

Item 1 – Cover Page

DISCLOSURE BROCHURE

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October 2024

This Brochure provides information about the qualifications and business practices of FCO Advisors LP (“FCO” or the “Advisor,”). If you have any questions about the contents of this Brochure, please contact us at (646) 467-8086. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. FCO is registered as an investment adviser with the SEC.

Registration with the SEC does not imply a certain level of skill or training.

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

Item 2 – Material Changes

The last update to FCO’s Form ADV Part 2A (this “Brochure”) was in March 2024. A summary of the material change since the last update of this Brochure is as follows:

1. The amount of FCO’s regulatory assets under management was updated in Item 4;
2. The Advisor removed references to FIO Advisors LP, as it’s no longer a relying advisor of FCO; and
3. Other minor updates that FCO deemed appropriate.

Future Disclosure Brochure filings will address “material changes” since the date of this filing concerning FCO, which will either be delivered, or offered for delivery, to clients. A copy may also be downloaded from the SEC’s website, www.adviserinfo.sec.gov.

IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE

This Disclosure Brochure is not:

- *an offer or agreement to provide advisory services to any person*
- *an offer to sell interests (or a solicitation of an offer to purchase interests) in any fund client (as defined below)*
- *a complete discussion of the features, risks or conflicts associated with any fund client*

As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), the Advisor provide this Brochure to current and prospective clients and may also, in their discretion, provide this Brochure to current or prospective investors in a fund client, together with other relevant governing documents, such as the fund client’s offering circular, prior to, or in connection with, such persons’ investment in the fund client.

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

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Item 4 – Advisory Business

FCO Advisors LP (“FCO”, “the Advisor” or “We”) is an investment advisory firm formed as a Delaware limited partnership in 2012. FCO Management LLC is FCO’s general partner. FCO’s principal owners are Hector Negroni and PAM Foundation Investments, Inc. More detailed information regarding FCO’s ownership is provided in Schedules A and B of ADV Part 1A.

FCO provides discretionary and non-discretionary investment advisory services to affiliated pooled investment vehicles (each a “fund client”), separately managed accounts (each a “separate account”) and an investment company.

The funds are offered exclusively to individuals and other persons who qualify as “accredited investors” under Regulation D promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and “qualified clients” as defined under Section 205(3) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and are therefore not required to register as investment companies with the SEC in accordance with the exemption set forth in Sections 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940, as amended.

In providing such services to the clients, FCO has discretion, subject to the terms of the clients’ Governing Documents (as defined below), to formulate investment objectives, and direct and manage the investment and reinvestment of the clients’ assets.

FCO’s core investment strategy seeks to deliver consistent total returns investing across a range of opportunities in the large, fragmented municipal universe. Terms of investments, including client objectives, limitations and strategies are governed exclusively by the terms of the private placement memorandum, limited partnership or operating agreement, and/or an investment management agreement, as applicable (collectively, the “Governing Documents”). Specific client investment strategies and their implementation are dependent upon the client’s investment objectives. Separate account clients may impose restrictions on investing in certain securities or types of securities. Investors in the funds (“Investors”) cannot generally place investment restrictions on FCO and may not tailor FCO’s advisory services to their individual needs.

Notwithstanding the foregoing, the general partner of a fund is permitted in the future to enter into side letter agreements or similar arrangements (“Side Letters”) with one or more investors in a fund that have the effect of establishing rights under, or altering, modifying, waiving or supplementing the terms of, the Governing Documents of the fund in respect of such investors. Among other things, these agreements are expected to entitle an investor in a fund to lower fees, information or transparency rights, co-investment rights, most favored nations status, notification rights, rights or terms necessary or advisable in light of particular legal, regulatory or public policy considerations of or related to an investor and/or other preferential rights and terms. Any rights established or any terms of the Governing Documents of such applicable fund altered or supplemented in or by a side letter or similar arrangement with an investor will govern solely with respect to such investor notwithstanding any other provision of the Governing Documents of such applicable fund related thereto. Please see Item 8 (Methods of Analysis, Investment Strategies, and Risk of Loss) for more information.

FCO does not participate in wrap fee programs.

As of the date of this Brochure, FCO had approximately \$329 million of discretionary and \$463 million of non-discretionary regulatory assets under management.

Item 5 – Fees and Compensation

FCO typically receives compensation from its clients from the following sources: (a) fees based on a percentage of assets under management; and (b) fees or allocations based on a percentage of the performance of the client accounts. Fees for managed account clients are negotiable. Current and prospective clients should carefully review all fees charged by FCO. Different fees are charged to different clients and investors, and fees can be waived, rebated or reduced for certain clients and Investors, including for certain affiliates, principals and employees.

Management Fee:

In consideration for its services to the funds, FCO is entitled to a management fee measured as a percentage of net assets of the fund. Generally, the management fee is paid quarterly in advance.

Performance based Compensation:

Subject to certain terms and limitations disclosed in the Governing Documents, FCO is entitled to receive performance based compensation (the “Incentive Allocation”) with respect to the funds in an amount equal to a percentage of the net capital appreciation attributable to each Investor’s capital account in the fund (after taking into account expenses of the fund, including any Management Fees). The Incentive Allocation is generally payable annually after year-end or at the time the Investor withdraws from the fund if before year-end. The Incentive Allocation will be calculated on the basis of the aggregate balance in an Investor’s capital account, irrespective of how many or when capital contributions are made to such capital account by such Investor.

An Incentive Allocation can also be subject to what is commonly known as a “high water mark.” That is, if a capital account underperforms during a calendar year, the net underperformance will be recorded and carried forward to future calendar years (such amount is referred to as the “Loss Carryforward”), and FCO will not receive the Incentive Allocation with respect to such capital account for future calendar years until the Loss Carryforward amount has been recovered (i.e., when the Loss Carryforward amount has been exceeded by the cumulative net outperformance in the calendar years following the Loss Carryforward). Once the Loss Carryforward has been recovered, the Incentive Allocation shall be based on the excess net capital appreciation over the Loss Carryforward amount, rather than on all net capital appreciation. The “high water mark” procedure prevents FCO from receiving the Incentive Allocation for net capital appreciation that simply restores previous underperformance and is intended to ensure that the Incentive Allocation is based on the long-term performance of the fund.

Separate account clients can also be subject to the Management Fee and performance-based compensation similar to those described above. The level of compensation can vary by client, based

on a client's investment objectives and limitations.

Except as provided herein or the constituent Governing Documents, FCO renders its services to the Clients at its own expense and is responsible for its overhead expenses including: office rent; utilities; furniture and fixtures; stationery; secretarial/internal administrative services; salaries and bonuses; entertainment expenses; employee insurance and payroll taxes.

Other Expenses Charged to the Clients:

Each fund client typically bears all costs and expenses (subject to a cap where applicable), other than fees paid to placement agents, incurred in connection with the formation and organization (such costs and expenses, the "Organizational Costs") of the fund client as well as its *pro rata* share of the Organizational Costs of master funds. Such Organizational Costs are typically amortized over the first 60 months of the fund's operations. The Advisor typically bears the costs of any fees paid to placement agents either directly or through an offset to the management fee.

Each fund client typically pays all ordinary and extraordinary expenses (subject to a cap where applicable) incurred by it or on its behalf, which may include, but are not limited to, the management fee, investment related expenses (i.e., expenses that the Advisor reasonably determines to be related to the acquisition, holding and disposition of the fund client's assets, such as due diligence expenses, consultant expenses, brokerage fees and commissions, expenses relating to short sales, clearing and settlement charges, pricing and valuation fees, custodial fees, bank service fees, interest expenses, taxes and expenses related to proposed investments that are not consummated), research fees and expenses (including publications and quotation services), data feed expenses, risk and office management software fees, investment-related travel expenses, insurance expenses, legal expenses, regulatory expenses (including expenses related to Form PF and Form CPO PQR), professional fees (including, without limitation, expenses of consultants and experts) relating to investments, internal and external accounting expenses (including the cost of accounting software packages), auditing, reporting and tax preparation expenses, administrative expenses, expenses relating to maintaining the registered offices of the fund client's general partner and master fund in the Cayman Islands (if applicable), third-party administrative fees, fees and expenses of service providers retained by the fund client or the Advisor and other similar expenses related to the fund client. To the extent that expenses to be borne by the fund client are paid by FCO or its affiliates, the fund client reimburses FCO or its affiliates for such expenses. Refer to Item 12 – Brokerage Practices for further information regarding brokerage practices.

Fees and expenses are allocated to clients in accordance with the expense allocation policies and procedures adopted by the Advisor. Such general expense allocation policies and procedures are subject at all times to any specific allocation provisions set forth in a fund client's offering documents or separate account client's account documents. For fund clients managed by FCO (including separate account clients), deal related expenses are generally allocated based upon the percentage of capital deployed by the respective client(s) into the deal.

Notwithstanding the foregoing, the Advisor may use other methods to allocate fees and expenses among clients in any manner that they deem appropriate in their sole discretion.

Please refer to applicable Governing Documents for more detailed information regarding expenses associated with investing in the funds and managed accounts.

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

FCO or its related persons is eligible to receive performance-based fees in each of its respective hedge fund and separate account clients pursuant to the terms of the respective offering memoranda, limited partnership agreements or investment management agreements, and may also participate in parallel vehicles in which investors may co-invest with the fund clients.

FCO is responsible directly or indirectly for investment decisions made on behalf of various investment vehicles and separate accounts. The simultaneous management of these different vehicles and accounts creates certain potential conflicts of interest and the possibility of favorable or preferential treatment of a vehicle or account that is subject to fees that are higher than others. FCO may take (and has taken in the past) action with respect to one pooled investment vehicle that differs from that taken with respect to other pooled investment vehicles and separate accounts advised by FCO.

In its main strategy funds and separate accounts, FCO generally allocates orders (i) pro rata among all accounts based upon the respective sizes of the participating accounts or (ii) based on a uniform target percentage holding across all participating accounts. An allocation method other than a standard allocation method may be employed if, under the circumstances, such other allocation method is reasonable, employed in good faith and does not result in an unfair or inequitable disadvantage to any account. In a non-standard allocation, FCO may consider the amount of available cash or the need of a particular account for cash flow and may prioritize an account with a particular investment policy or style.

Item 7 – Types of Clients

FCO currently advises privately offered pooled investment vehicles.

FCO also accepts investment mandates from institutional clients in a form of separately managed accounts. Generally, FCO will enter into (and in the past has entered into) separate account arrangements solely with clients that are: (a) “accredited investors” as such term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended; (b) a “qualified eligible person” as defined in Commodity Futures Trading Commission Rule 4.7 promulgated under the Commodity Exchange Act, as amended and (c) a “qualified purchaser” as defined under Section 2(a)(51) of the Investment Company Act of 1940, as amended.

FCO also sub-advises an account for a registered investment company.

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

FCO employs a municipal credit strategy that seeks to deliver consistent total returns investing across a range of opportunities in the large, fragmented municipal universe. FCO believes its

platform is well positioned to capitalize on the frequent, recurring opportunities and offers a sophisticated strategy in this asset class.

FCO specifically invests in opportunities as follows: (i) Technical and Relative Value created by recurring supply/demand imbalances in municipal new issue and secondary markets generate tactical investments for FCO to invest in securities with shorter to medium-term holding periods; (ii) Structural Complexity borne from the large universe of uniquely constructed and misunderstood instruments (e.g., floating rate bonds, taxable securities, and derivatives) provide strategic investments with medium to longer-term time horizons; and (iii) Credit-Driven situations generated by stressed issuers, complicated security packages and other distinctive credit features offer fundamental investments of medium to longer-term duration.

FCO employs: i) a team with extensive municipal market experience, advanced product knowledge and substantial structuring capabilities; ii) an agnostic mandate without bias toward instrument type, tax-exemption, current yield, duration, callability or direction; iii) active management for an absolute return by hedging, buying and selling (as opposed to the traditional passive, long and unhedged retail and fund investors); and iv) a liquid but patient, longer-term capital base to better match the opportunity set and mitigate risk. FCO will also adhere to a rigorous risk management framework: i) maintaining a diverse portfolio with respect to liquidity, credit quality, credit sector and geography; ii) utilizing modest leverage, primarily in connection with the use of derivatives as opposed to yield enhancement; iii) reviewing the inputs and drivers to underlying investment theses, adapting to changing credit and market conditions; and iv) deploying advanced risk reporting technologies to inform hedge and position size rebalancing.

Material Risks

An investment in a fund client is speculative, involves a high degree of risk and is suitable only for sophisticated investors who can assume the risks of losing their entire investment. There can be no assurances or guarantees that (i) the fund client's investment objectives will be realized, (ii) the fund client's investment strategy will prove successful or (iii) investor will not lose all or a portion of their investment in the fund client. Please note that the following is not meant to be an exhaustive listing of all potential risks associated with investing in a fund client. Additional risk factors are set forth in the offering documents for each fund client provided to investors and potential investors. The following summary of risks is qualified in its entirety by the respective fund client's offering documents. Certain fund clients invest all of their investable assets through a master-feeder structure. Unless specifically noted, references to fund client include a fund client organized as a master fund in a master-feeder fund structure where relevant. These risk factors are also applicable with respect to investments made by FCO in connection with managing separate accounts.

- Nature of Investments. FCO has broad discretion in making investments for the fund client and expects to utilize highly speculative investment techniques, including leverage, futures, options and derivative transactions. There can be no assurance that FCO will correctly evaluate the nature or magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile. A variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may detrimentally impact the value of the securities and other financial instruments in which the fund client invests, including

access by the issuers of such securities and instruments to capital and public market valuations. These factors and others may significantly affect the results of the fund client's activities and the value of its investments. In addition, the value of the fund client's portfolio may fluctuate in response to fluctuations in the general level of interest rates.

- Municipal Credit Risk Instrument Risks. The fund clients will make investments primarily in municipal credit risk instruments. Investments in municipal credit risk instruments are subject to various risks that are not generally found in investments in other types of securities. There can be no assurance that FCO will correctly evaluate the nature and magnitude of the various factors that could affect the value of, and return on, such investments.

There are two common types of municipal bonds: general obligation bonds and revenue bonds. Both general obligation bonds and revenue bonds are typically issued by or on behalf of states, territories and possessions of the United States, the District of Columbia and their political subdivisions, agencies or instrumentalities to obtain funds for a wide range of public facilities including housing projects, industrial projects, hospitals, schools, mass transportation, stadiums, waterworks and sewer systems and highways. General obligation bonds are backed by the "full faith and credit" of the governmental entity issuing the bonds. The creditworthiness of general obligation bonds is primarily based upon the "ability to pay", generally defined by the overall financial health of the issuer and its "willingness to pay" generally determined by the history of fiscal responsibility, necessity of market access and current political climate. Unlike general obligation bonds, revenue bonds are not payable from the general taxing power of the municipality and holders of revenue bonds typically have no claims on the issuer's other resources. Revenue bonds traditionally depend on a specific source(s) of revenue designated to satisfy the issuer's obligations to capture that stream of revenues or finance a specific project or enterprise. Each type of municipal obligation may be more or less susceptible to downgrades or defaults during recessions or similar periods of economic stress. As such, the value of the fund client's investments in municipal credit risk instruments will be affected by local, state, regional and national factors. These may include economic or policy changes, erosion of the tax base, population changes, legislative changes (especially those regarding taxes) and the possibility of other credit problems. Any such changes or events may adversely affect the value of the fund client's investments.

In addition to being downgraded, an insolvent municipality may file for bankruptcy. The reorganization process of a municipality's debts has little precedent and may significantly affect the rights of creditors. Moreover, there is political risk that state legislatures or municipal authorities will seek to interfere with or rescind the revenue streams required for the issuer to satisfy its obligations, leaving the creditor with no recourse. This risk exists for both performing and non-performing or defaulted obligations. Furthermore, states and municipalities face uncertainty in respect of Federal mandates, Federal assistance and subsidies, a rapidly changing and unpredictable regulatory landscape and other political and regulatory policy changes, any of which may adversely affect the performance of municipal obligations. There is no guarantee that FCO will be able to anticipate these risks effectively.

Another risk involves the failure of a municipality to pay its creditors on time. Chapter 9 of the U.S. Bankruptcy Code provides a financially distressed municipality with protection from its creditors while it develops and negotiates a plan for adjusting its debts. The commencement of a Chapter 9

bankruptcy case operates as a stay, applicable to all creditors of the municipality, of most efforts to collect prepetition claims. Such a stay would operate to restrict the municipality from making payments of either principal or interest on accounts of its general obligation bonds. In general, numerous important legal issues under Chapter 9 are unsettled and evolving. Accordingly, a Chapter 9 filing by an issuer of securities may result in an adverse effect on the value of general obligation bonds and special revenue bonds.

- Leverage. The fund client may invest in portfolio investments with leveraged capital structures, and the general partner will seek to use leverage in a manner it believes is prudent. Use of leverage is a speculative investment technique and involves certain risks to investors in the fund client. The use of leverage creates an opportunity for increased income and gains to the fund client's investors but also increases the risk of loss of capital. To the extent that any investment is made in a portfolio investment with a leveraged capital structure, such investment will be subject to increased exposure to adverse economic factors such as a significant rise in interest rates, a severe downturn in the economy, or deterioration in the condition of such portfolio investment or its industry. In the event that such a portfolio investment is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the fund client's investment in such portfolio investment could be significantly reduced or even eliminated. Additionally, underlying portfolio investments may be subject to restrictive financial and operating covenants as a result of their leverage. This leverage may impair these portfolio investments' ability to finance their future operations and capital needs. As a result, their flexibility to respond to changing business and economic conditions and to business opportunities may be limited. A leveraged entity's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

The fund client has the power to borrow funds and may do so when deemed appropriate by FCO, including if doing so would enhance the fund client's returns and enable the fund client to meet withdrawals that would otherwise result in the premature liquidation of investments. The fund client will borrow funds from brokers, banks and other lenders to finance its trading operations. The use of such leverage can, in certain circumstances, maximize the losses to which the fund client's investment portfolio may be subject. Such leverage, which may be substantial, may be achieved through, among other methods, purchases of securities on margin and the use of options, futures, forward contracts, repurchase and reverse repurchase agreements and swaps. The access to capital could be impaired by many factors, including market forces or regulatory changes. There could also be other factors more specific to the fund client, such as fraud on behalf of one of its employees.

The fund client may achieve better margin lending terms from certain of its prime brokers than are generally available to U.S. investors. As a result, the level of margin available to the fund client for its investments will generally be limited only by the credit decisions of its prime brokers. There can be no assurance, however, that such prime brokers will either continue such arrangements with the fund client or that such prime brokers and other lenders will approve extensions of credit to the fund client at the levels requested by the fund client. Any restriction on the availability of credit from such parties could adversely affect the fund client's performance.

The use of margin and short-term borrowings creates several risks for the fund client. If the value of the fund client's securities falls below the margin level required by a prime broker, the fund

client could be subject to a “margin call,” pursuant to which the fund client must deposit additional funds or securities with such prime broker. If the fund client is unable to satisfy any margin call by a prime broker, then the prime broker could liquidate the fund client’s positions in some or all of the financial instruments that are in the fund client’s accounts at the prime broker and cause the fund client to incur significant losses. The failure to satisfy a margin call, or the occurrence of other material defaults under margin or other financing agreements, may trigger cross-defaults under the fund client’s agreements with other brokers, lenders, clearing firms or other counterparties, multiplying the adverse impact to the fund client. In addition, because the use of leverage allows the fund client to control positions worth significantly more than its investments in those positions, the amount that the fund client may lose in the event of adverse price movements is high in relation to the amount of its investment.

In the event of a sudden drop in the value of the fund client’s assets, the fund client might not be able to liquidate assets quickly enough to satisfy its margin requirements. In that event, the fund client may become subject to claims of financial intermediaries that extended “margin” loans. Such claims could exceed the value of the assets of the fund client. The banks and dealers that provide financing to the fund client can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks and dealers in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the fund client will be able to secure or maintain adequate financing, without which the fund client may not continue to be viable.

The purchase of options, futures, forward contracts, repurchase agreements, reverse repurchase agreements, equity swaps and other derivatives often involves little or no margin deposit and, therefore, provides substantial leverage. Accordingly, relatively small price movements in these financial instruments may result in immediate and substantial losses to the fund client.

While leverage presents opportunities for increasing the fund client’s total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the fund client would be magnified to the extent the fund client is leveraged. The cumulative effect of the use of leverage by the fund client in a market that moves adversely to the fund client’s investments could result in a substantial loss to the fund client that would be greater than if the fund client were not leveraged.

- Lack of Diversification. Fund clients may not be diversified among a wide range of financial instruments, industries or asset classes. As such, a fund client may be exposed to wider fluctuations in value than otherwise would be the case if the fund client were required to maintain a high degree of diversification among the investments. The fund client may have no restrictions on either the amount of assets that can be invested in a certain industry or the percentage of assets invested in a single security. Therefore, the fund client may be subject to greater risk than diversified portfolios.
- Available Information. FCO selects investments in part on the basis of information and data filed by the issuers of securities or owners of other assets with various government regulators or made directly available to FCO by such issuers or owners, or through sources other than the issuers or owners. FCO evaluates all such information and data and seeks independent corroboration when FCO considers it appropriate and when it is reasonably available, FCO is not in a position to confirm the

completeness, genuineness or accuracy of such information and data, and in some cases complete and accurate information is not readily available.

- General Economic Conditions. Changes in economic conditions, including changes in interest rates, inflation rates, industry conditions, government regulation, competition, technological developments, political events and trends, tax laws and many other factors can affect substantially and adversely the business and prospects of the fund client and of the value of the securities and other financial instruments in which it may invest. None of these conditions is within the control of FCO. The fund client's strategy may in some investments be based, in part, upon the premise that securities or other assets will be available for purchase by the fund client at prices that FCO considers favorable. Furthermore, the fund client's strategy relies, in part, upon the availability of investment opportunities identified by FCO, the continuation of existing market conditions or, in some circumstances, upon more favorable market conditions or anticipated investment opportunities existing prior to the termination of the term of the fund client. These conditions and opportunities may include, among others, continued economic growth in a particular state or region; the continuation of certain existing laws, regulations or government policies; or the continuation of certain trends related to unemployment, inflation, demographics and other factors. No assurance can be given that such conditions or opportunities will arise or continue, as applicable, or that businesses and assets can be acquired or disposed of at favorable prices or that the market for such assets will either remain stable or, as applicable, recover or improve, since this will depend upon events and factors outside the control of FCO.
- Identification of Investments; Competition. The securities industry generally, and the varied strategies and techniques to be engaged in by FCO in particular, are extremely competitive. Fund clients will be competing for investments with other financial institutions and other investors, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs, as well as other hedge funds that may also have greater resources and access to information, different investment strategies or compensation structures. Competitive investment activity by other firms may reduce the fund client's opportunity for profit by reducing or amplifying the magnitude as well as the duration of the market inefficiencies which it seeks to exploit.
- Volatility. The market value of certain of the fund client's investments may be volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, among other things, the macroeconomic environment, specific developments or trends within a company or in any particular sector, the market's overall perception of risk, general economic conditions, the condition of certain financial markets, domestic and international economic or political events, prevailing credit spreads, changes in prevailing interest rates and the financial condition of counterparties.
- Liquidity of Investments. A fund client may acquire thinly traded investments that are difficult to dispose of quickly. In addition, investments that were once liquid may become illiquid, making it difficult to acquire or dispose of them at the prices quoted on the various exchanges. The fund client may also acquire investments that may not be sold except pursuant to a registration statement filed under the Securities Act of 1933, as amended (the "Securities Act") or in accordance with Rule 144 or another exemption under the Securities Act. In that event, the fund

client's ability to respond to market movements may be impaired and the fund client may experience adverse price movements upon liquidation of its investments.

Restricted and illiquid securities may sell at a lower price than similar securities that are not illiquid or subject to restrictions on resale, and the sale of restricted and illiquid investments often requires more time and results in higher brokerage costs 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. Because of the speculative and non-public nature of some restricted or illiquid investments, the fund client may, from time to time, sell or otherwise dispose of such investments that later prove to be more valuable than anticipated at the time of such disposition. Any premature sales or dispositions may prevent the fund client from realizing as great an overall return on investment as may have been realized if such sales or dispositions had been made at a later date.

- Concentration of Investments. FCO generally seeks to maintain a diversified portfolio of investments. However, a fund client may at certain times hold relatively few investments, which could subject the fund client to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected. In addition, the same result might occur if the fund client's investments experience a greater than anticipated correlation. In that circumstance, fund client positions that may have been considered diversified could be subject to significant losses due to related events or changes in investment correlation more generally.
- Financial Model Risk. Most, if not all, of the fund client's investments and investment strategies require the use of quantitative and qualitative valuation models developed by FCO and third-parties. As market dynamics (for example, due to changed market conditions and participants) shift over time, a previously highly successful model often becomes outdated or inaccurate, perhaps without FCO recognizing the change before significant losses are incurred. The fund client's model risk extends to the valuation of its investments, which may be made on the basis of internal FCO models in the absence of any readily determinable market value. The valuations so determined may differ materially from realized values.
- Transaction Costs. The fund client's investment approach may involve a high level of trading and turnover of the fund client's investments, which may generate substantial transaction costs.
- Spread Trading Risks. A part of the fund client's trading operations may involve spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. In addition, such positions entail substantial risk that the price differential could change unfavorably, causing a loss to the spread position. In periods of trendless, stagnant markets and/or deflation, many alternative investment strategies have materially diminished prospects for profitability.
- Arbitrage Transaction Risks. Arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. FCO may employ any one or more of these arbitrage strategies. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur which can be magnified to the extent the fund client is employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable "spreads," which can also

be identified, reduced or eliminated by other market participants. In particular, the success of a capital structure arbitrage strategy depends on the ability of FCO to identify and exploit the relationships between movements in different securities and instruments within an issuer's capital structure (e.g., bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. In the event that the perceived pricing inefficiencies underlying an issuer's securities were to fail to materialize as expected by FCO, the fund client could incur a loss.

- Hedging Transactions. The success of the fund client's hedging strategy will be subject to FCO's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the funds client's hedging strategy will also be subject to FCO's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner.

While the fund client may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the fund client than if it had not engaged in any such hedging transactions. For a variety of reasons, FCO may not seek to establish a perfect correlation between such hedging instruments and the risks being hedged. Such imperfect correlation may prevent the fund client from achieving the intended hedge or expose the fund client to risk of loss. In addition, FCO may not hedge a risk inherent in the fund client's portfolio because a hedge may not be available or is too costly in light of the likelihood of the possible risk actually occurring or because the risk simply could not be reasonably anticipated. Additionally, such hedging transactions will add to the cost of the investment, may require ongoing cash payments to counterparties, subject the fund client to the risk that the counterparty defaults on its obligations, and may produce different tax consequences to the limited partners than would apply if the fund client had not entered into such hedging transactions.

- Possible Positive Correlation. One of the goals in incorporating non-traditional investment strategies such as those to be utilized by the fund client into a portfolio or series of portfolios is to provide a potentially valuable element of diversification. However, there can be no assurance, particularly during periods of market disruption and stress, when the risk control benefits of diversification may be most important, that the fund client will, in fact, be negatively-correlated or non-correlated with a traditional portfolio of stocks or bonds.
- Equity Securities. The fund clients do not expect to invest in equity securities. In the event a fund client did invest in equity securities, such investments are subordinate to the claims of an issuer's creditors and, to the extent such securities are common securities, preferred stockholders. Dividends customarily paid to equity holders can be suspended or cancelled at any time. For the foregoing reasons, investments in equity securities can be highly speculative and carry a substantial risk of loss of principal.
- Short Selling. A fund client may engage in short selling. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the fund client to profit from declines in market prices to the extent such decline exceeds the transaction

costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the fund client at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and the fund client may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short. Short selling activities with respect to U.S. securities are subject to other restrictions imposed by U.S. securities laws and the various U.S. securities exchanges that may affect investment activities of the fund client. If short sales are effected on an exchange or over-the-counter market outside the United States, such transactions will be subject to the applicable local law, which may be more or less restrictive than U.S. law.

- “New Issues” The fund client may invest in “new issues” of equity securities which pose unique risks arising out of their transient illiquidity, lack of trading history and concentration of ownership. The fund clients do not expect to invest in equity securities, however, in the event that the fund client elects to trade “new issues” of equity securities, limited partners of the fund client that are “restricted persons” or “Covered Persons” under applicable FINRA rules may not be permitted to participate or participate fully in the returns generated by those trades.
- Convertible Securities. Convertible securities provide higher yields than the underlying equity securities, but generally offer lower yields than non-convertible securities of similar quality. The value of convertible securities fluctuates in relation to changes in interest rates like bonds and, in addition, fluctuates in relation to the underlying common stock. In addition, convertible securities are often held in large concentrations by levered investors and hence may be materially devalued when those investors are selling, irrespective of the underlying issuer’s financial health.
- Foreign Securities. The fund client may invest in securities and other instruments of foreign corporations and foreign countries. Investing in such securities involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. government, including, among other things, political and economic considerations, such as greater risks of general social, political and economic instability; the 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; fluctuations in the rate of exchange between currencies and costs associated with currency conversion, imposition of withholdings and other taxes and certain government policies that may restrict the fund client’s investment opportunities. In addition, accounting and financial reporting standards that prevail in many foreign countries are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in many foreign countries than there is in the U.S.
- Options. The fund client may engage in the trading of options. Such trading involves risks substantially similar to those involved in trading margined securities in that options are speculative

and highly leveraged. Specific market movements of the securities underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the security underlying the option which the writer must purchase or deliver upon exercise of the option.

- Derivatives. The fund client may invest in derivative financial instruments which includes, but is not limited to, futures, options, interest rate swaps, forward currency contracts and credit derivatives such as credit default swaps. In addition, the fund client may from time to time utilize both exchange-traded and over-the-counter futures, options and contracts for differences, for hedging purposes, as well as other derivatives. Regulatory restraints may restrict the instruments that the fund client's may trade. Such derivative instruments are highly volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further losses exceeding any margin deposited. Further, when used for hedging purposes there may be an imperfect correlation between these instruments and the investments or market sectors being hedged. The trading of over-the-counter derivatives will subject the fund client to a variety of risks including: (i) counterparty risk, (ii) basis risk, (iii) interest rate risk, (iv) settlement risk, (v) legal risk and (vi) operational risk. Counterparty risk is the risk that one of the fund client's counterparties might default on its obligation to pay or perform generally on its obligations. Basis risk is the risk that the normal relationship between two prices might move in opposite directions. Interest rate risk is the general risk associated with movements in interest rates. Settlement risk is the risk that a settlement in a transfer system does not take place as expected. Legal risk is the risk that a transaction proves unenforceable in law or because it has been inadequately documented. Operational risk is the risk of unexpected losses arising from deficiencies in a firm's management information, support and control systems and procedures. Transactions in over-the-counter derivatives may involve other risks as well, as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk.
- Credit Default Swaps. The fund client may invest in credit default swaps. A credit default swap is a contract between two parties that transfers the risk of loss if a debtor fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate or municipal debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) the purchaser of credit protection may deliver the referenced instrument to the swap counterparty and receive a payment of par value or (ii) the parties may pair off payments, in which case the purchaser of the protection receives a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single bond or a portfolio of bonds. Credit default swaps can be used to implement FCO's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the fund client may sell credit default protection in which it receives a premium to take on the risk. In such an instance,

the obligation of the fund client to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The fund client may also “purchase” credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of FCO, there is a high likelihood of credit deterioration. The credit default swap market in high yield securities (both corporate and municipal) is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities.

Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views. FCO may also enter into credit default swap transactions, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap. Investments in credit default swaps can involve a high degree of risk.

- Debt Securities. The fund client will invest, directly or indirectly, in debt securities. Debt securities are subject to the risk of an issuer’s ability to meet principal and interest payments on the obligation (credit risk), and are also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Changes in interest rates may cause a decline in the market value of an investment. With bonds and other fixed income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. The effects of changes in the level of interest rates can be magnified when securities are subject to financing. Bonds and other fixed income securities generally involve less market risk than stocks. However, the risk of bonds can vary significantly depending upon factors such as the issuer and maturity. The bonds of some companies may be riskier than the stocks of others.
- High-Yield Securities. The fund client may invest in “high yield” bonds and other debt securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). For example, the fund client may invest, directly or indirectly, 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 by substantially all of that issuer’s assets. The fund client may invest, directly or indirectly, in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Debt securities in the lower categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly 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 debt securities with higher ratings in the case of deterioration or general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated debt securities, the yields and prices of such securities may tend to fluctuate more than those of higher-rated securities. The market for lower- rated debt 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. Holders of such securities may have difficulty disposing of certain of these securities due to a thin trading market. The lack of a liquid secondary market for certain securities may have an adverse impact on the holder’s ability to dispose of such securities and may make it more difficult

for the holder to obtain accurate market quotations. In addition, adverse publicity and investor perceptions about lower rated debt 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. Limited partners should be aware that ratings are relative and subjective and are not absolute standards of quality. An issue of securities may cease to be rated or its rating may be reduced. Neither event will require the fund client to reduce its exposure to such securities, although FCO will consider such events in its determination of whether the fund client should continue to invest in such securities.

- Distressed Securities. The fund client may purchase, directly or indirectly, debt securities and other obligations of companies or municipalities that are experiencing significant financial or business distress, including companies or municipalities involved in bankruptcy or other reorganization and liquidation proceedings. Although investments in such distressed securities and other obligations may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these securities and investments ordinarily remain unpaid unless and until the entity reorganizes and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. In some circumstances, such securities or other obligations may be converted to equity as part of the reorganization. A wide variety of considerations, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others may affect the value of these securities and investments. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of FCO to reliable and timely information concerning material developments affecting a company or municipality, or which cause lengthy delays in the completion of the liquidation or reorganization proceedings. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies or municipalities experiencing significant business and/or financial distress is unusually high. There is no assurance that FCO will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to the entity in which the fund client invests, the fund client may lose its entire investment or may be required to accept cash or securities with a value less than the fund client's original investment.
- Futures Contracts. The fund client may invest in futures contracts. 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." 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 in various commodities occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the fund client from promptly liquidating unfavorable positions and subject the fund client to substantial losses. In addition, FCO may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It also is possible that an exchange or the Commodity Futures Trading Commission 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.

- Unregulated Transactions. Certain instruments that may be traded by the fund client may not be traded on exchanges and such trading may not be regulated by any government agency. Accordingly, the protections accorded by such regulation will not be available in connection with such investments.
- Sovereign Risk; Emerging Markets. Although the fund client's investment program will generally focus on domestic securities, instruments and markets, the fund client may invest in sovereign debt and may invest in securities and instruments of developing or emerging market issuers that are or may become non-performing and/or where the issuer is in default, at the time of purchase, of principal repayment obligations. Such foreign debt securities may be subject to restructuring arrangements, which may adversely affect the value of such investments. If a foreign sovereign defaults on its foreign debt, there may be limited legal recourse against the issuer and/or guarantor.

Investments in emerging markets instruments, while generally providing greater potential opportunity for capital appreciation and higher yields than investments in more developed market instruments, may also involve greater risk. While FCO intends to manage the fund client in a manner that will minimize the fund client's exposure to unreasonable risks within the emerging markets asset class, and to diversify the fund client's investments among various emerging countries, there can be no assurance that adverse political and economic risks will not cause the fund client to suffer a loss of principal or interest in respect of any of its holdings.

Many laws that govern private and foreign investments, securities transactions, and other contractual relationships in emerging markets are relatively new and largely untested. As a result, the fund client may be subject to certain risks not present in more developed markets, including unclear and changing laws, inconsistent enforcement of laws, and difficulty in enforcing payment obligations.

Investment in emerging markets may expose the fund client to local risks such as counterparty, repatriation, exchange controls or other monetary restrictions, taxation risks, and special considerations due to limited publicly available information, less stringent regulatory standards, and lack of uniformity in accounting.

- Lending Risks. The fund client may invest in loans. Such lending activities entail a number of risks:

General Credit Risks. The fund client may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although the fund client may invest in subordinate or second priority liens). There is no assurance that the fund client will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to borrower, the fund client may lose all or part of the amounts advanced to that borrower. The fund client cannot guarantee the adequacy of the protection of the fund client'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 fund client cannot assure that claims may not be asserted that might interfere with enforcement of the fund client's rights. In the event of

a foreclosure, the fund client or an affiliate of the fund client 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 fund client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Lower Credit Quality Loans. There are no restrictions on the credit quality of the fund client's loans. Loans held by the fund client may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which the fund client may fund have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

Equitable Subordination. Loans to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities which may exceed the amount of the fund client's loan. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. 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"). FCO does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the fund client may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

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

- Loan Participations and Assignments. The fund client may invest in debt securities in the form of loan participations and assignments of portions of such loans. Loan participations typically represent direct participation in a loan to a corporate or municipal borrower, and generally are offered by banks

or other financial institutions or lending syndicates. When purchasing loan participations, the fund client assumes the credit risk associated with the borrowing entity and may assume the credit risk associated with an interposed bank or other financial intermediary, and may only be able to enforce its rights through the lender, and may assume the credit risk of the lender in addition to the borrower. The participation interests in which the fund client invests may not be rated by any nationally recognized rating service.

Investments in loans through a direct assignment of a financial institution's interests with respect to the loan may involve additional risks to the fund client. For example, if a loan is foreclosed, the fund client could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that, under emerging legal theories of lender liability, the fund client could be held liable as a co-lender. Also, environmental liabilities may arise with respect to collateral securing the obligations in which the fund client invests. It is unclear whether loans and other forms of direct indebtedness offer securities laws protections against fraud and misrepresentation. In the absence of definitive regulatory guidance, the fund client relies on FCO's research in an attempt to avoid situations where fraud or misrepresentation could adversely affect the fund client.

- Currency Exposure. Interests in the fund client will be issued and liquidated in U.S. Dollars. The fund client's portfolio may have positions which are denominated in currencies other than U.S. Dollars. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. FCO may not necessarily seek to hedge the foreign currency exposure of the fund client, and as such, the fund client would be subject to varying degrees of foreign exchange risks. In addition, prospective investors in a fund client whose assets and liabilities are predominately in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. Dollar and such other currencies.
- Prime Brokers. Pursuant to prime brokerage agreements, margin lending agreements or other agreements with the "Prime Brokers" or their affiliates, the fund client may authorize each of the Prime Brokers and their affiliates to lend either to themselves or to others any or all assets deposited with such Prime Broker and its affiliates, to convey all attendant rights of ownership (including voting rights and the right to transfer the assets to others), and to use all such assets as collateral for their general loans within the limits of applicable law and regulations. Unless otherwise agreed between the fund client and a Prime Broker (or its affiliates), any such assets used as collateral, together with all attendant rights of ownership, may be pledged, repledged, hypothecated or rehypothecated by such Prime Broker or its affiliates either separately or in common with other property for any amounts due to such Prime Broker or its affiliates (or for a greater amount), and neither such Prime Broker nor its affiliates shall have any obligation to retain a like amount of similar property in their possession or control. The fund client will rank as an unsecured creditor to each of its Prime Brokers in relation to assets that such Prime Broker borrows, lends or otherwise uses and, in the event of the insolvency of a Prime Broker, the fund client might not be able to recover equivalent assets in full. In addition, if applicable law permits, cash that a Prime Broker holds or receives on the fund client's behalf may not be treated by the Prime Broker as client money, may not be segregated from the Prime Broker's own cash and may be used by the Prime Broker in the course of its investment business. In such event, the fund client will rank as one of the Prime Broker's general creditors with respect to such cash deposits. Limited partners should assume that the insolvency of any of the fund client's

Prime Brokers or other service providers could result in the loss of all or a substantial portion of the fund client's assets held by or through such entity.

- Custodians. Institutions, such as brokerage firms or banks, will have custody of a portion of the fund client's assets. These assets will often be registered in "street name" and not in the fund client's name. Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the fund client. The fund client will attempt to concentrate its investment transactions with well-capitalized and established banks and brokerage firms in an effort to mitigate such risks.
- Counterparty Risk. Under certain circumstances, the fund client may be subject to the risk of the inability of any counterparty (including the brokers and custodians) to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes. To the extent the fund client invests in swaps, derivative or synthetic instruments, or other over-the-counter transactions including forward contracts, or in certain circumstances, non-U.S. securities, the fund client may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.
- Systemic Risk. Credit risk may also arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the fund client will interact on a daily basis.
- Ability to Enforce Legal Rights. Because the effectiveness of the judicial systems in certain non-U.S. countries in which the fund client may invest varies, the fund client may have difficulty in successfully pursuing claims in the courts of such countries, as compared to the United States or other developed countries. Furthermore, to the extent the fund client may obtain a judgment but is required to seek its enforcement in the courts of one of the countries in which the fund client invests, there can be no assurance that such courts will enforce such judgment.
- Third-Party Involvement; Co-Investments. The fund client may co-invest with third parties through partnerships, joint ventures or other entities. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that a third-party co-venturer or partner may at any time have financial difficulties resulting in a negative impact on such investment, economic or business interests or goals that are inconsistent with those of the fund client, or may be in a position to take or block action contrary to the fund client's investment objectives. In addition, the fund client may in certain circumstances be liable for actions of its third-party co-venturer or partners. Furthermore, if a co-venturer defaults on its funding obligations, the fund client may be required to make up the shortfall.

The general partner of a fund client may in its discretion make available co-investment opportunities

to strategic investors, lenders, other investment funds (or investors therein) managed by FCO, one or more limited partners and/or other third parties, in each case on such terms as the general partner shall determine. Co-investment opportunities may be made available through limited partnerships or other entities formed to make such investments. The general partner will allocate available investment opportunities among the fund client and any such third parties as it may in its sole discretion determine. Fund client investors acknowledge that the general partner may receive performance-based fees or “carried interest” allocations with respect to certain co-investments, and that neither the fund client nor such investors shall have any interest in such performance-based fees or “carried interest” allocations.

Making an investment in fund client does not give any investor the right to be allocated co-investment opportunities. Such opportunities may be offered, and most typically will be offered, to certain fund client investors but not to others, and/or they may be offered to third parties who are not investors in the fund client. Further, the size of capital contributions will not always or necessarily be used as a basis for offering co-investment opportunities. Thus, an investor may be offered fewer such opportunities than investors with equal or smaller capital contributions in the fund client, and some investors may receive substantial offers for such opportunities notwithstanding that they have capital contributions of the same or lower amount than other investors who may receive no such offers. It is not required that fund client investors participate in co-investments offered by the general partner.

The general partner has sole discretion as to the allocation of co-investment opportunities among interested parties, and may or may not offer such opportunities with respect to any or all fund client investments. The general partner may base any such decisions on a variety of factors, including but not limited to the size of investor contributions to the fund client and other funds managed by FCO, a fund client investor’s stated desire to participate in co-investments, the appropriateness in the general partner’s view of offering a co-investment opportunity, an investor’s ability to execute such offer, commercial considerations with respect to the applicable portfolio investment, the approval of transaction counterparties, and regulatory considerations. No assurances can be given regarding the amount of any co-investment opportunity that may be made available to a fund client investor in connection with the fund client, and nothing in the offering documents constitute a prediction, projection or guarantee as to the availability to a fund client investor of any future co-investment opportunities.

The fund client will generally bear the broken-deal expenses with respect to a co-investment opportunity that is not consummated, or with respect to other potential investments that may be offered to a fund client. Co-investors in one or more specific investments (including persons who co-invest, or are approached to do so, on a regular basis) will thus generally not be required to share in such broken-deal expenses. However, co-investors who have committed to participate in a transaction, and have undertaken an obligation to bear a share of broken-deal expenses in the event such transaction is not consummated, may be required to bear a portion of such expenses.

Co-investment performance is not combined with a fund client’s performance, including for purposes of determining the carried interest of the general partner, or determining management fees pursuant to a partnership agreement or other operating agreement. Subject to the terms of any applicable agreements with investors, the general partner may or may not charge management fees, one-time funding fees and/or carried interest in respect of co-investments. The allocation of any co-investment

opportunities may be to the direct or indirect benefit of FCO due among other things to the receipt of any such fees or carried interest and capital contributions to a fund client.

- Market Disruptions. General fluctuations in the market prices of securities may affect the value of the investments held by the fund client. Instability in the securities markets may also increase the risks inherent in the fund client's investments. The fund client may incur substantial losses in the event of disrupted markets or other extraordinary events in which historical pricing relationships (on which FCO bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. Investments may also be subject to catastrophic events and other force majeure events, such as fires, earthquakes, adverse weather conditions, major health crisis or pandemic, changes in law and other similar risks, which events could result in the partial or total loss of the investment or significant down time resulting in lost revenues, among other potentially detrimental effects. The financing available to the fund client from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction could require the fund client to sell off into a declining market, which would result in substantial losses to the fund client. Market disruptions may from time to time cause dramatic losses for the fund client, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.
- Potential Public Health Crisis; Covid-19. A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent outbreak of Coronavirus (or Covid-19) in China, the United States and other countries, could have an adverse impact on global, national and local economies, which in turn could negatively impact fund clients. Disruptions to commercial activity relating to the imposition of quarantines or travel restrictions (or more generally, a failure of containment efforts) may adversely impact a fund client's investments, including by delaying or causing supply chain disruptions or by causing staffing shortages. In addition, the imposition of travel restrictions may impact the ability of the Advisor's personnel to travel in connection with potential or existing investments of a fund client or to the Advisor's office, which could negatively impact the ability of the Advisor to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of Coronavirus has contributed to, and may continue to contribute to, volatility in financial markets, including changes in interest rates. A continued outbreak may reduce the availability of debt financing to a fund client and potential purchasers of a fund client's investments, which could have material and adverse impact on a fund client's returns. The impact of a public health crisis such as the Coronavirus (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to a fund client's performance.
- Tax Risk Associated with Tax-Exempt Municipal Bonds. The fund client will invest in, among other things, tax-exempt municipal bonds. The interest from such bonds is generally exempt from U.S. federal income tax. The United States Internal Revenue Code of 1986, as amended (the "Code") imposes certain continuing requirements on issuers of tax-exempt bonds regarding the use, expenditure and investment of bond proceeds, the payment of rebates to the United States and the registration of certain bonds. Failure by the issuer to comply, subsequent to the issuance of tax-exempt bonds, with certain of these requirements could cause interest on the bonds to become includable in gross income retroactive to the date of issuance, which may reduce the value of the bonds. For example, certain housing authority bonds are subject to special requirements that must be

met to preserve the bond's tax-exempt status. If such requirements are not met, the interest on such bonds may become taxable, the value of the bonds may be reduced, the fund client may be required to sell the bonds at a reduced value and fund client investors may be subject to unanticipated tax liabilities.

Certain provisions of the Code relating to the issuance of municipal bonds may reduce the volume of municipal bonds qualifying for U.S. federal income tax exemption. One effect of these provisions could be to increase the cost of the municipal bonds available for purchase by the fund client. Proposals that may restrict or eliminate the income tax exemption for interest on municipal bonds may be introduced in the future. If any such proposal were enacted the availability of municipal bonds for investment by the fund client would be reduced and the liquidity of any bonds held by the fund client may be adversely affected.

The interest payable on the municipal bonds in which the fund client expects to invest may be under forbearance or deferred. Any interest that accrues while such bonds are held by the fund client may be exempt from U.S. federal income tax, and will increase the fund client's basis in such bonds. There is no guarantee, however, that such interest will have or retain such a tax-exempt status.

The fund client may take positions with respect to certain tax issues, including issues not related to the tax treatment of municipal bonds, that depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by the United States Internal Revenue Service or another applicable taxing authority, the fund client might be found to have a different tax liability for that year than that reported on its U.S. federal income tax return.

- Systems Risks. FCO relies extensively on computer programs and systems (and may rely on new systems and technology in the future) in connection with fund client investment activities, that are critical to oversight of fund client activities. In addition, certain of the fund clients', FCO's and their affiliates' operations interface with or depend on systems operated by third-parties, the administrator and market counterparties and their sub-custodians and other service providers, and FCO may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures, interruptions or security breaches, including, but not limited to, those caused by computer "worms," viruses, power failures and social engineering schemes such as "phishing". FCO's operations are highly dependent on each of these systems and the successful operation of such systems is often out of FCO's control. Any such defect or failure could have a material adverse effect on fund clients, FCO and their affiliates. For example, systems failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the ability of FCO to accurately monitor fund client investment portfolios and risks.
- Cybersecurity Risk. As part of its business, FCO processes, stores and transmits large amounts of electronic information, including information relating to the transactions of fund clients and personally identifiable information of the investors in fund clients. Similarly, service providers of FCO and fund clients, especially the administrator, may process, store and transmit such information. FCO 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 FCO may be susceptible to compromise, leading to a breach of FCO's network. FCO's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by FCO to fund client investors may also be susceptible to compromise. Breach of FCO's information systems may cause information relating to the transactions of fund clients and personally identifiable information of fund client investors to be lost or improperly accessed, used or disclosed.

The service providers of FCO and fund clients are subject to the same electronic information security threats as FCO. 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 fund clients and personally identifiable information of fund client investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of FCO's or a fund client's proprietary information may cause FCO or fund clients 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 fund clients and fund client investors' investments therein.

Item 9 – Disciplinary Information

There is no disciplinary information to report on FCO or its management persons.

Item 10 – Other Financial Industry Activities and Affiliations

Pursuant to an exemption from registration as a commodity pool operator ("CPO") set forth in Commodity Futures Trading Commission (the "CFTC") Regulation 4.13(a)(3), FCO is not registered with the CFTC as a CPO.

FCO has exemptions pursuant to CFTC 4.13(a)(3) on behalf of certain FCO pools. Pools relying on the CFTC 4.13(a)(3) exemption are relieved of all pool requirements based upon its annual affirmation that the pool engages in minimal commodity interest transactions.

In connection with sponsoring any fund client, the Advisor typically will also sponsor an affiliated general partner for such fund client, which will receive the performance compensation described in Item 5. For a description of material conflicts created by the relationship among FCO, fund clients and the general partners, please see Item 11 below.

As reflected in Schedule A of the Form ADV Part 1A, PAM Foundation Investments, Inc. acquired an economic interest in the Advisor. PAM Foundation Investments, Inc. will not be responsible for day-to-day management of the Advisor and will have no control over the investment decisions or management of fund clients or accounts but will have certain major decision rights related to the business operations of the Advisor (but not the operations of fund clients or accounts).

Affiliates of PAM Foundation Investments, Inc. have investments in certain of our products and strategies, and in the future may make additional investments in those products and strategies, either through our fund clients and separate accounts or directly. In addition, PAM Foundation Investments, Inc. also is a limited partner in FCO, and is a non-managing member in the general partners of one or more of our fund clients.

In addition, we may engage PAM Foundation Investments, Inc. or its non-insurance company affiliates to provide back office or support services to the Advisor from time to time, which may include finance, legal, compliance, human resources, and information technology functions.

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

The Advisor has adopted a Code of Ethics (the “Code of Ethics”) which sets forth the ethical and fiduciary principles and related compliance requirements under which the Advisor operates and the procedures for implementing those principles.

The Code of Ethics contains policies and procedures that, among other things:

- prohibit employees from taking personal advantage of opportunities belonging to clients;
- prohibit trading on the basis of material nonpublic information;
- place limitations on personal trading by employees and impose preclearance (in certain cases) and reporting obligations with respect to trading; and
- require initial and annual reports of securities holdings and quarterly transaction reports by employees.

The Code of Ethics also provides guidance on fiduciary duty, gifts and entertainment, political contributions, outside business activities and confidentiality.

A copy of the Advisor’s Code of Ethics is available upon request by contacting Todd Neufeld, FCO’s Chief Financial Officer and Chief Compliance Officer, at (646) 467 8086.

The Advisor may elect to effect purchase and sale transactions between fund clients with respect to particular investments; provided that (i) such transactions shall be effected at the current market price for such investment or otherwise at a price that is fair to each party to the transaction and (ii) no fees shall be paid to either FCO or any of their respective affiliates in connection with such transaction.

Generally, the Advisor’s policy is to not engage in cross trades. However, if the Chief Executive Officer of FCO believes that the Advisor should move a particular securities position in whole or in part from one fund client account to another fund client account, he will bring it to the attention of the other members of the senior management team and the Chief Compliance Officer and obtain approval for the trade from the advisory committees, if any, or other governing body of each participating fund client account. The Advisor will only engage in cross transactions (causing one fund client to buy or sell securities from or to another fund client) when the transaction is permitted

under applicable law and is in the best interests of, and consistent with the investment objectives and policies of, both fund clients involved in the transaction. It is the Advisor's policy to effect all cross transaction in the most equitable and fair manner for all fund clients involved.

In connection with sponsoring a fund client, the Advisor's and certain affiliates have an economic interest in the fund clients, the general partner of the funds, or both. The Advisor may in the future, in their discretion, contract with any related person of either Advisor to perform services for FCO in connection with its provision of services to the fund clients. When engaging a related person to provide such services, the Advisor has an incentive to recommend the related person even if another person may be more qualified to provide the applicable services and/or can provide such services at a lesser cost. Additionally, as discussed above in Item 6, the general partners of fund clients are entitled to performance-based compensation under the terms of each respective fund's organizational documents. Such general partners are affiliates of the related Advisor. The existence of the general partners' performance fees creates an incentive for the general partners to cause such fund clients to make more speculative investments than they would otherwise make in the absence of performance-based compensation.

The Advisor is responsible directly or indirectly for investment decisions made on behalf of various investment vehicles and separate accounts. The simultaneous management of these different vehicles and accounts creates certain potential conflicts of interest and the possibility of favorable or preferential treatment of a vehicle or account that is subject to fees that are higher than others. An Advisor may take (and has in the past taken) action with respect to a vehicle or account that differs from that taken with respect to other pooled investment vehicles and separate accounts advised by the Advisor. Investment opportunities are allocated in accordance with the Advisor's written investment allocation policies and procedures, taking into account the applicable provisions of the fund client's offering documents (or investment management agreement in the case of a separate account).

To the extent a particular investment is suitable for multiple FCO clients, such investment typically will be allocated between such FCO clients pro rata based on assets under management or in some other manner which FCO determines is fair and equitable under the circumstances to all clients, bearing in mind, among other things, the size, investment objectives risk tolerance, return targets, diversification considerations, eligibility to participate in such investment, available capital, permissible and preferred asset classes and liquidity needs of each fund client.

Item 12 – Brokerage Practices

Best Execution and Soft Dollars

In selecting brokers for transactions, the Advisor takes into consideration certain relevant factors, including but not limited to, the ability of the broker to provide prompt and reliable executions, the financial stability and integrity of the broker, the quality of research provided, if any, and competitiveness of the transaction costs.

We seek to obtain best execution on trades for our fund clients based on the circumstances of each

transaction. The Advisor seeks to satisfy their best execution obligation by taking into account the different circumstances associated with executing orders related to particular types of financial instruments. In certain circumstances, the Advisor will not be able to select a particular counterparty due to a limited universe of dealers that are in a position to offer us our desired investments. In some cases, the offering dealer is the only execution option for such transaction and therefore executing through that dealer is the best execution for such trade.

We do not currently utilize soft dollar benefits. Soft dollar benefits include research and related services furnished by brokers including written information and analyses (including specific market, financial and economic studies and forecasts), statistics and pricing services, discussions with research personnel and similar services used in the investment and trading process in return for the investment manager paying a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of such services or facilities provided by the broker. To the extent we should decide to enter into soft dollar transactions, we will effect such transactions in compliance with the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended.

Order Aggregation

To facilitate trading in our fund clients' accounts, we generally execute trades through executing brokers via an aggregate trade by the firm and then allocate the trade among fund clients in accordance with firm policy. Our policy is to equitably allocate buy and sell executions among fund clients when appropriate and feasible. Trade allocations are generally made on pro rata basis according to the amount of assets or projected assets in each fund client account, taking into consideration factors such as investment strategy, investment restrictions, capacity and available cash in accordance with firm policies.

Item 13 – Review of Accounts

The Advisor's investment teams understand that they are responsible for making investments consistent with each fund client's investment objectives, policies and restrictions as set forth in the applicable offering and governing documents of the fund client.

Investors in the fund clients generally are provided with unaudited monthly or quarterly statements and annually receive audited fiscal year-end financial information. FCO has in the past and will continue to provide a monthly or quarterly management letter to investors in fund clients describing fund client positions and performance and its views on the market and potential investment pipeline. We expect to continue this practice and may also provide investors in the fund clients other periodic narrative reports from FCO regarding fund client positions or the markets.

The Chief Compliance Officer or designated compliance personnel periodically reviews the trades and positions of each fund client and such other information as he deems necessary to evaluate whether investment decisions are consistent with the investment guidelines set forth in the governing documents of each fund client. If any discrepancy is found, he discusses the discrepancy with the investment team and the Chief Executive Officer to determine if modifications to the portfolio can

or should be made or other remedial actions should be taken.

Item 14 – Client Referrals and Other Compensation

The Advisor may enter into, or cause the fund clients to enter into, cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to invest in certain fund clients. With respect to fund clients, the Advisor typically will bear the costs of any fees paid to placement agents through an offset to the management fee. In general, each of such third-party placement agents is registered with the SEC as a broker-dealer if active in the U.S. and each employee engaged in soliciting investors in the United States for fund clients is a registered representative of such broker-dealer.

Item 15 – Custody

The Advisor typically is deemed to have custody of the assets of their respective fund clients because an affiliate of the Advisor generally acts as general partner or managing member of the fund vehicle. The Advisor arranges for all funds and securities to be held by qualified, third-party custodians in accounts in the name of the relevant fund client, unless an exception under the “custody rule” applies. The Advisor expects to rely on an exception to the SEC’s reporting and surprise audit obligations under the “custody rule” by making each fund client’s year-end audit by an accounting firm registered with, and subject to regular examination by, the Public Company Accounting Oversight Board (“PCAOB”) available to investors in the fund clients within 120 days of the clients’ fiscal year ends.

Item 16 – Investment Discretion

An Advisor generally manages its fund clients’ investments on a discretionary basis under the fund clients’ governing agreement (such as a limited partnership agreement) or under an investment management agreement between the fund client and the general partner of the fund client. Typically, an affiliate of an Advisor is granted full authority as general partner or managing member to make all decisions for a fund client, subject only to such restrictions or investment guidelines as may be set forth in the governing agreement and offering documents, and the general partner delegates such authority and duty to carry out such functions as well as certain administrative functions to the Advisor. In addition, FCO has non-discretionary investment advisory or consulting relationships which, for the purposes of the Advisor’s allocation policy, are secondary in priority to all discretionary mandates. FCO won’t introduce or recommend trades to non-discretionary accounts prior to discretionary accounts. FCO sub-advises an account for a registered investment company on a discretionary basis.

Item 17 – Voting Client Securities

The nature of certain of the instruments in which the Advisor invests client funds does not often require the voting of proxies. Where such proxy voting is called for and when granted the discretion to do so, the Advisor’s policy is to vote all proxies in the fund client’s best interest and to maximize

the value of the investment to the fund client, on a case-by-case basis, considering such facts as it deems material. The decision on how to vote proxies generally will be made by the investment team in the same manner as other investment decisions. Because we do not invest directly in securities in which our fund clients invest and we restrict employee investments in municipal securities, we do not expect any material conflicts of interest to arise in voting. Where the interests of different fund clients may conflict, the investment team will report the circumstances to the Chief Compliance Officer who will determine the appropriate course of action.

Proxy voting reports, identifying how proxies were voted where the Advisor has been delegated proxy voting discretion and the Advisor's Proxy Voting Policies and Procedures are available upon written request to the Chief Compliance Officer, FCO Advisors LP, 745 Fifth Avenue, 14th Floor, New York, NY 10151.

Item 18 – Financial Information

FCO is not aware of any financial condition that could impair its ability to meet its contractual and fiduciary commitments to its clients and FCO has not been the subject of any bankruptcy petition since its formation in 2012.