as required by law. In addition, a CLO security may receive an unsolicited rating, which may have an adverse effect on the liquidity or the market price of such CLO 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 CLO security.

#### *Warehouse Agreements*

The Funds may enter into warehouse agreements with certain collateral managers, including the Investment Adviser. Pursuant to such Warehouse Agreements, the Funds may provide financing, either directly or indirectly, for the purchase of assets, or may own certain assets in anticipation of such assets constituting the collateral of a CLO or other structured transaction. Upon the closing of the structured transaction to which the warehouse agreement relates, the Funds may or may not purchase securities issued in such structured transaction. The Funds may not achieve their investment objectives 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 Funds, or the Funds may take possession of the warehouse securities. In either case, the Funds 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 Funds may not be paid for financing the warehouse facility.

#### *Effects of Regulation on CLO 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 CLOs. 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 CLO issuers, may have a substantial negative impact on the liquidity and value of CLOs. No prediction can be made as to how any modifications made to the Volcker Rule will affect the liquidity and value of CLOs purchased by the Funds.

#### *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 Funds is called for redemption, the Funds 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 Funds' ability to achieve their investment objectives.

#### *Equity Securities Generally*

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the Funds may suffer losses if they invest in equity instruments of issuers whose performance diverges from the Investment Adviser's expectations or if equity markets generally move in a single direction and the Funds have not hedged against such a general move. The Funds also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

#### *Illiquid Securities*

Certain Assets may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such Assets. Valuation of such Assets may be difficult or uncertain because there may be limited information available about the issuers of such Assets. The market prices, if any, for such Assets may not be readily ascertainable, and the Funds may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale. The sale of restricted and illiquid Assets often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Assets eligible for trading on national securities exchanges or in the over-the-counter markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the Funds may be required to hold such Assets despite adverse price movements. Even those markets which the Investment Adviser expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

#### *PIPE Transactions*

Private investments in public companies whose stocks and/or bonds are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a "PIPE" transaction, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies, which may be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the Funds acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Funds' ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act, or otherwise under the U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if the Funds are able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the Funds may not be able to sell all the securities on short notice, and the sale of the securities

could lower the market price of the securities. There is no guarantee that an active trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the Funds' investments.

#### *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.

#### *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 Funds. 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 Funds' 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.



*Non-U.S. Investments*

Investing in the Assets of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in Assets 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 Funds' 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 Funds may be unable to structure their transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Fund's rights in such markets. Accordingly, the protections accorded to the Funds under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

**Item 9: Disciplinary Information**

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This Item is inapplicable.

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

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Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

While the Fund may trade commodity interests, the Investment Adviser and the General Partner, with respect to the Fund, are each exempt from registration with the U.S. Commodity Futures Trading Commission (the "**CFTC**") as a commodity pool operator (a "**CPO**") pursuant to CFTC Rule 4.13(a)(3).

We do not recommend or select other investment advisers for our clients.

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

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***Code of Ethics and Personal Trading***

Phoenix Merchant has adopted a "**Code of Ethics**" that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees' personal trading of securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Employees also are required to provide quarterly certifications of compliance with certain Code of Ethics provisions.

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Funds first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics; and
- Employees should not take inappropriate advantage of their position at the Firm.

#### ***Personal Securities Trading***

Employees are required to direct their brokers to send duplicate copies of personal discretionary brokerage account statements to the CFO/CCO. These records are used to monitor compliance with Phoenix Merchant's "**Employee Investment Policy**." Employees are prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm's Restricted List.

Employees must obtain pre-approval from the CFO/CCO before: (i) making a transaction in Covered Accounts of Reportable Securities, including any IPO; (ii) engaging in any outside business activities that may present a conflict with the employees' duties at the Firm; or (iii) making any private investments.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor or client, upon request.

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

Neither we nor our related persons generally purchase any securities for our own accounts from, or sell any securities for our own accounts to, the Funds. We may purchase or sell securities that we also recommend to our clients. The Firm will be cognizant of its fiduciary duty to its clients if this occurs. We may solicit qualified clients to invest in a Fund. We could be considered to have recommended an investment in a Fund as suitable for a client as a result of our relationship with the Fund. We will inform each client of our relationship with a Fund prior to the client's investment, but we do not intend to advise clients as to the appropriateness of the investment and we will not receive any compensation for selling interests in a Fund (except to the extent that we receive our Management Fee and Performance Allocation from Investors).

We disclose these, and other potential conflicts of interest, to Investors in the Funds' offering documents. Offering documents are delivered to Investors prior to their investment and Investors are given the opportunity to ask questions and seek answers regarding, among other things, potential conflicts involving us, our affiliates, or the executive officers of the foregoing.

#### **Item 12: Brokerage Practices**

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Phoenix Merchant is authorized to determine the broker-dealer to be used for executing securities transaction for the Funds. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate "execution only" commission rates; therefore, the Funds may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

We shall also have the authority to select and appoint custodians of the assets of the Funds. The Firm's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

**Best Execution**

In selecting an appropriate broker-dealer to effect a client trade, we seek to obtain "**Best Execution**," meaning generally the execution of a securities transaction for a client in such a manner that a client's total costs or proceeds in the transaction are most favourable under the circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers' full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

**Item 13: Review of Accounts**

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Our portfolio managers and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Funds to ensure that they conform with the investment objectives and guidelines that are stated in the Funds' offering documents. In these reviews, the Firm pays particular attention to any changes in the investment's fundamentals, overall risk management and changes in the markets that may affect price levels. Phoenix Merchant engages in active management for the Funds and the Firm reviews transactions, positions and cash balances on a daily basis.

**Account Reporting**

We perform various periodic reviews of each client's portfolio. Such reviews are conducted by our officers.

We will distribute an audited financial report with respect to the previous fiscal year to all Investors within 120 days of fiscal year end. We distribute quarterly unaudited net asset value statements including net returns, and a semi-annual investor letter to all Investors.

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

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This Item is inapplicable.

**Item 15: Custody**

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We will comply with Rule 206(4)-4 of the Investment Advisers Act of 1940, as amended, by meeting the conditions of the pooled vehicle annual audit provision. Annually, upon completion of the Funds' annual audit, we will distribute the audited financials to Investors within 120 days of the Funds' fiscal year end.

**Item 16: Investment Discretion**

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We will have full discretionary authority over the Funds including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

**Item 17: Voting Client Securities**

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In compliance with the Advisers Act's Proxy Voting Rule, we have adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents or resolutions (collectively, "**Proxies**") in a prudent and diligent manner that will serve the applicable client's best interests and is in line with each client's investment objectives.

We may take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

Generally, clients may not direct our vote in a particular solicitation.

Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

**Item 18: Financial Information**

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We are not required to include a balance sheet for our most recent fiscal year, are not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to clients and have not been the subject of a bankruptcy petition at any time during the past ten years.