



Canyon Capital Advisors LLC

2728 North Harwood Street, 2nd Floor, Dallas, Texas 75201
(214) 253 6000

www.canyonpartners.com

Brochure: Part 2A

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This brochure provides information about the qualifications and business practices of Canyon Capital Advisors LLC (“Canyon” or the “Adviser”). If you have any questions about the contents of this brochure, please contact Doug Anderson at (310) 272 1360. 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. Registration as an investment adviser does not imply a certain level of skill or training.

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

Material Changes

The last update to this brochure was made in March 2022. We updated our disclosure related to economic sanctions, the discontinuation of LIBOR, inflation risk, and ESG considerations. This document was also updated to reflect additions of real estate risks and considerations, including Freddie Mac K-Certificates.

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Advisory Business

Canyon Capital Advisors LLC (“Canyon” or the “Adviser”) is a multi-strategy, credit-focused, global value-oriented asset management firm that invests across a variety of asset classes, including bank debt, high yield, distressed and special situation securities, securitized assets, equities (including SPACs, preferreds and common stock), convertible arbitrage and risk arbitrage.

Canyon is owned by Canyon Partners, LLC, and has been registered with the SEC as an investment adviser, through its predecessor Canyon Capital Management, L.P., since 1994. Canyon Partners is owned by family limited liability companies and/or trusts that are ultimately controlled by Joshua S. Friedman and Mitchell R. Julis. Canyon provides discretionary advisory services to private investment vehicles (referred to hereinafter as a “Fund” or collectively as “Funds”) and managed accounts (together with Funds, collectively referred to as “Client(s)”). As of December 31, 2023, Canyon had twenty (20) Clients and regulatory assets under management of approximately \$13.6 billion, all of which is managed on a discretionary basis.

Advisory services are generally not tailored to the individual needs of Fund investors and Fund investors are generally not permitted to impose restrictions on investing in certain securities or types of securities. However, with respect to managed accounts, Clients may obtain tailored advisory services and impose restrictions on investing in certain securities or types of securities, all of which would be detailed through a written investment advisory agreement.

The principals of Canyon are Joshua S. Friedman and Mitchell R. Julis (collectively, the “Canyon Principals”). Messrs. Friedman and Julis lead Canyon and are responsible for the investment activities of Canyon’s Clients as well as Canyon’s research strategy and firm management.

Fees and Compensation

Clients are typically charged an asset based fee and/or an incentive based fee (commonly referred to as a performance allocation or fee). The asset based fees are normally charged at an annual rate of between 1% and 2% of the value of the Client’s net assets under management and are generally payable monthly or quarterly in arrears depending on the investment advisory agreement. The fee will be based on the account value on the last business day of the preceding calendar month or quarter, as applicable. The first payment, if based on less than a full period, will be pro-rated to cover the period from the date the account is opened through the end of that calendar year, quarter or month, as applicable. The performance allocation or fee generally equals 20% per annum of the net profit in a Client’s account, typically subject to a loss carryforward adjustment and a “high water mark”, and is generally payable in arrears at the end of each calendar year but may be payable more frequently if provided for in the investment advisory agreement. Upon termination of the investment advisory services, any unpaid portion of fees will be determined and due on a pro rata basis. In certain circumstances the performance allocation or fee may be measured over a multi-year period and/or subject to hurdle.

Performance based allocations or fees are charged in accordance with the requirements of Rule 205-3 under the Investment Advisers Act of 1940, and Canyon will not accept clients who do not satisfy the eligibility criteria of applicable law. Because Canyon is compensated based in part on capital appreciation, there may be an incentive for Canyon to make investments that are riskier or more speculative than would be the case in the absence of such a compensation framework. In addition, Canyon will receive performance based compensation on unrealized appreciation as well as realized gains with respect to certain Clients.

Prepayment of fees is generally not required. In certain circumstances, fees may be individually negotiated by Fund investors and/or managed accounts. Negotiated fees may be higher or lower than those discussed above. Similar services may be available from other investment advisers at a lower cost.

Clients will also bear direct and indirect costs, fees and expenses incurred by or on behalf of such Clients including, among others, (i) all costs, fees and expenses of the Client directly related to the investigation,

purchase, sale, preservation or retention of investments by the Client (including all fees and commissions of brokers and custodians, research expenses, quotation services, travel costs, all fees and expenses relating to the registration and qualification for sale of such investments and all transfer taxes); (ii) all federal, state and local taxes and filing fees payable by the Client; (iii) all fees and disbursements of the independent attorneys, accountants and consultants retained by the Client, or on behalf of the Client; (iv) all filing and recording fees; and (v) all interest expense of the Client. To the extent such expenses are incurred for the benefit of the multiple Clients, Canyon will make a good faith allocation of such expenses among its Clients.

In the event a Client invests in a transaction which includes break-up, standby, commitment, consent, waiver or similar fees, the Adviser generally will retain such fees and reduce the management fee or reimbursable expenses next payable by a like amount.

In order to take advantage of diversification and new investment strategies and concepts, Canyon, from time to time, may place a portion of a Fund's investable assets in accounts managed by or co-managed with other investment advisors (including affiliated and non-affiliated investment advisors), in which case such Fund may be subject to additional fees payable to such other investment advisor as well as its proportionate share of costs and expenses. Canyon also may place a portion of a Fund's investable assets in other Canyon Funds, in which case such Fund shall not be subject to any additional management or incentive fees but will bear its proportionate share of costs and expenses. The amounts which may be invested into other managed accounts or in Canyon affiliated investment funds are not expected to be significant.

Investors should refer to each Fund's Offering Memorandum and other relevant documents for additional/supplemental information regarding a Fund as well as the fees and expenses associated with such Fund.

Performance-Based Fees and Side-by-Side Management

As noted above, Canyon earns a performance allocation or fee. At this time, all Canyon Clients are charged a performance allocation or fee. However, because the actual performance allocation or fee charged to a specific Client may vary, there may be an incentive for Canyon to make investments that are riskier or more speculative than would be the case in the absence of such a compensation framework or to favor those Clients with higher performance allocations or fees over Clients with lower performance allocations or fees. Canyon seeks to mitigate this risk by, among other things, seeking to allocate investments in a fair and equitable manner over time among its Clients. For more information on Canyon's allocation procedure, please see Brokerage Practices – Allocation of Investment Opportunities. In addition, Canyon will receive performance based compensation on unrealized appreciation as well as realized gains with respect to certain Clients.

Types of Clients

Clients and Fund investors include individuals, trusts, pension plans, corporations, and public and private entities. Fund investors must meet the investor qualifications associated with each Fund (which generally require Fund investors to be "accredited investors" and "qualified purchasers", as such terms are defined in the federal securities laws).

Canyon will generally manage investment advisory accounts with a minimum size of \$50,000,000 and will further require that no withdrawal be permitted if to do so reduces the account to less than \$25,000,000, unless the account is being terminated. However, Canyon may, in its discretion, based upon its total client relationship and other circumstances, accept or continue to advise smaller accounts from time to time.

Methods of Analysis, Investment Strategies and Risk of Loss

Canyon seeks opportunities on behalf of its Clients to realize value overlooked by others. Canyon is a "global value-oriented" alternative asset manager that employs a variety of credit strategies across a broad spectrum of asset classes. Canyon emphasizes bottom-up fundamental credit analysis, leveraging its long

history of accumulated experience and knowledge to conduct balance sheet analysis and due diligence. It believes that the dynamic nature of the global capital markets and the continuous evolution of corporate and securitized balance sheets results in inefficiencies in financial asset prices (or gaps between market value and “intrinsic” value). Given the legal and financial background and extensive investment experience of Canyon, as well as the significant strengths that Canyon possesses in the areas of corporate finance and special situations research, and real estate investing, Canyon believes it is advantageously positioned to provide investors with an opportunity to capitalize on these perceived market inefficiencies in this area of investing.

Canyon looks across the corporate capital structure, investing opportunistically across senior secured leveraged loans, high yield bonds, convertibles, equities, credit derivatives and securitization notes. Additionally, Canyon looks beyond the traditional corporate markets to the structured finance space, where it invests in mortgage securities/derivatives, aircraft lease securitizations, collateralized debt obligations/collateralized loan obligations, distressed structured municipal bonds and other areas. Positions in other asset classes, such as foreign currencies and commodities, may be employed to a lesser extent as appropriate. Allocations across these asset classes will shift over time in response to evolving value propositions and risk/reward profiles.

Prior to implementation, investment ideas for Clients are discussed among Messrs. Friedman and Julis and Canyon’s senior portfolio managers. Such discussions generally focus on, among other factors, the merits of the investment on a stand-alone basis, risks embedded in and those theses implied by the investment, how the investment fits in with the rest of the portfolio, hedging considerations, sizing goals and/or price targets. All investment ideas ultimately must be approved by Messrs. Friedman and Julis.

“Value-Oriented” and “Event-Driven” Investing

Canyon’s strategy is to combine “value-oriented” and “event-driven” investing. Canyon believes in employing a “bottom up” approach and focuses on rigorous research of business, credit and legal issues in order to determine values, analyzes corporate events and special situations, identifies securities which can be purchased at a price it believes represents a discount to intrinsic value, and identifies catalysts which can unlock value.

“Value-oriented” investing is an investment strategy characterized by research directed at identifying gaps between the market valuations of financial instruments and the intrinsic values of the underlying assets or enterprises. These gaps are frequently created by business, financial or legal uncertainties that depress market valuations of financial instruments, or discrete events that affect the valuation of a company or pool of assets. In such situations, Canyon performs extensive research to develop an opinion about the true nature and extent of the risks presented by those uncertainties. If Canyon determines that a discount is sufficiently large and unwarranted, it may take a long position in such security. Conversely, when Canyon believes that the market value of a security is significantly above its intrinsic value because investors are underestimating the risks associated with the security or for other reasons, it may establish a short position in that security.

“Event-driven” investing complements Canyon’s value approach by identifying near- and intermediate-term catalysts that may affect investors’ perceptions of securities. By understanding the likelihood of value-creation catalysts, Canyon positions itself to better gauge the holding period and internal rates of return of its investments. Generally, Canyon attempts to purchase a security at a discount from its intrinsic value in event-driven situations where: (i) diminution of value is limited by either the security’s ranking in the capital structure or the underlying hard asset or going concern value; (ii) there is potential for significant capital appreciation or ongoing current income; and (iii) there is an identifiable catalyst that can result in price appreciation.

Investment Process

Canyon's approach to "value-oriented" investing integrates the core analyses it generally performs for investments. The foundation for investing in a company's securities or instruments or structured finance vehicles is based on a discounted cash flow or an abnormal earnings valuation, with a particular emphasis on the timing of the cash flows and the risks associated with various components of that cash flow stream. Canyon's approaches to its two main areas of investment (corporate and structured finance) are described below.

Corporate Investments. For corporate investments, Canyon generally engages in a thorough analysis of the company's historical financial statements in order to understand the economics of its underlying operational, investment, and financial activities. Canyon typically performs in-depth industry competitive analyses so as to better understand and project the company's top line, margins, and capital efficiency. Canyon's analysis of prevailing market prices of a company's securities provides insights into the expectations that the market currently has for the company, and provides an indication of the likely cost of capital going forward. In addition, by comparing the resulting enterprise value to the replacement value, book value, and liquidation value of a company's assets, Canyon can gain a better appreciation for any abnormal returns that might be expected of the company. Further, with respect to potential distressed investments, Canyon may consider other factors that may affect the value of an investment, such as the nature of the creditor and equity holder bases, the prospects for a successful reorganization or similar action and the expected timeline of any debt and/or equity exchange offers, restructurings, reorganizations, mergers, takeover offers and other potential transactions.

The above analyses help provide an overall sense of the company's enterprise value and a general sense for the value of a company's securities. Additional credit analytics are required to meaningfully differentiate between the attractiveness of non-equity securities within a capital structure, as well as to provide a more complete appreciation of the possibilities for and consequences of changes to the corporate balance sheet. Canyon generally scrutinizes a company's fixed income and preferred securities, seeking to understand the associated maturity schedules and the specific contractual obligations and prohibitions that are tied to these instruments. In addition, Canyon generally centers its equity research and analysis around post-reorganization equities, levered equities, equities of companies that invest in complex assets where it has a competitive advantage, event-driven situations (e.g., liquidations, recapitalizations, mergers, spin-offs, or other corporate events), and equities of companies in disrupted sectors and industries where technical, structural, or fundamental factors have led to potential dislocation and mispricing of risk. This process allows Canyon to better understand a company's financial flexibility, its future optimum capital structure, and its cost and probability of accessing the capital markets. Together, this information enables Canyon to refine its discounted cash flow and abnormal earnings analyses and to more accurately assess whether a company's current capital structure is congruent with its needs. Frequently, this knowledge also will enable Canyon to identify situations in which a company's rebalancing of assets and liabilities may unlock hidden value for holders of its securities.

With this integrated analytic approach, Canyon applies a consistent risk/reward yardstick across all of a company's securities. This comprehensive survey positions Canyon to identify the securities that are cheapest from a risk/reward perspective and may enable Canyon to create intra-capital hedges that exploit instances in which investors in various layers of a company's securities have placed different odds on selected corporate outcomes. By applying intra-capital hedges to its investment strategy, Canyon can at times more safely invest in certain corporate outcomes.

Structured Finance Investments. Canyon’s approach to structured finance investing is similar to its approach to corporate investing in that a thorough analysis of available information generally is conducted so as to gain an understanding of likely future cash flows. This integrated analysis combines two more focused analyses—the first concerning the performance of the underlying collateral, and the second concerning the nature by which collateral cash flows are to be apportioned between the various securities of a structured finance vehicle.

Canyon’s analysis of a structured vehicle’s underlying collateral attributes provides insights into how collateral is likely to respond across a wide range of future scenarios. Canyon combines this asset level information (which usually includes detailed information about individual borrowers and the assets which support each individual loan) with analysis of past performance, compares it with performance of similar collateral in other securitizations, and thereby arrives at a base case trajectory for the structured vehicle’s cash flows. Based upon the creditworthiness of underlying borrowers (as demonstrated by metrics such as loan-to-value, borrower FICO score or other available credit rating, existence of additional debt, and loan type) and the volatility of the underlying assets (as influenced by characteristics such as asset type, geography, and loan-to-value), Canyon develops scenarios around this base case that reveal how the structured vehicle’s cash flows could change if various macroeconomic events or policy changes come to pass.

The second part of the structured finance analysis also mirrors Canyon’s approach to corporate analysis. Canyon typically examines the various securities within a structured finance vehicle with the goal of identifying the tranche with the optimal risk/reward. A thorough understanding of a security’s rights—and, in particular, its priority on various waterfalls concerning the apportionment of principal repayments and interest payments, and shortfalls and losses due to defaults and loan modifications—can usually reveal the sensitivity of a given security to changes in the timing and magnitude of a securitization’s overall cash flows. By combining these two analyses, Canyon seeks to identify those structured finance securities that exhibit abnormal return potential relative to risk.

“Total Return” Approach

Canyon takes a “total return” approach to investing, looking carefully at a timeline of potential events that are likely to drive values. While intrinsic “cheapness” is a vital attribute of Canyon’s prospective investments, it is often not in itself sufficient to warrant investment. This is especially true with equities and deeply distressed corporate or structured finance debt securities. Fixed income investors of performing debt securities may rely on contractual coupon payments and principal repayments at maturity, but equity investors realize value when the market recognizes formerly hidden value. As a consequence, equities and equity-like securities with large intrinsic discounts and small probabilities for near-term value-creation catalysts are often less attractive than equities and equity-like securities with very small discounts but with high probabilities for near-term catalysts. Canyon is mindful of this phenomenon and takes care to identify and understand potential value-recognition catalysts. These catalysts usually pertain to company-specific matters and may involve re-financings, restructurings, mergers and acquisitions, asset purchases or divestitures, or legal rulings. In other instances, catalysts may be more macroeconomic and involve changes in investors’ perceptions towards certain asset classes due to legislative or regulatory actions, or fiscal or monetary policies. By employing an event-driven, total return approach that includes consideration of holding periods, Canyon believes that it can increase the yield on many of its investments, and discover attractive investments that other value investors may overlook.

Real Estate Investments

Canyon may also make opportunistic investments in real estate-related instruments (including private equity, REIT equity, senior loans, A-notes, B-notes, mezzanine loans, preferred equity, development and construction loans, debt participation interests, debt securities, participating debt, among others), which may include making direct real estate investments or on an “overflow” basis alongside funds and/or accounts managed by Canyon Real Estate LLC (“CPRE”). Canyon seeks to leverage CPRE’s experience

in real estate originations, acquisitions and asset management activities to look across the real estate debt markets and identify opportunities that may offer an attractive risk/reward profile for the Fund, which opportunities may range across property types and investment strategies, and may include opportunistic loan acquisitions in the secondary market, transitional lending, and securities investments. Investors should be aware that Canyon may make any such “overflow” investments only after any CPRE Funds have received their full allocations therein, as determined by CPRE and Canyon in their sole discretion.

Canyon-Related Securitizations and Other Canyon Activities

Without limiting the generality of the foregoing, subject to the limitations described herein, Canyon may also invest in (a) collateralized loan obligations for which Canyon or its affiliate serves as collateral manager (a “Canyon-Managed CLO”), (b) securitizations originated or sponsored by Canyon (or its affiliate) or other Canyon Funds and (c) any other securitizations in which Canyon (or its affiliate) or other Canyon Funds may be involved or hold interests (including any refinancings thereof and purchases on the secondary market) (clauses (a) through (c) collectively, “Canyon-Related Securitizations”). If, during any period in which any Fund assets are held in an Canyon-Managed CLO, the Fund(s) pays or bears any fee payable to Canyon (or its affiliate) in respect of any such Canyon-Managed CLO (an “Canyon-Managed CLO Fee”), then, during such period either (a) the Fund’s share of such fee will reduce on a dollar-for-dollar basis the Management Fee (but not below zero) or (b) the basis against which the Management Fee is charged will be deemed to exclude the portion attributable to such Canyon-Managed CLO; provided that the choice between (a) and (b) shall be made in Canyon’s sole discretion, as further described herein.

Investments through Irish DACs

Canyon may invest in certain loans issued outside of the United States through investments in one or more Irish domiciled vehicles organized as designated activity companies which are qualifying companies for the purposes of section 110 of the Irish Taxes Consolidation Act 1997 (each, a “DAC”). Although Canyon is engaged by each DAC’s board of directors (the “DAC Board”) as advisers to provide investment recommendations, each DAC Board, in its sole discretion, makes the final investment decisions for the respective DAC. (See “Investment Risks – Lack of Fund’s Control over Irish DACs.”)

ESG Considerations

Canyon has sought to infuse ESG-related factors into its investment and due diligence process. As of 2021, where sufficient data can be reasonably identified, Canyon may perform its own analysis relating to ESG considerations with respect to certain Fund investments. When formulating ESG perspectives and making investment decisions, Canyon will seek to utilize a wide variety of third-party information sources, incorporate standards set forth by recognized global organizations and leverage its own internal research and ESG scoring system. While ESG factors may not be determinative in deciding to include or exclude any particular investment, investments made with identified material ESG concerns will generally undergo ongoing monitoring to assess and update the nature and status of these issues. Canyon’s dedicated Head of ESG works with Canyon’s investment committee to incorporate ESG considerations and analysis in its investment process. Canyon’s full ESG policy is available to Clients upon request.

Certain Risk Considerations

Below is a summary of certain risks. Clients and/or Fund investors should refer to each Fund’s Offering Memorandum and other relevant documents for additional/supplemental information regarding risk.

General Risks

Possibility of Losses

An investment in the Fund is speculative. Account values will fluctuate based upon a multitude of factors, including the financial condition, results of operations and prospects of the issuers of the underlying securities acquired, governmental intervention, market conditions, and local, regional, national and global

economic conditions. Therefore, Clients and Fund investors could lose all or a portion of their principal invested with Canyon if the trading strategies are not successful.

Past Performance

Past performance of Client accounts managed by Canyon is not necessarily indicative of future performance. Clients should be aware that the markets in which Canyon operates have been severely disrupted in recent years, so results observed in earlier periods may have little relevance to the results observable in the current environment.

Portfolio Concentration

Client accounts are not generally limited with respect to the amount of capital that may be committed to any one investment. Unless separately negotiated, no limit will be placed on the concentration of investments to be made in a single industry or geographic area.

Cybersecurity Risk

Canyon and their third-party service providers are subject to risks associated with “cybersecurity” breaches. “Cybersecurity” is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from unauthorized access or manipulation by other computer users and the efforts to avoid the resulting damage and disruption of hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Cybersecurity breaches may be the result of intentional actions (such as an attempt by a third party to fraudulently induce employees, customers, third-party service providers or other users of systems to disclose sensitive information in order to gain access to the Investment Advisor’s data or that of its investors), or unintentional events. Cyber-attacks may cause losses to Client accounts by interfering with the processing of transactions, affecting the ability to calculate net asset value or impeding or sabotaging trading or otherwise affecting the information systems upon which Canyon and the Client account rely. A successful penetration or circumvention of the security protocols of Canyon’s systems or the systems of Canyon’s service providers could also result in the loss or theft of an investor’s data or funds, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Any such breach could expose the Client to financial loss (including those associated with the forensic analysis of the origin and scope of the breach and costs of increased and upgraded IT systems and/or cybersecurity countermeasures), the disruption of Canyon’s business, liability to investors or third parties (where applicable), regulatory intervention, unauthorized use of proprietary information, litigation, the dissemination of confidential and proprietary information or reputational damage. Losses could also arise from cyber-attacks affecting issuers of securities in which the Client account invests.

While Canyon has established systems, and conducts cybersecurity training, designed to mitigate the risks of cyber-attacks, there are inherent limitations in such systems and associated with such training, including the possibility that certain risks have not been identified. Furthermore, Canyon does not control the business continuity plans and systems put in place by its third-party service providers or any other third parties whose operations may affect Canyon and/or its Clients. As a result, Client accounts could be negatively impacted by cyber-attacks against the information systems of Canyon, or any of its third-party service providers.

The EU General Data Protection Regulation (“GDPR”) recently took effect in all EU member states. The GDPR introduces new obligations on controllers and rights for data subjects and introduces fines for serious breaches. The implementation of the GDPR could adversely impact the Fund’s business by increasing its operational and compliance costs.

Market Disruptions; Governmental Intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act

The global financial markets have in recent years gone through pervasive and fundamental disruptions that have led to extensive and unprecedented governmental intervention, and similar disruptions in the future could result in similar levels of intervention. As governmental responses to the financial crises and COVID-19 have demonstrated, governmental interventions may be implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition — as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action — these interventions may be unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

Client accounts may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships 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. The financing available to a Client from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the Client. Market disruptions may from time to time cause dramatic losses for Clients, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

In response to the financial crises of 2008-2009, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) was enacted in July 2010. Dodd-Frank seeks to regulate markets, market participants and financial instruments that previously have been unregulated and substantially alters the regulation of many other markets, market participants and financial instruments. Because many provisions of Dodd-Frank require rulemaking by the applicable regulators before becoming fully effective and Dodd-Frank mandates multiple agency reports and studies (which could result in additional legislative or regulatory action), it is difficult to predict the ultimate impact of Dodd-Frank on the Clients, Canyon, and the markets in which they trade and invest. Dodd-Frank could result in certain investment strategies in which any Client engages or may have otherwise engaged becoming non-viable or non-economic to implement. Dodd-Frank and regulations adopted pursuant to Dodd-Frank could have a material adverse impact on the profit potential of any such Client.

Volatility

The prices of some of the instruments traded by Canyon have been subject to periods of excessive volatility in the past, and such periods may continue. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements, political dysfunction and geopolitical rivalry and general economic and political conditions.

While volatility can create profit opportunities, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted; causing what should otherwise be comparatively low risk positions to incur significant losses. On the other hand, the lack of volatility can also result in losses for certain positions that profit from price movements.

Possible Ineffectiveness of Risk Reduction Techniques

Canyon may employ various risk reduction strategies designed to minimize the risk of Clients’ trading positions. A substantial risk remains, nonetheless, that such strategies will not always be possible to implement, and when possible will not always be effective in limiting losses. If Canyon analyzes market conditions incorrectly, or employs a risk reduction strategy that does not correlate well with Client investments, such risk reduction techniques could increase rather than mitigate losses. These risk reduction

techniques may also increase volatility and/or result in a loss if the counterparty to the transaction does not perform as promised. Moreover, even though Canyon may employ “stop loss” orders on individual positions, there is no assurance that any such order will be executed at or near the desired “stop loss” level.

Leverage

Although Canyon has traditionally utilized limited leverage, it may in the future utilize more leverage as part of its investment strategy and process. Leveraging may arise by margin loans on a Client’s securities, through committed lending facilities or through access to the public or private debt markets, as well as through the use of hedging and put/call, long/short investment strategies. If the amount of leverage which a Client may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Client’s portfolio will have a disproportionately large effect in relation to its capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains (in excess of borrowing costs) made with the additional monies borrowed will generally cause the net asset value of a Client account to rise more rapidly than would otherwise be the case. Conversely, any investment losses with respect to the additional monies borrowed (including the failure by the Client to cover their cost) will generally cause the net asset value of the Client’s portfolio to decline faster than would otherwise be the case. To the extent that Client assets are deposited as margin and therefore not fully paid for, a bankruptcy of a prime broker may expose the Client to loss in that it may only be able to share as an unsecured creditor in that prime broker’s assets.

Investments in Restricted Securities

Canyon is prevented from buying or selling certain publicly traded securities if Canyon or its affiliates (see Other Financial Industry Activities and Affiliations section for information about affiliated entities) acquire material, non-public information with respect to such securities. In addition, if such information is acquired with respect to a publicly traded security that a Client already holds, such security will be placed on a “restricted securities list” maintained by Canyon and will not be traded until the material, non-public information becomes public or is no longer material.

In particular, certain Canyon personnel may from time to time hold board seats of companies and may not be “walled off” from others at Canyon who are responsible for making investment decisions, and any material non-public information that any such Canyon personnel obtain may be imputed to Canyon as a whole. As a result (and in accordance with applicable securities laws and Canyon’s compliance policies and procedures), there may be substantial periods of time during which Canyon is restricted from buying or selling securities of companies whose boards include Canyon personnel, or securities of other companies with whom those companies may have business relationships. In addition, various securities laws mandate current public reporting of trading by directors, officers and large shareholders, and in some cases, application of these laws can result in disgorgement of any deemed “profit” resulting from such trading. Limits of those kinds could prevent Canyon from transacting in securities when it otherwise might. In addition, Canyon personnel serving as directors on company boards will owe duties to those companies that could, in some cases, interfere with Canyon’s ability to freely exploit corporate opportunities or engage in other transactions involving the companies (including, potentially, transactions with their other securityholders, or with their competitors) to Canyon’s detriment.

Reliance on Corporate Management and Financial Reporting

Canyon selects investments for Clients in part on the basis of information and data filed by issuers of securities with various government regulators and publicly available or made directly available to the Adviser by such issuers or third parties. Although Canyon will evaluate all such information and data and seek independent corroboration when it considers it appropriate and reasonably available, Canyon may not be in a position to confirm the completeness, genuineness or accuracy of such information and data. Canyon is dependent upon the integrity of the management of such issuers and of such third parties as well as the financial reporting process in general. Recurring instances have demonstrated the material losses that

investors such as the Clients can incur as a result of corporate mismanagement, fraud and accounting irregularities.

Economic Sanctions

Governmental authorities in the United States and/or in other countries may impose sanctions or other restrictive economic measures (“Sanctions”) on dealings with specified countries and/or individuals. Sanctions may be imposed relatively suddenly in response to geopolitical crises, such as invasions or wars, and may trigger retaliatory action (including the imposition of countervailing Sanctions) that aggravate those crises. As a result of Sanctions, it is possible that Canyon could be prohibited or restricted from acquiring, holding or disposing of particular investments, including investments that were not subject to Sanctions when originally acquired by Canyon (“Sanctioned Investments”). Clients should thus be aware that, depending on the nature of the Sanctions, Canyon may not be able to dispose of previously acquired Sanctioned Investments on acceptable terms (or at all), or Canyon may be forced to sell previously acquired Sanctioned Investments at significant losses. In addition, because Sanctions are intended to restrict economic activities, they can have a material adverse effect on global trade generally (including by disrupting securities exchanges and cross-border payment systems, weakening foreign currencies and triggering defaults) which may also materially and adversely affect Canyon’s overall portfolio of investments (even those that are not Sanctioned Investments). Canyon may also face penalties or other liabilities (including liabilities for indemnification) for any failure to comply with Sanctions (including failures by its affiliates or related persons), and any such penalties or liabilities could also materially and adversely affect Canyon’s performance.

Investment Risks

Investments made by Canyon

Canyon may invest in a broad array of financial instruments. These may include public and private financial instruments of foreign entities, in addition to the general risks associated with investments in financial instruments, may also involve the risks associated with currency fluctuations and various political factors, certain of which are described below. Canyon may also invest in treasury securities and other cash equivalents when attractive opportunities for capital appreciation appear to be limited.

Investments in Undervalued Securities

The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Fund’s investments may not adequately compensate for the business and financial risks assumed.

Canyon will make certain investments in securities which it believes to be undervalued. However, there are no assurances that the securities purchased will in fact be undervalued. In addition, Clients may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of a Client’s capital would be committed to the securities purchased, thus possibly preventing the Client from investing in other opportunities. In addition, a Client may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

Hedging Transactions

Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the instrument and the value of the Client’s securities or other objective of Canyon; (ii) possible lack of a secondary market for closing out a position in such instrument; (iii) losses resulting from interest rate, spread or other market movements not anticipated by Canyon; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Client’s position; and (v) default or refusal to perform on the part of the counterparty with which the Client trades.

Furthermore, to the extent that any hedging strategy involves the use of over-the-counter (“OTC”) derivatives transactions, such a strategy would be affected by implementation of the various regulations adopted pursuant to Dodd Frank. In addition, the Client may trigger events of default or termination events under various counterparty agreements due to, among other things, reductions in its net asset value. If the Client is unable to obtain waivers from the relevant counterparties, such counterparties could exercise numerous remedies under the affected agreements, including liquidation of posted collateral and termination of outstanding trades.

Canyon will not attempt to hedge all market or other risks inherent in a Client’s positions, and will hedge certain risks, if at all, only partially. Specifically, Canyon may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Client’s overall portfolio. The Client’s portfolio composition will commonly result in various directional market risks remaining unhedged. Canyon may rely on diversification to control such risks to the extent that Canyon believes it is desirable to do so; however, the Client is not subject to formal diversification policies other than as expressly set forth in its governing documents.

The ability of Canyon to hedge successfully will depend on the ability of Canyon to predict relevant market movements, which cannot be assured. Canyon is not required to hedge and there can be no assurance that hedging transactions will be available or, even if undertaken, will be effective. In addition, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. Moreover, it should be noted that Clients will always be exposed to certain risks that cannot be hedged, such as counterparty credit risk. Furthermore, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

Non-Investment Grade Investments

Canyon may purchase financial instruments of, or make direct loans to, companies that are not of investment grade. Canyon may purchase loans that are in default or are from issuers in financial distress and may also purchase trade or other claims against credit impaired companies, which generally represent money owed by the company to a supplier of goods and services. Loans or claims purchased by Canyon may not have any maturity and may be secured or unsecured. As with other types of debt instruments, loans and trade claims involve the risk of loss in case of default or insolvency of the borrower, particularly if the borrowing is unsecured. In addition, trade claims may be subject to other defenses such as warranty claims or failure to provide the product or services. Such loans are also less liquid than are the debt instruments of publicly traded companies.

Bank Loans and Participations (Including 2nd Lien and Cov-Lite Loans)

Canyon invests in bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a “fraudulent conveyance” under relevant creditors’ rights laws; (ii) so-called “lender liability” claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of a Client to directly enforce its rights with respect to participations. In analyzing bank loans or participations, Canyon compares the relative significance of the risks against the expected benefits. Successful claims by third parties arising from these and other risks, absent violation of the Standard of Care by Canyon or its affiliates, will be borne by the Client.

Clients could experience significant delays in the settlement of certain loan and/or bank debt transactions, particularly in the case of investments that are or become distressed. Until such transactions are settled, the Client is subject to counterparty insolvency risk. Pursuant to certain insolvency laws, a counterparty may have the ability to reject, or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, the Client might lose any increase in value with respect to such loan that accrued while the transaction was unsettled.

Canyon also invests in loan participations where it will be subject to certain additional risks as a result of having no direct contractual relationship with the borrower of the underlying loan. In such circumstances, Canyon generally would depend on the lender to enforce a Client's rights and obligations under the loan arrangements in the event of a default by the borrower on the underlying loan and will generally have no voting rights with respect to the issuer, as such rights are typically retained by the lender. Such investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. There can be no assurance that the lender will not default on its obligations under such arrangements, resulting in substantial losses to the Client.

From time to time, Canyon may cause a Client to acquire certain assets through participation and sub-participation arrangements with unaffiliated third parties. Such arrangements may expose the Client to additional credit risk compared to acquiring the asset directly because, in addition to the underlying credit risk of the asset, the Client is exposed to the risk of the direct participant defaulting on its obligations to the Client under the participation or sub-participation arrangement.

In certain circumstances, the Clients' respective portfolios may include loans that are not first lien secured loans, including second lien loans. Such loans are subordinate in right of payment with respect to liquidation to one or more senior secured loans of the related borrower and therefore are subject to additional risks. The subordination of second lien loans is also expected to cause second lien loans to be more illiquid investments than senior secured loans.

The Clients' respective portfolios may also include "Cov-Lite Loans" which contain limited, if any, financial covenants. Generally, Cov-Lite Loans either do not require the borrower to maintain debt service or other financial ratios or do not contain common restrictions on the borrower's ability to significantly change its operations or to enter into other significant transactions that could affect its ability to repay such loans. In addition, in certain economic environments, the market prices of Cov-Lite Loans may be depressed relative to non-Cov-Lite Loans.

Prepayment Risk

The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans and other debt underlying certain Client investments will be affected by a variety of factors including, but not limited to, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "premium" financial instruments (i.e., financial instruments whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" financial instruments (i.e., financial instruments whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since Client investments may include discount financial instruments when interest rates are high, and may include premium financial instruments when interest rates are low, such investments may be adversely affected by prepayments in any interest rate environment.

Corporate Debt Obligations and High-Yield Securities

Canyon invests in corporate debt obligations and high-yield securities. The market value of debt securities generally tends to decline as interest rates increase and, conversely, increase as interest rates decline. Debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations, i.e., credit risk.

"High yield" bonds and securities, which are rated in the lower rating categories by the various credit rating agencies, are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be speculative. They are also generally considered to be subject to greater risk than securities with higher ratings because the yields and prices of such securities tend to fluctuate more than those for higher-rated instruments and the market for lower-rated securities is less liquid and less active.

Correlation Risk

A Client will tend to have a bias toward investments in which Canyon believes prices should ultimately hinge more on discrete, credit-specific events than the direction of the broader markets. However, in certain market environments (particularly those characterized by widespread perceptions of systemic risk), risk asset prices can display abnormal levels of correlation. The Client's returns could be adversely affected in scenarios like this, in which fundamental valuation metrics tend to be overwhelmed by other factors.

Risk Arbitrage

Special risks are associated with the use of risk arbitrage, or "merger arbitrage," techniques. In addition to general risks of market behavior and currency fluctuations, merger arbitrage is subject to "deal risk" – the risk of non-consummation of the transaction. A number of factors could lead to deal collapse or delay, such as either party's inability to satisfy conditions to closing, failure to obtain shareholder approval, failure to meet regulatory or antitrust requirements, failure to obtain required financing, or other events that may change the target's or the acquirer's willingness to consummate the transaction.

Leverage of Portfolio Companies

Canyon investments include securities of companies with leveraged capital structures, which could be subject to increased exposure to adverse economic factors such as an increase in interest rates, a downturn in the economy or further deterioration in the economic conditions of such company or its industry. Similarly, Canyon may invest in entities that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of a Client's investment in such an entity could be significantly reduced or even eliminated due to further credit deterioration.

Non-Performing Nature of Loans

It is possible that certain of the loans purchased by Canyon may be non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Nature of Bankruptcy Proceedings

There are a number of significant risks when investing in companies involved, or which may have been involved, in bankruptcy proceedings, including the following: First, many events in a bankruptcy are the product of contested matters and adversary proceedings which are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be impacted adversely by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, certain claims, such as claims for taxes, wages and certain trade claims, may have priority by law over the claims of certain creditors. Fifth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors. Sixth, investments in troubled companies may also be adversely affected by U.S. federal and state laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability, alter ego, veil-piercing, or "domination and control" theories of liability, and a bankruptcy court's discretionary power to disallow, subordinate, recharacterize or disenfranchise particular claims. Seventh, investors in the company may be subject to a court-imposed "cram down" in which they lose their seniority in the capital and security interest structure. Eighth, Canyon may seek representation on creditors' committees and as a member of a creditors' committee it may owe certain obligations generally to all creditors similarly situated that the committee represents and may be exposed to liability to such other creditors who disagree with Canyon's actions.

There can be no assurance that Canyon would be successful in obtaining results most favorable to its Clients in such proceedings, although Clients may incur significant legal fees and other expenses in attempting to do so. Canyon could also be subject to various trading or confidentiality restrictions. In addition, Canyon may potentially hold conflicting positions in relation to investments in companies involved in bankruptcy proceedings among its Clients. Finally, changes in bankruptcy laws (including U.S. federal laws and applicable non-U.S. laws) may adversely impact its Clients' investments.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing, and the classification, seniority and treatment of claims.

Short Sales

From time to time, Canyon makes short sales in any type of securities for profit in anticipation of a change in the market price of a financial instrument or as a hedge against other positions held by a Client. Short sales that are not made "against the box" and are not part of a hedging transaction create opportunities to increase return but, at the same time, are speculative and involve special risk considerations. Since the seller in effect profits from a decline in the price of the securities sold short without the need to invest the full purchase price of the securities on the date of the short sale, returns tend to increase more when the securities sold short decrease in value, and to decrease more when the securities sold short increase in value, than would otherwise be the case if the seller had not engaged in such short sales. Short sales theoretically involve unlimited loss potential, as the market price of securities sold short may continuously increase, although Canyon may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, Canyon might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

Short sales are the subject of political controversy. Regulators around the world impose significant limitations as well as filing and reporting requirements on short sales and they may change short-sales-related regulations in the future, potentially with little notice. Canyon could suffer losses on short sales as a direct or indirect result of those changes, and its ability to use short sales as a part of its overall investment activities could be limited or made less effective or profitable.

Illiquid Assets

Some of a Client's positions (which may represent a substantial portion of its portfolio) may be or become relatively or entirely illiquid or may cease to be traded after it invests. In such cases, and in the event of extreme market volatility, the Client may not be able to liquidate its positions promptly if the need should arise. In addition, the Client's sales of some securities could depress the market value of such securities and thereby reduce the Client's profitability or increase its losses. A Fund's holding of Designated Investments may adversely affect the ability of its investors to receive redemption proceeds.

Currency and Foreign Risks

Canyon, from time to time, invests in non-dollar denominated debt instruments or in securities of companies domiciled or operating outside of the United States. While this is not expected to be a significant portion of Canyon's activities, investing in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some governments, capital controls, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of tax laws applicable outside the United States (e.g., the imposition of withholding taxes on interest and dividend payments, income taxes and excise taxes) or confiscatory taxation may also affect Canyon's

investments. Moreover, less information may be publicly available concerning certain of the foreign issuers of securities held by Clients than is available concerning United States companies. Clients may incur higher expenses with respect to investments made outside the United States compared to investing in United States securities because of the costs incurred in connection with conversions between various currencies and the fact that brokerage commissions outside the United States may be higher than commissions in the United States. Non-United States markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States.

Canyon's investments could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations. Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in developing countries may be recently developed and largely untested. As a result, Canyon may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, unknowing breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. This difficulty in protecting and enforcing rights may have an adverse effect on Canyon and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in a court outside of the United States. Regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. For example, bankruptcy law, anti-fraud and anti-insider trading legislation, and the concept of fiduciary duty, may be less developed or limited compared to those in more developed markets.

Lack of Fund's Control over Irish DACs

Canyon may invest in certain loans issued outside of the United States through the DACs, with the DACs acquiring the loans. Canyon has limited control over the DACs, including with respect to the DACs' investment decisions. Canyon is engaged by each DAC Board as advisor to provide recommendations for acquisitions and dispositions of loans. Each DAC Board, in its sole discretion, makes the final investment decisions for the respective DACs.

Contrarian Investing

Canyon believes the price of certain securities may become depressed to the point that the Adviser believes that such securities have lower downside risk than other investors may perceive (i.e., an investment will generally be made only if it is believed that the current market price is less than the intrinsic value of the security, based on assumptions as to asset values, total liabilities or claims, timing and the rate of return on the investment). Because of the substantial uncertainty concerning the outcome of transactions involving financially troubled companies undergoing fundamental changes, there is always the potential risk of a substantial loss.

Emerging Markets

Canyon may trade in emerging markets. These markets tend to be inefficient and illiquid as well as subject to political and other factors which do not typically affect more developed economies. Clients may sustain losses as a result of market inefficiencies or interference in emerging markets which would not take place in more developed markets.

Mortgage Loans and Mortgage-Backed Securities

Canyon invests in residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), and pools of residential and commercial mortgage loans which may be purchased directly or indirectly through the acquisition of securitization interests. These investments may include mortgage loans of various types (including Alt-A, subprime and pay-option adjustable rate mortgage loans, in addition to traditional first-lien mortgage loans) and may be performing or non-performing. Mortgage

loans are subject to certain specific risks, and the pools of mortgage loans underlying RMBS and CMBS are subject to all of the special risks associated with such mortgage loans, including those described below. Further, investing in certain mortgage loans, RMBS and CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), and certain additional risks and special considerations, including the risks of principal prepayment and defaults, as well as the risk of investing in real estate.

Mortgage-backed securities (other than the residential agency mortgage-backed securities) are generally not guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on mortgage-backed securities depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans. Mortgage-backed securities generally provide for the payment of interest and principal on a regular basis, and there also exists the possibility, particularly with respect to residential mortgage-backed securities, that principal may be prepaid at any time. Different types of mortgage-backed securities are subject to varying degrees of prepayment risk. The rate of principal payments on mortgage loans is influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner mobility. As a result of prepayments, Canyon may reinvest assets at an inopportune time, which may expose the Client to a lower rate of return. Further, the rate of prepayments on underlying mortgage loans affects the price and volatility of a mortgage-backed security, and may have the effect of shortening or extending the effective average life beyond what was anticipated.

The risks of investing in mortgage loans reflect the risks of investing in real estate securing the mortgage loans (as the risks of investing in RMBS and CMBS reflect the risks of investing in real estate securing the loans included in the applicable securitization). Such risks include the effect of local and other economic conditions, the possibility of changes in the structure or effectiveness of the government sponsored enterprises, Fannie Mae, Freddie Mac and Ginnie Mae, the ability of tenants/home owners to make payments, and the ability to attract and retain buyers or tenants. Increasing rates of delinquencies, foreclosures and other losses on mortgage loans could, in turn, adversely affect certain other securities in which the Clients may invest.

Mortgage Market Disruptions in General

Widespread defaults on mortgage loans and mortgage-backed securities have in the past led to market turmoil and resulted in price volatility and ratings downgrades. In addition to risks associated with attempting to predict default and recovery rates on mortgage loans, including those underlying mortgage-backed securities acquired by the Client, the creditworthiness and viability of the servicers of such mortgage loans are also significant risks. Illiquidity and unpredictability in these markets can make it difficult to determine whether such servicers have sufficient capital and adequate staffing levels to fulfill their servicing obligations and the extent to which such servicers are subject to regulatory risks and risk of error. A credit or regulatory event at, or other failure by, a servicer could result in losses to the Client.

Certain Risks Associated with Investments in Residential Mortgage Loans and RMBS

Market Disruptions and Distress. The residential mortgage market in the United States and elsewhere has, at certain times, experienced disruption and instability. Such disruptions may occur even during periods of broader economic recovery. Declines in the value of mortgaged properties may result in increases in delinquencies and losses on residential mortgage loans generally.

Residential mortgage loans (including the mortgage loans underlying an issue of RMBS) held by the Client are likely to include “non-traditional” mortgage loans, such as adjustable rate mortgage loans (or “ARMs”) – *i.e.*, mortgage loans that offer relatively low monthly payments during the initial years of the loan that increase (often significantly) in later years – or mortgage loans that require large “balloon” payments at specified times (unlike traditional, “self-amortizing” mortgage loans). Many borrowers enter into non-traditional mortgage loans with the hope that they will be able to refinance, or resell the underlying property,

before the increased interest payments or balloon payments become due. Stress in the real estate markets, including declines in housing prices may, however, make these refinancings or resales commercially infeasible or impossible. This, in turn, may contribute to higher delinquency rates and losses on mortgage loans (and mortgage loans underlying RMBS) held by the Client, which would adversely affect the Client's performance.

Under current market conditions, it is likely that many of the residential mortgage loans purchased by the Client will have loan-to-value ratios in excess of 100%, meaning that the amount owed on the mortgage loan exceeds the value of the underlying real property. Further, the borrowers on these mortgage loans may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable or unwilling to make payments when due. Even though it is anticipated that the Client will pay less than the amount owed on these mortgage loans to acquire them, if actual results are different from the Client's assumptions in determining the price for these mortgage loans, then the Client may incur significant losses. Moreover, the value of the underlying homes securing these mortgage loans could decrease or/and the likelihood of borrowers defaulting on their mortgage obligation could go up due to general economic conditions such as a downturn in the U.S. economy or increased unemployment levels. Any such decrease could adversely affect the value of the Client's investments.

Loss Mitigation and Foreclosure. Mortgage loans purchased by the Client, in many cases, will require loss mitigation strategies and related workout tools which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of such mortgage loan. However, even after a successful modification of a mortgage loan, a risk exists that replacement "take-out" financing will not be available upon maturity. It is possible that the Client may find it necessary or desirable to foreclose on real estate securing one or more mortgage loans purchased by the Client. Certain mortgage loans are non-recourse to the borrower. Thus with respect to such loans, if net amounts received through the foreclosure process are less than the amount owed to the Client with respect to a particular loan, then the Client will not be able to collect such deficiency and would suffer a loss.

The foreclosure process can be lengthy and expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the mortgage loan holder, including lender liability claims and defenses, even when such assertions have no basis in fact, in an effort to prolong the foreclosure process. In some states, foreclosure actions can take several years or more to conclude and, in some cases, must be restarted if foreclosure protocols (which vary from state to state) have not been properly followed. Further, the borrower may file for bankruptcy at any time during foreclosure proceedings, thereby staying the foreclosure action and further delaying the process. Foreclosure litigation has the potential to create a negative public image of the mortgage loan holder (or, in some cases, the underlying real property, which in turn may result in disrupting ongoing leasing and management activities). Several cities are exploring the use of eminent domain to acquire defaulted residential mortgage loans as a means to forestall the foreclosure process. Any successful use of eminent domain may cause the Client to dispose of such property at a value substantially lower than that previously ascribed to such asset. At any one time, the Client's mortgage loans and RMBS portfolio may include or be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties located in only a few states or geographic regions. As a result, such mortgage loans and RMBS may be more susceptible to special risks associated with particular states or regions, such as natural hazards (including earthquakes, floods, destructive weather or other natural disasters), as well as adverse local economic conditions, than would be the case for mortgage loans having more diverse property locations.

In connection with the disposition of mortgage loans, the Client may be required to make representations about the mortgage loans, including with respect to matters that the Client may be unable to diligence. Such transactions may also require the Client to indemnify the purchaser to the extent that any such representations turned out to be incorrect, incomplete or misleading. These arrangements may result in contingent liabilities, which ultimately may be paid by the Client.

Applicable Law and Regulations. State and federal laws, public policy and general principles of equity relating to the protection of consumers, abusive debt collection practices, and unfair, discriminatory and deceptive practices generally may apply to the origination, servicing and collection of the Client's residential mortgage loans and residential mortgage loans backing the Client's RMBS. Violations of these laws, policies and principles (including violations that occurred prior to the Client's ownership of the relevant asset) may limit the ability of the Client (or, as applicable, the issuer of RMBS) to collect all or part of the principal of or interest on the mortgage loans, may entitle a borrower to a refund of amounts previously paid, and could subject the owner of a mortgage loan to damages and administrative enforcement.

Numerous laws, regulations and rules related to the servicing of mortgage loans, including in respect of foreclosure actions, have been enacted and/or proposed by federal, state and local governmental authorities, including the newly formed Consumer Finance Protection Bureau created under the Reform Act. Such laws, regulations and rules may delay foreclosure processes, reduce payments by borrowers or increase reimbursable servicing expenses, which in turn would likely result in delays and reductions in the distributions to be made to the Client as the owners of residential mortgage loans or as an investor in RMBS and/or collateralized debt obligations backed by RMBS. In addition, the rate of foreclosures of properties backing subprime loans in certain states may prompt legislators, regulators and attorneys general in those states to try to prevent certain foreclosures and bring lawsuits against participants in the financing of subprime loans in their states, including issuers of RMBS backed by such loans and investors in those RMBS, including the Client. The Client and other similarly-situated investors will bear the risk that future regulatory developments will result in losses on their investments, whether due to delayed or reduced distributions or reduced market value.

Risks Associated with Servicers and Third Party Service Providers. Mortgage loans owned by the Client are serviced by one or more third party servicers. As mentioned directly above, mortgage servicers are subject to numerous laws, regulations and rules. The Client may not be able to successfully detect and prevent violations of such laws or, more generally, fraud or incompetence by such third parties, which could expose the Client to material liability. Terminating a mortgage servicer is a cumbersome process, which could result in delays in realizing the Client's investment strategies, thereby adversely affecting returns.

Whether relating to the Client's investments in mortgage loans or RMBS, the relevant servicer generally is required to make advances in respect of delinquent mortgage loans. However, servicers experiencing financial difficulties may not be able to perform these obligations. Servicers who have sought bankruptcy protection may, due to application of the provisions of bankruptcy law, not be required to advance such amounts. Even if a servicer were able to advance amounts in respect of delinquent mortgage loans, its obligation to make such advances may be limited to the extent that it does not expect to recover such advances due to the deteriorating credit of the delinquent mortgage loans. In addition, a servicer's obligation to make such advances may be limited to the amount of its servicing fee.

A number of originators and servicers of mortgage loans have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings. These difficulties have resulted in part from declining markets for their mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults or for breaches of representations regarding loan quality. Delinquencies and losses on, and, in some cases, claims for repurchase by the originator of, mortgage loans originated by some mortgage lenders have been asserted based on claims of inadequate underwriting procedures and policies, including inadequate due diligence, failure to comply with predatory and other lending laws and, particularly in the case of any "low documentation" or "limited documentation" mortgage loans, including loans that may support RMBS, and inadequate verification of income and employment history. Delinquencies and losses on, and claims for repurchase of, mortgage loans originated by some mortgage lenders have also resulted from fraudulent activities of borrowers, lenders and appraisers including misstatements of income and employment history, identity theft and overstatements of the appraised value of mortgaged properties. Such financial difficulties

may have a negative effect on the ability of servicers to pursue collection on mortgage loans that are experiencing delinquencies and defaults and to maximize recoveries on sale of underlying properties following foreclosure. The inability of the originator to repurchase such mortgage loans in the event of payment defaults and other loan representation breaches may also affect the performance of RMBS backed by those mortgage loans.

Additional third parties will be retained to provide services in respect of the Client's mortgage loan investments, which services may include those relating to evaluating loss mitigation strategies, assisting with valuation of underlying properties, assisting with foreclosures or general management of the loans. The Client's investments could be negatively affected by the actions taken, or advice given, by such third parties.

Certain Risks Associated with Investments in CMBS

The underlying commercial mortgage loans in an issue of CMBS held by the Client will be backed by obligations (including participation interests in obligations) that are principally secured by mortgage loans on real property (or interests therein) having a multifamily or commercial use, including regional malls or other retail space, office buildings, industrial or warehouse properties, hotels, apartments, cooperatives, nursing homes and senior living centers. Commercial mortgage loans are generally nonrecourse loans, lack standardized terms, tend to have shorter maturities than residential mortgage loans and may provide for the payment of all or substantially all of the principal only at maturity. Commercial properties also tend to be unique and are more difficult to value than single-family residential properties. The types of property securing commercial mortgage loans, and the ways that those properties are used, can also create special risks. For instance, commercial properties that operate as hospitals and nursing homes may present special risks to lenders due to the significant governmental regulation of the ownership, operation, maintenance and financing of health care institutions. Hotel and motel properties are often operated pursuant to franchise, management or operating agreements which may be terminable by the franchisor or operator, and may be subject to complex local licensing requirements.

The repayment of loans secured by income-producing commercial properties is typically dependent on the successful operation of those properties rather than upon the liquidation value of the underlying real estate or the existence of independent income or assets of the borrower. The net operating income from commercial properties is subject to volatility, however, and may not be sufficient to cover debt service on the related mortgage loan at any given time. Furthermore, the net operating income from, and value of, any commercial property may be adversely affected by risks generally incidental to interests in real property, including events that the borrower or manager of the property, or the issuer or servicer of the related issuance of CMBS, may be unable to predict or control, such as changes in general or local economic conditions and specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; natural disasters; acts of war; acts of terrorism; and social unrest and civil disturbances. The value of real estate is also subject to a number of laws, such as laws regarding environmental clean-up and limitations on remedies imposed by bankruptcy laws and state laws regarding foreclosures and rights of redemption.

Mortgage loans underlying a CMBS issue may lack regular amortization of principal, resulting in a single "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, these balloon payment mortgage loans are likely to experience payment delays or even default. In addition, the mortgage loans underlying a CMBS issue may lack diversification and may relate to a single loan or a limited number of loans.

Certain Risks Associated with Investments in Consumer Loans

Canyon may hold interests directly or indirectly (including through trusts or securitization vehicles) in pools of consumer loans, such as personal loans and automobile loans to individual borrowers (which may be unsecured). Federal and state consumer protection laws impose numerous restrictions on creditors in connection with the making and servicing of consumer loans, and any violations of those laws by Canyon or any other person (including by any platform or bank through or from which the Fund acquires its interests in consumer loans, any loan servicer or any trustee), could impair collections and/or result in regulatory actions or penalties that adversely affect Canyon. In particular, many states have “usury laws” that impose limits on interest rates that may be charged on personal loans. While state usury laws are generally subject to federal pre-emption where, e.g., the original lender is a national bank, the scope of this federal pre-emption (and whether, e.g., it survives transfers or assignments by banks), has been challenged through both private litigation and enforcement proceedings by regulators. If any person (including any borrower, or a state regulator) were to claim that loans in which Canyon holds interests violate state usury laws (including claims based on allegations that the “true lender” of the applicable loan(s) was not a national bank entitled to state pre-emption), those loans could be found to be unenforceable or void, and the Canyon could also be subject to liabilities for disgorgement, damages or penalties.

Certain Risks Associated with Investments in Aircraft Securitizations

Canyon may invest in airline/aircraft assets, which may include aircraft lease receivables (“ALRs”). ALRs are asset-backed securities that are generally structured as pass-through trusts. The aircraft is sold to the trust, which leases it to the airline companies. Unlike receivables backed by loans or interest rates, however, ALRs may entail a higher risk because of the nature of the underlying assets, which are expensive to maintain and operate and are difficult to sell. In addition, Canyon may invest in enhanced equipment trust certificates (“EETCs”) for which U.S. airlines are the primary issuers. An airline EETC is an obligation secured directly by aircraft or aircraft engines of a single sponsoring airline as collateral. EETC issuances are often enhanced by elements such as debt tranching, availability of liquidity facilities and over-collateralization. EETCs tend to be less liquid than corporate bonds offered by the sponsoring airline. Furthermore, Canyon may invest in aviation-related asset-backed securities that seek to monetize leases or mortgages. Aircraft mortgage monetization notes and aircraft lease monetization notes are asset-backed securities that represent interests in pools of aircraft mortgages or operating leases, respectively, on various aircraft types of airlines located throughout the world. Holders of aforementioned asset-backed securities bear various risks, including, among other things, lease rates and residual values, increased fuel costs, credit, technological, legal, regulatory, terrorism and geopolitical risks. Uncertainty and instability in certain countries in which airlines are located could have a material adverse effect on such securities as well. Additionally, portfolio management and the remarketing and re-leasing of aircraft upon lease expiration or default is typically the responsibility of a designated servicer. No assurance can be given that the aircraft will be re-leased after the expiration of the initial term, or if re-leased, on the same terms or on more favorable terms. Further, the value of these asset-backed securities are affected by changes in the market’s perception of the asset backing the security and the creditworthiness of the servicing agent for the collateral pool, the originator of the financial obligations or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement. Finally, aircraft are subject to many laws in different jurisdictions, and the repossession of aircraft from lessees or borrowers may be difficult and costly.

Freddie Mac K-Certificates

Canyon may invest in Freddie Mac K-Certificates. Freddie Mac K-Certificates are structured pass-through certificates publicly issued by the Federal Home Loan Mortgage Corporation (“Freddie Mac”) generally backed by multifamily mortgages and guaranteed by Freddie Mac. Mortgage-backed securities like Freddie Mac K-Certificates represent ownership in a pool of underlying mortgage loans. The credit quality of mortgage-backed securities like Freddie Mac K-Certificates depends primarily on the quality of the

underlying assets, the rights of recourse available against the underlying assets and/or the issuer, the level of credit enhancement, if any, provided for the securities, and the credit quality of the credit-support provider, if any. Mortgage-backed securities like Freddie Mac K-Certificates may reflect one of several payment structures for how principal and interest payments are remitted to holders and may also be subject to interest rate risk and prepayment risk. Like other fixed income securities, when interest rates rise, the value of mortgage-backed securities with prepayment features will generally decline. In addition, when interest rates are declining, the value of mortgage-backed securities with prepayment features may not increase as much as other fixed income securities. The weighted average life of such securities is likely to be substantially shorter than the stated final maturity as a result of scheduled principal payments and unscheduled principal prepayments.

Until recently, Freddie Mac was a government-sponsored corporation owned entirely by private stockholders. Freddie Mac issues mortgage-related securities that contain guarantees as to timely payment of interest and principal but that are not backed by the full faith and credit of the U.S. government. The value of Freddie Mac's securities fell sharply in 2008 due to concerns that the firm did not have sufficient capital to offset losses. The U.S. Treasury has historically had the authority to purchase obligations of Freddie Mac. In addition, in 2008, due to capitalization concerns, Congress provided the U.S. Treasury with additional authority to lend Freddie Mac emergency funds and to purchase the company's stock. In September 2008, the U.S. Treasury and the Federal Housing Finance Agency announced that Freddie Mac had been placed in conservatorship. There remains significant uncertainty as to whether (or when) Freddie Mac will emerge from conservatorship, which has no specified termination date. Congress is considering several pieces of legislation that would reform Freddie Mac, proposing to address its structure, mission, portfolio limits and guarantee fees, among other issues. The potential impact of these developments is unclear, but could impact Canyon's investment in securities issued and backed by Freddie Mac.

Interest Rate Fluctuations

The prices of portfolio investments can be sensitive to interest rate fluctuations, and unexpected fluctuations in interest rates could cause the corresponding prices of a position to move in directions which were not initially anticipated. In addition, interest rate increases will generally increase the interest carrying costs to a Client of borrowed securities and leveraged investments.

Inflation

Inflation and rapid fluctuations in inflation rates have had in the past, and may in the future have, negative effects on economies and financial markets. For example, wages and prices of inputs increase during periods of inflation, which can negatively impact returns on investments. Governmental efforts to curb inflation often have negative effects on the level of economic activity. There can be no assurance that inflation will not become a serious problem in the future and have an adverse impact on Canyon's returns.

No Limitations on Strategies

There are generally no material limitations on the investment strategies which Canyon may use when investing assets on behalf of its Clients. Canyon will opportunistically implement whatever strategies or discretionary approaches it believes from time to time may be best suited to prevailing market conditions. For some of these strategies, no specific "risk factors" are provided. Nevertheless, such strategies should be considered to be speculative, volatile and, in general, no less risky than other strategies more fully described herein. Over time, the strategies implemented on behalf of a Client can be expected to expand, evolve and change, perhaps materially. Canyon will not generally be required to implement any particular strategies and may discontinue employing any particular strategy on behalf of a Client, whether or not such strategies are specifically described herein, and without notice to Clients or Fund investors. There can be no assurance that the various investment strategies which Canyon expects from time to time to develop and implement will be successful or that strategies that have been successful will continue to be profitable.

Uncertain Exit Strategies

Canyon typically does not know the maximum or, often, even the expected duration of any particular investment at the time of initiation. Due to the illiquid nature of certain investments, Canyon is unable to predict with confidence what, if any, exit strategy for a given investment will ultimately be available for a Client. Exit strategies that appear to be viable at certain times during the life cycle of an investment may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors. The larger the transaction in which a Client is participating, the more uncertain that such Client's exit strategy tends to become.

Expedited Transactions

Investment analyses and decisions by the Adviser may be undertaken on an expedited basis in order to make it possible for the Fund to take advantage of short-lived investment opportunities. In such cases, the available information at the time of an investment decision may be limited, inaccurate and/or incomplete. Furthermore, the Adviser is unlikely to have sufficient time to fully evaluate information which is available.

There is a significantly increased risk of making poor investments when they are made on an expedited basis.

Inability to Participate in Certain Investments

Canyon has numerous business commitments and relationships worldwide. As a result of these commitments and relationships, there may be situations in which the Adviser would otherwise take a control position in an issuer, or a position adverse to the management of an issuer, but will be prevented from doing so due to other holdings.

Discontinuation of LIBOR

"LIBOR" (the London interbank offered rate) has been discontinued as a floating rate benchmark. LIBOR had been the principal floating rate benchmark in the financial markets, and its discontinuation has affected and will continue to affect the financial markets generally and may also affect the Fund's operations specifically.

In the United States, there have been efforts to identify alternative reference interest rates for U.S. dollar LIBOR. The cash markets have generally coalesced around recommendations from the Alternative Reference Rates Committee (the "ARRC"), which was convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York ("FRBNY"). The ARRC has recommended that U.S. dollar LIBOR be replaced by rates based on the Secured Overnight Financing Rate ("SOFR") plus, in the case of existing LIBOR contracts and obligations, a spread adjustment. The derivatives markets are also expected to use SOFR-based rates to replace U.S. dollar LIBOR.

SOFR has a limited history, having been first published in April 2018. The future performance of SOFR, and SOFR-based reference rates, cannot be predicted based on SOFR's history or otherwise. SOFR is intended to be a broad measure of the cost of borrowing funds overnight in transactions that are collateralized by U.S. Treasury securities. SOFR is calculated by the FRBNY based on transaction-level repo data collected from various sources. For each trading day, SOFR is calculated as a volume-weighted median rate derived from such data. Because SOFR is a financing rate based on overnight secured funding transactions, it differs fundamentally from LIBOR. LIBOR is intended to be an unsecured rate that represents interbank funding costs for different short-term tenors. It is a forward-looking rate reflecting expectations regarding interest rates for those tenors. Thus, LIBOR is intended to be sensitive to bank credit risk and to short-term interest rate risk. In contrast, SOFR is a secured overnight rate reflecting the credit of U.S. Treasury securities as collateral. Thus, it is intended to be insensitive to credit risk and to risks related to interest rates other than overnight rates. SOFR has been more volatile than other benchmark or market rates, such as three-month LIBOR, during certain periods. For these reasons, among others, there is no assurance that SOFR, or rates derived from SOFR,

will perform in the same or a similar way as LIBOR would have performed at any time, and there is no assurance that SOFR-based rates will be a suitable substitute for LIBOR.

The discontinuation of LIBOR, particularly if the replacement for LIBOR is not well-received, may adversely affect financial markets generally and may also adversely affect the Fund's operations specifically.

General Real Estate Risks.

Canyon's real estate-related investments may consist of private equity, REIT equity, senior loans, A-notes, B-notes, mezzanine loans, development and construction loans, debt participation interests, debt securities and participating debt, among others, and preferred equity investments in entities that ultimately derive their cash flow and value from the performance of underlying real estate properties and/or the owners of such real estate properties. In addition, Canyon may obtain interests in real estate securing any of its investments in the event of a borrower default. Consequently, such investments are subject to the risks of owning and operating real estate, including those described herein.

Canyon's real estate debt investments generally will be repaid from refinancing or sale of the assets while the interest payments will be repaid from the net income earned by the borrower from the properties securing or otherwise supporting payments on those investments. Similarly, the return earned on any preferred equity investment will depend on the amount of net income earned and capital appreciation generated by the properties that are owned by the entity in which Canyon has made the preferred equity investment. If any of the properties securing or otherwise supporting the investments do not generate income sufficient to meet operating expenses, including debt service, capital expenditures and tenant improvements, the investment could be adversely affected. If Canyon makes loans for the development or construction of properties, or makes a preferred equity investment in an entity engaged in the development or construction of properties, any income from those properties and the repayment of the Canyon's investment may be dependent on the sale of those properties. As a result, Canyon may not receive payments in a timely manner because the income required for such payments may only be generated on an intermittent basis. The return on Canyon's investments also can be adversely affected if the borrower defaults in its obligations under the applicable loan documents and Canyon's exercise of remedies is delayed by a bankruptcy filing by the borrower or protracted litigation or foreclosure processes.

Real estate properties, and correspondingly the performance of real estate debt and preferred equity investments, also are affected by such factors as the cost of compliance with laws and regulations, the potential for property owner liability under applicable laws (including the possibility of a judgment lien being placed against a property as a result of such liability), local rent control laws, changes in interest rates and the availability of financing, the ongoing need for capital improvements (particularly in older structures), cost overruns for improvements, changes in real estate taxes and other tax rates, increased operating expenses, adverse changes in governmental rules and fiscal policies, government exercise of eminent domain, civil unrest, acts of God such as earthquakes, hurricanes and other natural disasters (which may result in uninsured losses), acts of war or terrorism, adverse changes in zoning laws, fluctuations in occupancy rates, rental rates and operating expense reimbursements from tenants, changes in the financial resources of tenants, rent strikes, and other factors which are beyond the control of Canyon in whole or in part. Any of these factors could have a material adverse impact on the ability of a borrower to repay its debt obligations or make payments to preferred equity holders.

A borrower or issuer of preferred equity also could be adversely affected by costs and delays involved in enforcing rights of a property owner against tenants in default under the terms of leases for real properties and such tenants may seek the protection of bankruptcy laws that would allow them to terminate their leases. In addition, while real properties generally will carry comprehensive liability and casualty coverage, such coverage may not provide full protection for the value of the underlying property and may not protect

against all casualty losses, including damage due to floods, earthquakes, hurricanes and terrorism (as described more fully below in the paragraph entitled “Underlying Collateral Vulnerable to Natural Disasters; Adequacy and Availability of Insurance Coverage”). If a borrower or issuer of preferred equity is adversely affected by tenant defaults or uninsured casualty losses it would likely impact its ability to make required payments on the Canyon’s investments and may result in the Fund exercising default remedies against the borrower or issuer, including foreclosure on the underlying real estate assets to the extent possible.

Because real estate debt and preferred equity investments are relatively illiquid, Canyon’s ability to vary its investments promptly in response to economic or other conditions is limited. The relative illiquidity of the Canyon’s holdings could impede its ability to quickly respond to adverse changes in the performance of its investments.

Subordinated Investments. Canyon’s investments may be in subordinated mezzanine loans and other junior participation interests and preferred equity interests in a direct or indirect property owning entity. These investments will be subordinated to the senior obligations of the property or issuer, either contractually or structurally. Greater credit risks usually are attached to these subordinated investments than to a borrower’s first mortgage or other senior obligations because, among other reasons, these investments may not be protected by financial or other covenants and may have limited liquidity. These investments may be so-called “first loss investments” (regardless of whether they are equity investments). Adverse changes in a borrower’s or an issuer’s financial condition and/or in general economic conditions may impair the ability of the borrower or issuer to make payments on the subordinated securities, which are made, generally, only after payments are made on senior investments. Accordingly, such subordinated investments may go into default and suffer losses prior to the borrower’s or issuer’s senior obligations. Some of Canyon’s subordinated mezzanine loans may be secured by a second lien on the underlying real estate financed with the proceeds of those investments or by a pledge of the ownership interests in the borrower. Similarly, some of Canyon’s preferred equity investments may be secured by a pledge of the sponsor’s common equity interest. However, in many cases, Canyon’s management of its investments and its remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, will be subject to the rights of the senior investors and lenders.

Contingent Liabilities. In connection with an investment in mezzanine loans or preferred equity, Canyon may elect to exercise certain rights available under those investments to assume control of the underlying property holder. As a condition to the exercise of such rights under senior financing arrangements, Canyon may be required to guaranty certain obligations of the underlying property holder. Those guarantees could take the form of a completion guaranty, an environmental indemnity, a “bad boy” non-recourse carve-out guaranty, or other type of guaranty. Entering into any such guaranty could cause losses to Canyon in excess of the capital the General Partner initially may have invested or committed to such investment, and there is no assurance that the Fund will have sufficient capital to cover any such losses.

High Risk Investments. Canyon may provide debt to or acquire interests in leveraged or mismanaged entities or may acquire non-performing loans or other distressed debt and preferred equity investments. While these investments may provide an opportunity for significant capital appreciation, they also have an enhanced degree of risk. These investments may have a greater than normal risk of future defaults, delinquencies, bankruptcies or fraud losses and may be particularly sensitive to recessions, downturns in general economic and business conditions and increased interest rates. There can be no assurance that these investments will perform, the borrowers will pay as expected, or, if defaulted, that the underlying assets will be able to be foreclosed upon and liquidated in a cost effective manner. In addition to the risks of borrower default, Canyon will be subject to a variety of risks in connection with such investments, including risks arising from mismanagement or a decline in the value of collateral, contested foreclosures, bankruptcy of the

debtor, claims of lender liability or violations of usury laws, and the imposition of common law or statutory restrictions on Canyon's exercise of contractual remedies for defaults on such investments.

Canyon may provide debt to or acquire interests in entities for the purpose of financing the development, redevelopment or construction of real estate properties. In addition to all of the risks normally associated with investments in leveraged real estate assets, the development, redevelopment and construction of real estate is subject to timing, budgeting and other unique risks that could negatively impact the ability of a borrower to repay Canyon's investment. Risks associated with the renovation, development, redevelopment or construction of real estate assets include construction delays and cost overruns that may increase project costs, the requirement to obtain zoning, occupancy and other governmental permits and authorizations, a change in market conditions subsequent to commencing construction that negatively impacts the ability to sell or lease the asset upon completion, and changes in governmental restrictions on the nature or size of a project. The inability of a borrower or issuer of preferred equity to complete a project on time or within budget may adversely affect its ability repay Canyon's loan or preferred equity investment.

Risks Associated with Borrower Defaults. In the event of a borrower default under a loan held by Canyon, Canyon may in certain cases be entitled to foreclose upon the property securing Canyon's loan. A foreclosure action or other lender remedies may be subject to delays and additional expenses if defenses or counterclaims are interposed, and may require several years to complete. Moreover, a non-collusive, regularly conducted foreclosure sale may be challenged as a fraudulent conveyance, regardless of the parties' intent, if a court determines that the sale was for less than fair consideration and such sale occurred when the borrower was insolvent and within one year (or within the applicable state statute of limitations if the trustee in bankruptcy elects to proceed under state fraudulent conveyance laws) of the filing of bankruptcy. Similarly, a suit against a borrower on a note may take several years, and generally is a remedy alternative to foreclosure so that Canyon may be precluded from pursuing both foreclosure and an action on a note simultaneously.

In addition, real estate debt assets, such as mortgages, mezzanine loans and preferred equity, that are secured by real property are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to pay the principal of and interest on a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to pay the principal of and interest on the loan in a timely manner, or at all, may be impaired and therefore could reduce Canyon's return from an affected property or investment, which could materially and adversely affect the Fund. Net operating income of an income-producing property may be adversely affected by the risks particular to real property described above, as well as, among other things:

- tenant mix and tenant bankruptcies;
- success of tenant businesses;
- property management decisions, including with respect to capital improvements, particularly in older building structures;
- property location and condition;
- competition from comparable types of properties;
- changes in specific industry segments;
- declines in regional or local real estate values or rental or occupancy rates; and
- increases in interest rates, real estate tax rates and other operating expenses.

In the event of any default under a mortgage loan held directly by Canyon, Canyon will bear a risk of loss to the extent of any deficiency between the value of the collateral and the principal of and accrued interest on the mortgage loan. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to

that borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process that could have a substantial negative effect on any anticipated return on the foreclosed mortgage loan.

Collateral. Canyon anticipates that its real estate-related debt investments typically will be secured, directly or indirectly, by either a mortgage on real property or by a pledge and assignment of a direct or indirect ownership interest in the property owning entity. Canyon's investments in real estate debt and/or preferred equity investment may be collateralized directly by real estate or indirectly by real estate cash flow streams. There is a risk that any such collateral may decline in value. Each loan or preferred equity investment that is secured directly or indirectly by real property also is subject to the risk of loss from casualty, natural disasters or other catastrophes, or condemnation for any other reason, as well as other risks associated with the ownership of real property, as more fully described in the paragraph above entitled "General Real Estate Risks" above. Additionally, in the event a Canyon investment is secured by real estate cash flow streams, there can be no assurance that such cash flows will be sufficient to repay Canyon, and Canyon could lose all or a portion of its Investment. Although Canyon may in some instances have approval rights for certain major decisions (e.g., leasing, budgets, refinancing and sale), Canyon will be dependent upon the management skills of the property owning entity (or its affiliates or managers) for the overall operations of the underlying collateral.

Underlying Collateral Vulnerable to Natural Disasters; Adequacy and Availability of Insurance Coverage. The senior loan and mezzanine loan investments in which Canyon may invest will generally be secured by real property and related assets and will be subject to risks relating to natural disasters and catastrophes including, but not limited to, earthquakes, tornadoes, hurricanes, tsunamis, severe storms, floods or other casualty event risks. While the Investment Advisor will generally require that the borrower have adequate insurance coverage to fully repair and/or replace the collateral securing its senior loan and mezzanine loan investments, there can be no assurance that such insurance coverage will provide the borrower and/or the Investment Advisor with sufficient insurance proceeds to fully repair and/or replace the collateral. Moreover, the insurance carrier(s) providing the insurance could contest payment in the event of a casualty event (even if that casualty event is covered under the relevant insurance policy), and resolving any such dispute may result in delays in recovering insurance proceeds and losses to Canyon.

Also, the absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable investment opportunities available to the Fund and the pace at which the Fund is able to make investments. If the properties underlying the Fund's investments are unable to obtain affordable insurance coverage, particularly if there are any disputes with the insurer(s) and/or the underlying collateral is subject to self-insured retention coverage, the value of those investments could decline, and in the event of an uninsured or inadequately insured loss, the Fund could lose all or a portion of its investment.

Usury. Loans made by Canyon to any borrower entity may be subject to state usury laws. Canyon intends to comply with all applicable usury laws. However, in some instances, the General Partner may not be aware that the usury laws of a state are applicable and/or may not be successful in causing Canyon to comply with such laws. Failure of Canyon to comply with any applicable usury laws relating to any loan could result in a significant loss with respect to such loan.

Creditor Risks. Canyon's real estate investments characterized as debt will generally be subject to various creditor risks, including: (i) the possible invalidation of an investment as a "fraudulent conveyance" under relevant creditors' rights laws; (ii) so-called lender liability claims by the issuer of the obligations; and (iii) environmental liabilities that may arise with respect to collateral securing the obligations. Additionally,

adverse credit events with respect to any borrower to which Canyon (directly or indirectly) lends, such as a missed or delayed payment of interest and/or principal, bankruptcy, receivership or a distressed exchange, can significantly diminish the value of Canyon's loan to such borrower.

Possible Environmental Liabilities. In the event Canyon becomes an owner or operator of real estate, whether through foreclosure, by virtue of Canyon's status as a preferred equity holder or otherwise, Canyon may be exposed to risk of loss from environmental claims arising with respect to such real estate, and the potential losses may exceed Canyon's investment therein. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property and may be liable to a governmental entity or to third parties for property or personal injury damages and for investigation and remediation costs incurred by these parties as a result of the contamination. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws may also impose restrictions on the manner in which a property may be used or transferred or in which businesses may be operated, and these restrictions may require expenditures. In connection with the ownership and operation of properties, Canyon may be potentially liable for any such costs and may be limited in its operations by such restrictions. The cost of defending against claims of liability or remediating contaminated property and the cost of complying with such environmental laws could materially adversely affect Canyon's results of operations and financial condition. Additionally, changes in environmental laws or in the environmental condition of an asset may create liabilities that did not exist at the time of acquisition and that could not have been foreseen.

Third Party Investments. Some of Canyon's real estate investments may involve a co-investment with third parties, such as loan participation interests, participation in a lender syndicate and preferred equity investments. Such investments involve risks that are not present when Canyon invests without third party co-investors, such as the possibility that one or more of Canyon's co-lenders or the other investors in an entity in which Canyon has made a preferred equity investment might not have the financial capacity to fulfill its obligation to advance loan proceeds or invest additional equity, may become bankrupt or may at any time have economic or business interests or goals that are inconsistent with those of the Canyon, or the possibility that the co-investors may be in a position to take action contrary to Canyon's objectives or best interest.

Uninsured Loss. Canyon typically will require, prior to making any loan secured by a real estate asset, that the owner or property manager obtain suitable comprehensive liability, fire and extended coverage insurance for the property of the types and in the amounts customarily obtained for similar properties. There are, however, certain types and magnitudes of losses that are not generally insured because it is not economically feasible to insure against such losses, such as losses due to riots or acts of war or terrorism, or other losses that may not be insured or may be insured subject to certain limitations, including large deductibles or co-payments, such as losses due to floods or seismic activity. In addition, there can be no assurance that particular risks that are currently insurable will continue to be insurable on an economical basis or that current levels of coverage will continue to be available on an economical basis. Should an uninsured loss or a loss in excess of insured limits occur, Canyon could lose its investment as well as anticipated future income from such investment.

Construction Loans and Other Commitments. Canyon may originate or acquire construction loans or make other commitments to underlying borrowers or issuers of preferred equity. If Canyon fails to fund its entire commitment on a construction loan or any such commitment, or if an underlying borrower or issuer of preferred equity otherwise fails to complete the construction of a project, there could be adverse consequences associated with Canyon's investment, including: a loss of the value of the underlying property, especially if the borrower or issuer is unable to raise funds to complete construction from other

sources; a claim by a borrower or issuer against Canyon for failure to perform its commitments; increased costs to the borrower or issuer that it is unable to pay; a bankruptcy filing by the borrower or issuer; and abandonment by the borrower or issuer of the underlying property supporting Canyon's investment. Moreover, the construction process inherently carries with it the risk that a labor or material supplier could file a mechanics lien or other construction related security interest against a property in which the Fund has invested. While Canyon expects that a borrower or issuer of preferred equity would attempt to mitigate the risks posed by mechanics lien, negligence or fraud on the part of third parties (such as a general contractor) may frustrate those efforts, and in any event efforts to litigate issues surrounding mechanics liens can materially and adversely affect the value of Canyon's investments in particular properties.

The renovation, refurbishment or expansion by a borrower of a mortgaged property involves risks of cost overruns and non-completion. Costs of construction or improvements to bring a property up to standards established for the market intended for that property may exceed original estimates, possibly making a project uneconomical. Other risks may include: environmental risks, permitting risks, other construction risks and subsequent leasing of the property not being completed on schedule or at projected rental rates. If such construction or renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments of interest or principal to Canyon, which could materially and adversely affect Canyon.

Derivatives Risks

Derivatives

Canyon uses derivative financial instruments, which may include, without limitation, warrants, options, equity and/or interest rate swaps, credit default swaps, forward contracts, futures contracts and options thereon, and uses derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative, due to, e.g., nonconformance to anticipated or historical correlation patterns. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out positions in order either to realize gains or to limit losses.

Some of the derivatives that are traded by Canyon will be "over-the-counter" or "OTC" contracts between a Client and third parties entered into privately, rather than on an established exchange. As a result, Clients will not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Swap Agreements

Canyon from time to time enters into various swap agreements ("Swaps") as part of its investment program. A Swap is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, indices or prices, with payments generally calculated by reference to a principal ("notional") amount or quantity. Swaps and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, Canyon is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which Canyon trades. Swaps may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swaps can take many different forms and are

known by a variety of names. Canyon is not limited to any particular form of Swap if its use is consistent with the Client's investment objectives and policies, and the Adviser anticipates that it will invest in interest rate swaps, credit default swaps, total return swaps, variance swaps and other types of Swaps.

Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio. The most significant factor in the performance of Swaps is the change in the specific interest rate, currency, equity index or other factors that determine the amounts of payments due to and from Canyon's Clients. If a Swap calls for payments by a Client, the Client must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of a Swap with such counterparty can be expected to decline, potentially resulting in losses to the Client. Moreover, the Client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty.

Credit Default Swap Agreements

Canyon may invest in credit default swaps. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. Canyon may also sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, Canyon will be subject to certain risks in addition to those described elsewhere herein. In circumstances in which the Client does not own the debt securities that are deliverable under a credit default swap, the Client will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called "short squeeze." While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred. The creation of the ISDA Credit Derivatives Determination Committee (the "Determination Committee") is intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determination Committee will not be able to reach a resolution or do so on a timely basis. In either of these cases, Canyon would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, Canyon will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, Canyon will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity's debt obligations to deliver to Canyon following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of Canyon.

Counterparty risk is always present in credit default swaps. The market for credit default swaps on distressed securities is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities). In the event that current interest rate spreads over LIBOR (or over the applicable United States Treasury Benchmark) widen or the prevailing credit premiums on credit default swaps increase, the amount of a termination or assignment payment upon a termination or assignment of a transaction due from Canyon to the credit default swap counterparty could increase by a substantial amount.

In addition, the proper tax treatment of credit default swaps and other derivatives may not be clear. The tax environment for derivatives is evolving and changes in the taxation of derivatives may adversely affect the value of derivatives held by Canyon.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact Canyon's ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Certain governmental entities have indicated that they intend to regulate the market in credit default swaps. It is difficult to predict the impact of any such regulation on Canyon, but it may be adverse (including making Canyon ineligible to be a "seller" of credit default swaps).

Credit Default Swaps on Loans and LCDX Transactions

Canyon may invest in all types of loan credit default swaps ("LCDS") and all types of LCDX transactions, a tradable index comprising 100 equally-weighted underlying single-name loan-only credit default swaps. LCDS are similar to credit default swaps on bonds, except that the underlying protection is sold on syndicated secured loans of a reference entity rather than a broader category of bonds or loans. Buyers of protection pay a fixed coupon agreed at time of trade, and receive compensation on the principal if the entity named on the contract defaults on its secured debt. The compensation will be par minus recovery either via the protection seller paying par in return for gaining possession of the loan or via cash settlement. Loan credit default swaps may be on single names or on baskets of loans, both tranching and untranching.

Canyon may also invest in LCDX, which is the buying or selling of protection on 100 names that comprise the LCDX portfolio (*i.e.*, the buying and selling of 100 single-name LCDS). Buying and selling the LCDX can be compared to buying and selling a loan portfolio. When the index is bought, the buyer is taking on the credit exposure to the loans, and is exposed to defaults similar to when a loan portfolio is bought. If the index is sold, this exposure is passed on to someone else. The index has a fixed coupon, which is paid when the index is sold, or received if the index is bought. The credit events that generally trigger a payout from the buyer (protection seller) of the index are bankruptcy or failure to pay a scheduled payment on any debt (after a grace period), for any of the constituents of the index. Credit events can be settled by physical or cash settlement. Physical settlement entails delivering the loan and receiving par. The protection seller who took delivery of the loan holds the defaulted asset. Although this method is the traditional method of settlement, there are risks that the notional amounts of the outstanding loans is less than the LCDS outstanding and that the LCDX counterparty will be able to take receipt of the loans.

Total Return Swaps

Canyon from time to time may invest in total return swaps. As a buyer of total return swaps, Canyon's Clients will be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including coupons, interest and the gain or loss on such asset over the term of the swap. Clients may be required to maintain collateral with the total return swap counterparty. If the Client fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Client may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

Over-the-Counter Derivatives Markets

Dodd-Frank, enacted in July 2010, comprehensively regulates the OTC derivatives markets. Dodd-Frank, and the rules promulgated thereunder, mandate that a substantial portion of OTC derivatives must be executed in regulated markets and be submitted for clearing to regulated clearinghouses. OTC trades that are cleared are subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC- or other regulatory mandated margin requirements. OTC

derivatives dealers typically demand the unilateral ability to increase a Client's collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. Regulators also have imposed margin requirements on non-cleared OTC derivatives and requirements that apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral Canyon is required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before Dodd-Frank. This has and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, Canyon's Clients will not face a clearinghouse directly but rather through a futures commission merchant that is registered with the CFTC and that acts as a clearing member. Clients may face the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. Such scenario could arise due to a default by the clearing member on its obligations to the clearinghouse, triggered by a customer's failure to meet its obligations to the clearing member.

The CFTC now requires certain derivative transactions that were previously executed on a bilateral basis in the OTC markets to be executed through a regulated futures, or swap exchange or execution facility. The SEC will also impose similar requirements on certain security-based derivative transactions in the future, though it is not yet clear when those requirements will go into effect. Such requirements may make it more difficult and costly for investment funds, including Canyon's Clients, to enter into highly tailored or customized transactions. They may also render certain strategies in which Canyon might otherwise engage impossible or so costly that they will no longer be economical to implement. If Canyon or its Client decides to execute derivatives transactions through such exchanges or execution facilities—and especially if it decides to become a direct member of one or more of these exchanges or execution facilities, it would be subject to the rules of the exchange or execution facility, which would bring additional risks and liabilities, and potential additional regulatory requirements.

OTC derivative dealers are now required to register with the CFTC and will ultimately be required to register with the SEC. Registered swap dealers are also subject to new minimum capital and margin requirements, business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of Dodd-Frank on Canyon and its Clients, along with additional, sometimes overlapping, regulatory requirements imposed by non-United States regulators, remains uncertain and it is unclear how the OTC derivatives markets will adapt to future regulations.

Convertible Securities, Rights and Warrants

From time to time, Canyon invests in hybrid securities that may be exchanged for, converted into or exercised to acquire a predetermined number of shares of an issuer's common stock at the option of the holder during a specified time period (such as convertible preferred stocks, convertible debentures, stock purchase rights, and warrants). Convertible securities generally pay interest or dividends and provide for participation in the appreciation of the underlying common stock but at a lower level of risk because the yield is higher and the security is senior to common stock. Convertible debt securities purchased by a Client that are acquired for their equity characteristics are not subject to minimum rating requirements.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a

conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of a convertible security. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value.

Convertible securities may also include warrants, often publicly traded, that give a holder the right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price but that do not pay a fixed dividend. Their value depends primarily on the relationship of the exercise price to the current and anticipated price of the underlying securities.

Futures Trading

Canyon may trade futures contracts, including stock index futures. Futures prices are highly volatile, with price movements being influenced by a multitude of factors such as changing supply and demand relationships, government trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events and speculative frenzy and the emotions of the marketplace. In addition, governments from time to time intervene in certain markets, particularly currency and interest-rate markets.

The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to the investor.

There can be no assurance that a liquid market will exist at a time when a Client seeks to close out an option position, future or Swap. Most United States commodity exchanges limit fluctuations in futures contract prices during a single day by regulations referred to as “daily limits.” During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract has increased or decreased to the limit point, positions can be neither taken nor liquidated. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent a Client from promptly liquidating unfavorable positions and subject the Client to substantial losses. In addition, certain of these instruments are relatively new and are without a significant trading history. As a result, there is no assurance that an active secondary market will develop or continue to exist. Lack of a liquid market for any reason may prevent the Client from liquidating an unfavorable position and the Client would remain obligated to meet margin requirements until the position is closed.

The CFTC and the United States commodities exchanges impose limits referred to as “speculative position limits” on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on United States commodities exchanges. For example, the CFTC currently imposes speculative position limits on a number of agricultural commodities (e.g., corn, oats, wheat, soybeans and cotton) and United States commodities exchanges currently impose speculative position limits on many other commodities. Dodd-Frank significantly expands the CFTC’s authority to impose position limits with respect to futures contracts and options on futures contracts, swaps that are economically equivalent to futures or options on futures, and swaps that are traded on a regulated exchange and certain swaps that perform a significant price discovery function. In response to this expansion of its authority, the CFTC proposed a series of new speculative position limits in 2012 but the proposed speculative position limits were vacated by a United States District Court. The CFTC again proposed a new set of speculative position rules and the final disposition of those proposed rules is uncertain. If new position limit rules are ultimately adopted by the CFTC and not vacated by a court, the size or duration of positions available to a Client may be severely limited. All accounts owned or managed by Canyon are likely to be combined for speculative position limit purposes. A Client could be required to liquidate positions it holds in order to comply with such limits, or may not be able to fully implement trading

instructions generated by its trading models, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs to the Client.

Options Trading

When purchasing or selling an option, the risks associated with the transaction will vary depending on the type of option (i.e., put or call). When purchasing an option, it is necessary to calculate the extent to which the value of the underlying security must increase (in the case of a call) or decrease (in the case of a put) in order for a Client's position to become profitable, taking into account the premium and all transaction costs. The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased option expires worthless, the Client will suffer a total loss of the amount invested in the option that will consist of the option premium plus transaction costs.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option, and, upon such exercise, the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest, depending on the terms of the option. If the option is on a future, upon exercise by the purchaser of the option, the seller will acquire a position in a future with associated liabilities for margin. If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. In the case of an option on a future, certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

Forward Contracts

Canyon may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result of Dodd-Frank, the CFTC now regulates non-deliverable forwards (which includes many deliverable forwards where the parties do not take delivery). Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to Dodd-Frank might limit such forward trading to less than that which Canyon would otherwise recommend, to the possible detriment of a Client.

Regulatory Developments Related to Commodities Trading

Canyon's trading activities may continue to be affected by regulatory developments under Dodd-Frank and analogous laws and regulations outside of the United States. While many rules applicable to Canyon's trading activities are final, other rules are still being promulgated and implemented. The precise contours of such regulation remain somewhat uncertain and may change in unpredictable ways over time.

Canyon is exempt from registration with the CFTC as a commodity pool operator ("CPO") pursuant to CFTC Rule 4.13(a)(3), which imposes certain quantitative limits on the size of commodity interest positions (including positions in swaps regulated as commodity interests) that a Client may take. Continued reliance on CFTC Rule 4.13(a)(3) will cause Clients to forego certain investment opportunities that might otherwise be suitable investments. In order to avoid the trading limitations imposed by CFTC Rule 4.13(a)(3), Canyon

may seek to rely on other exemptions from registration that do not impose such limitations, or it may elect to register as a CPO with the CFTC. However, even if Canyon does register as a CPO, it expects that it may nevertheless be able to qualify for an exemption from certain disclosure, recordkeeping and reporting requirements that would otherwise apply to it as a registered CPO (i.e., in reliance on CFTC Rule 4.7).

The foregoing discussion of certain risk factors does not purport to be a complete explanation of the risks involved with investing with Canyon. Clients and Fund investors should read all documents and agreements related to opening an account or investing in a Fund (including a Fund's Offering Memorandum and other relevant documents).

Disciplinary Information

There are no legal or disciplinary events that are material to a Client's, prospective client's, Fund investor's or prospective Fund investor's evaluation of Canyon's advisory business or the integrity of Canyon's management.

Other Financial Industry Activities and Affiliations

Broker-Dealer and Registered Representatives

CP Investments LLC ("CP Investments") is a registered broker-dealer and member of FINRA and is an affiliate of Canyon. Canyon's principals are also principals and registered representatives of CP Investments. Certain Canyon employees are also registered representatives of CP Investments. CP Investments acts as placement agent for certain of the Funds. CP Investments is not compensated by a Fund for acting as placement agent (although it is being indemnified by such Fund to the same extent and subject to the same standards as Canyon). CP Investments will not act as a broker for or an agent of any Fund investor and its activities on behalf of a Fund should not be construed as a recommendation to purchase interests in any such Funds, as CP Investments makes no such recommendations. Canyon and/or Clients will not otherwise use the services of or pay sales commissions to CP Investments.

Related Investment Advisers

Canyon Partners Real Estate LLC ("CPRE"), an affiliate of Canyon, is a registered investment adviser that is ultimately controlled and managed by the same principals that control and manage Canyon. CPRE focuses on investments involving commercial real estate and mortgage assets. CPRE has a number of real estate-related investment platforms, including separate accounts and commingled funds which specialize in providing senior mortgage loans, mezzanine loans, preferred equity and joint-venture equity for commercial real estate located in primarily urban markets across the United States. Messrs. Friedman and Julis share responsibility for serving on CPRE's investment committee. While the clients of CPRE have different investment objectives than the clients of Canyon, a conflict of interest in rendering advice to Canyon's clients may arise because the benefits realized by the principals from managing CPRE's clients' accounts in certain circumstances may exceed the benefit from managing Canyon's clients' accounts and, therefore, may provide an incentive to favor such other accounts. The principals of CPRE and Canyon will not enter into transactions in which they knowingly and deliberately favor themselves or another client over the clients of Canyon; however, the principals have considerable discretion to trade for other accounts, and intend to do so to a significant extent.

In addition, the principals of Canyon may, from time to time, cause securities purchased on behalf of Canyon's clients and CPRE's clients to be held in the name of a nominee affiliate in trust on behalf of Canyon's clients and CPRE's clients. Such nominee holdings will be undertaken when the size of the investment, the nature of the co-investment or other considerations relating to the transaction militate in favor of holding the securities in the name of one person rather than subdividing the securities among Canyon's and the other related purchasers. In addition, Canyon's clients and clients of CPRE share, on a fair and equitable basis, in the legal fees and other expenses that CPRE and Canyon incur in investigating and negotiating potential transactions for their clients, whether or not such transactions are consummated.

AECOM-Canyon Partners Real Estate Fund Advisors LLC (“AECOM-Canyon”), an affiliate of Canyon, is a registered investment adviser that is a joint venture between AECOM Capital Real Estate, LLC and CPRE. AECOM-Canyon focuses on capital appreciation primarily by investing in co-general partner equity opportunities in development and value-add commercial real estate projects located in the top ~25 markets across the United States.

River Canyon Fund Management LLC (“River Canyon”), a wholly owned subsidiary of Canyon, is a registered investment adviser that is ultimately controlled and managed by the same principals that control and manage Canyon. While River Canyon currently provides discretionary advisory and subadvisory services to registered investment companies, it may also do so for private funds and separately managed accounts.

Canyon Capital Advisors (Europe) Ltd. (“CCA EU”) is a wholly owned subsidiary of Canyon. CCA EU is registered with the Financial Conduct Authority. CCA EU provides research related services to Canyon.

Canyon CLO Advisors LP (“CLO Advisors”) is a subsidiary of Canyon that was formed and registered with the SEC as an investment adviser in July 2015. It is ultimately controlled and managed by the same principals that control and manage Canyon. CLO Advisors acts as collateral manager, sponsor and originator to collateralized loan obligations.

Other Entities Sponsored by Canyon and its Affiliates

Canyon and its affiliates (including CPRE, AECOM-Canyon, CLO Advisors and River Canyon) currently sponsor a number of private investment vehicles, partnerships, and companies and act as the investment adviser to managed accounts, and trade on behalf of themselves and their affiliates, which may create certain conflicts of interest among Canyon and its Clients. Canyon may also have a conflict of interest in rendering advice to multiple Clients because the benefit from managing one Client account may exceed the benefit of managing another Client account(s) and, therefore, may provide an incentive to favor such other account(s). Moreover, if Canyon makes investment decisions for multiple accounts at or about the same time it makes decisions for other Client accounts, Clients may be competing for the same or similar positions. Canyon also must take into account the varying investment objectives and limitations, tax considerations, available cash, investment horizons and other factors which may affect its Clients. There can be no assurance that a single Client will receive as large an allocation in respect of limited investment opportunities as it might otherwise have absent these considerations. Please see Brokerage Practices – Allocation of Investment Opportunities which discusses Canyon’s allocation policy.

Canyon is not obligated by contract to buy, sell or recommend for one Client any security or other investment that may be bought, sold or recommended for other Clients or for Canyon’s own or related persons’ account, but Canyon will endeavor to fairly allocate the investment opportunity or dispose of the investment in the event of an actual conflict.

Canyon will not enter into transactions in which it knowingly and deliberately favors itself or a single Client over another Client; however, the Adviser is given considerable discretion to trade for other accounts, and intends to do so to a significant extent.

In order to take advantage of diversification and new investment strategies and concepts, Canyon, from time to time, places a portion of a Fund’s investable assets in accounts managed by or co-managed with other investment advisors, in which case such Fund may be subject to additional fees payable to such other investment advisor as well as its proportionate share of costs and expenses. Canyon also may place a portion of a Fund’s investable assets in other Canyon Funds, in which case such Fund shall not be subject to any additional management or incentive fees but will bear its proportionate share of costs and expenses. The amounts which may be invested into other managed accounts or in Canyon affiliated investment funds are not expected to be significant.

To the extent permitted by the applicable governing documents for the Funds, Canyon could, in its sole and absolute discretion, agree to waive or modify the application of any provision of the offering terms of any Fund with respect to any investor, by side letter or otherwise, without obtaining the consent of any other investor. Such side letters may provide for the following modified terms: (i) various notification requirements (e.g., upon substantial redemptions by other investors, legal or regulatory actions, or the receipt of any soft dollar commissions outside of the safe harbor provided in Section 28(e) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”)); (ii) limitations on a Fund’s ability to distribute securities in kind upon a redemption request; (iii) the provision of audited financial statements within certain periods of time; (iv) special redemption rights for key men changes and net asset value reductions; (v) the provision of information relating to a Fund’s portfolio holdings (subject to non-disclosure agreements and other confidentiality considerations); (vi) reduced fees or fee rebates; (vii) minor investment restrictions that do not materially affect a Fund; (viii) the provision of periodic pricing information; (ix) the waiver or modification of redemption restrictions (such as redemption fees, lock-up provisions or affiliated transfers), required redemption terms or notice requirements; or (x) provisions necessary to accommodate a particular investor’s legal, tax, sovereign or regulatory status, accounting considerations, contractual obligations, or internal guidelines or policies.

In certain cases, Canyon discloses from time to time, portfolio holdings of a Fund to entities that evaluate portfolio risk for investors and to certain investors that have unique regulatory and/or risk reporting obligations. Canyon will provide this information to such entities as it chooses and may refuse to provide this information to any such entity at any time. Every effort is made to bind the recipients of this information to maintain the confidential nature of this information, including entering into non-disclosure agreements prior to providing this information to them. However, there can be no assurance that these entities will fulfill their confidentiality obligations to Canyon. In addition, investors, in the course of conducting due diligence, may request information pertaining to their investments in a Fund (either verbally or in writing), including information that is not generally made available to all investors of such Fund. Canyon responds from time to time to such requests without providing relevant information to all other investors. Canyon generally is available to receive reasonable information requests from investors concerning their investments in a Fund. However, Canyon reserves the right to determine what information is appropriate to provide in response to inquiries from investors in a Fund.

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

Canyon has adopted a Code of Ethics (“Code”) that sets forth standards of conduct expected of employees and addresses potential conflicts that can arise from personal trading by employees. Canyon has designated every employee, with certain very limited exceptions, as an access person for purposes of its Personal Trading Policy. As such, employees of Canyon are covered by the Personal Trading Policy. Under the Personal Trading Policy, employees must periodically report their personal securities transactions and holdings to the Chief Compliance Officer (“CCO”) and Canyon must review these reports. To this end, employees must arrange for Canyon to receive the employee’s investment account statements, which contain information regarding securities transactions in the accounts of the employee. In addition, employees must obtain written or electronic approval before making certain types of investments.

Canyon’s Personal Trading Policy is governed by two overriding principles. First, client trades are always processed first. Second, Canyon and its employees must manage both real conflicts and the appearance of conflicts. If an employee doubts the propriety of any personal trade, such doubt is resolved in favor of not trading. The Code also contains policies involving the safeguarding of proprietary and non-public information by Canyon personnel along with restrictions on the use of material, non-public information and the use of non-public information regarding a Client.

Any issues that arise under the Personal Trading Policy must be reported to Canyon's CCO and senior management immediately. Clients can obtain a copy of our Code of Ethics, which includes the Personal Trading Policy, free of charge, from our CCO upon request (Doug Anderson (310) 272 1360)).

Interest in Client Investments

Canyon, its principals, employees and affiliates may trade securities for their own accounts. The records of such trading will not be made available to Clients. It is possible that principals, officers or employees of the Adviser buys or sells securities or other instruments that the Adviser has recommended to Clients and engages in transactions for their own accounts in a manner that is inconsistent with the Adviser's recommendations to a Client. Personal securities transactions by employees may raise potential conflicts of interest when such persons trade in a security that is owned by, or considered for purchase or sale for, a Client. As described above, the Adviser has adopted policies and procedures designed to detect and prevent such conflicts of interest and, when they do arise, to ensure that it effects transactions for clients in a manner that is consistent with its fiduciary duty to its clients and in accordance with applicable law. In compliance with the Adviser's Code of Ethics, transactions in certain securities described therein are required to be pre-cleared to allow for a review for any potential conflict of interest or insider trading. Employees of the Adviser are required to report personal securities transactions either electronically or via a monthly (or as generated, e.g. quarterly) duplicate statement sent directly from the corresponding brokerage firm.

The Investment Adviser as Principal

The Adviser does not act as principal, either buying securities for itself or its affiliates from a Client or selling securities it or its affiliates own to a Client. However, in the event that the Adviser decides to engage in any such principal transaction in the future, it will comply with the requirements of Section 206(3) of the Advisers Act and Section 25235(c) of the California Corporate Code by: (i) disclosing to the Client in writing the material terms of the transaction; and (ii) obtaining the written consent of the Client for such transaction. The Adviser will include in such disclosure: (1) its capacity as principal; (2) the cost to the Adviser of the security, in the case of a sale to a Client, or the price of the security in a resale, in the case of a purchase from a Client; and (3) the best price at which the transaction could be effected by or for the Client elsewhere if such price is more advantageous to the Client than the purchase or sale with the Adviser. Canyon does not anticipate engaging in such transactions when the Adviser may make a trading profit.

Gifts and Business Entertainment

In the normal course of business, Canyon and its officers and employees provide and/or receive gifts or business entertainment to/from certain individuals and/or entities such as clients, investors, vendors, consultants, and service providers. Any such gift or business entertainment is not premised upon any specific client referral or any expectation of any other type of benefit to Canyon. Canyon has adopted formal policies and procedures requiring preapproval and recordkeeping of certain gifts and business entertainment.

Political Contributions

Canyon and its principals and employees also make political contributions from time to time to persons who may serve or seek to serve in elected capacities with certain public entities. Any such political contributions are permitted only to the extent such contributions are in accordance with Canyon's policies and procedures regarding political contributions and do not violate the SEC's rule prohibiting pay-to-play activities adopted under Rule 206(4)-5.

Co-investment with Affiliates

It is contemplated that Clients may "co-invest" with the Adviser and/or principals of the Adviser in respect of certain investment opportunities, and certain of a Client's arbitrage and hedging activities may be conducted through an investment in a Fund. Any such co-investments will be on the same terms as made available to Clients, and no additional fees will be incurred by virtue of such investments. On occasion, a

Fund could acquire debt or equity interests in projects financed by other entities managed by affiliates of the Adviser. In addition, a Fund could loan to or invest in entities in which other Clients of the Adviser are investors or lenders, either in similar investment positions or in different positions in the capital structure with different risk and return parameters. A Client may enter into transactions originated by, or issuers otherwise affiliated with, service providers to a Fund and their affiliates. In such event, disputes may arise between the two entities regarding the terms of the investments and the enforcement of the entities' respective rights therein. Furthermore, the Adviser is not precluded from causing a Fund to invest in the securities issued by companies represented in the investment portfolios of other Funds managed by the Adviser or its principals, affiliates or advisory clients. Any such purchases (or sales) will not be on a "principal-to-principal" basis and will only be offered where the Adviser is satisfied that the Fund's interests are not unfairly prejudiced. Without limiting the foregoing, certain Funds co-invest in certain real estate-related opportunities with funds or accounts managed by CPRE. The Funds do not pay any fees to CPRE in connection with such investments. The Adviser has policies and procedures in place to mitigate the inherent conflict of interest such transactions present.

Brokerage Practices

Execution Quality

In placing purchase and sale orders of securities for Clients, Canyon's policy is to seek the best execution of orders at the most favorable price in light of the overall quality of brokerage and research services provided. In selecting brokers to effect portfolio transactions, the determination of what is expected to result in best execution at the most favorable price involves a number of largely judgmental factors, including the broker's efficiency in executing and clearing transactions, block trading capability, and the broker's financial strength and experience in the industry. Primary market makers are used for transactions in the over the counter market except in those instances where Canyon believes more favorable execution or price is obtainable elsewhere.

Each Client is responsible for the payment of standard custodian fees for the custody of its assets. Custodian fees are paid at market rates and are not material to the Fund. Each Client incurs standard transaction costs associated with acquiring and selling securities and the brokerage commissions are negotiated at arm's length on behalf each Fund. Canyon will not receive any rebates in respect of brokerage commissions or custody fees.

In allocating brokerage business for its clients, Canyon also takes into consideration research, analytical, statistical and other information and services provided by the broker. While Canyon believes these services have value, they are considered supplemental to its own efforts in the performance of its duties to its advisory clients.

Trading and Soft Dollar Arrangements

Canyon does not intend to use soft dollars to pay for third-party research or other third-party products. Furthermore, Canyon will not enter into any third-party soft dollar arrangements without the express approval of its Chief Compliance Officer. Canyon's Clients do pay bundled commission rates and Canyon receives proprietary research from many of its executing brokers and prime brokers. As a result, Canyon may pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transactions, in recognition of the value of the brokerage and research services provided by the broker and used by a Client. In such circumstances, Canyon endeavors to do so in accordance with the criteria of Section 28(e) of the Exchange Act ("Section 28(e)"). Canyon may also occasionally direct transactions effected on a principal basis to brokers in recognition of the research services provided by that broker. Canyon believes that in certain circumstances it is important to its investment decision-making processes to have access to independent research. Some research services furnished by brokers and dealers with whom Canyon effects securities transactions could be used in servicing all of its Clients and not all

such services may be used in connection with all Clients who paid commissions to the brokers providing such services.

Generally, research services provided by brokers include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts and personal meetings with security analysts. In addition, such research services may be provided in the form of access to various computer-generated data, and meetings arranged with corporate and industry spokespersons, economists, academicians, and government representatives.

Subject to best execution, Canyon may effect transactions with certain brokers primarily in consideration for providing research services. Canyon may allocate brokerage to such firms, provided that the value of any research and brokerage services is reasonable in relationship to the amount of commission paid. While Canyon tracks internally the amount of commissions paid to various brokers, in no case will Canyon make binding or informal commitments as to the level of brokerage commissions it will allocate to a broker.

If Canyon itself enters into a formal soft dollar arrangement to receive a mixed use product (a product that provides both Section 28(e) eligible research/brokerage functions as well as other functions), it will make a good faith allocation between the research/brokerage functions and non-research/brokerage functions, and will pay for any non-research/brokerage functions with cash. In making good faith allocations between such functions, a conflict of interest may exist by reason of Canyon's allocation of the costs of such benefits and functions between those that primarily benefit Canyon and those that primarily benefit its clients.

Trade Error Policy

The Adviser attempts to minimize trade errors by taking the utmost care in making and implementing investment decisions on behalf of client accounts. The Adviser has controls and procedures in place designed to detect and correct in a timely manner any trade errors that may occur. Trade errors are documented and reported to the Adviser's supervisory personnel, and trade errors are reviewed to assess whether an error was a result of a weakness in internal procedures and controls. If it is determined that a weakness in internal controls caused or contributed to the error, mitigating controls are established to rectify the identified control weakness.

Unless the Adviser has specifically addressed trade errors in the investment advisory agreement with a client, it is the Adviser's policy generally not to reimburse clients for any errors or mistakes with respect to the Adviser's placing or executing trades for the client, as such errors are considered by the Adviser to be a cost of doing business. However, pursuant to the pertinent investment management agreement's exculpation of liability and indemnification provisions, the Adviser will be obligated to reimburse the client for any trade error resulting from the Adviser's gross negligence or willful misconduct. The Adviser, subject to its fiduciary obligations, will determine whether or not any trade error is required to be reimbursed in accordance with this policy. Any positive trade errors will be for the benefit of the client and not retained by Adviser.

Prime Brokers

Canyon's Clients have prime brokerage arrangements with one or all of the following: JP Morgan, and Bank of America Merrill Lynch. These arrangements provide for the clearing and settlement of trades executed at brokers other than the prime brokers noted above. Canyon's Clients may also execute trades through brokerage divisions of its prime brokers subject to best execution. The prime brokers may, at no additional cost, also provide additional services to Canyon from time to time, including consulting services relating to technology requirements, infrastructure implementation, facilities management, property acquisition (purchase or lease), and refurbishment or build-out advice. While this may create a potential conflict of interest, Canyon does not believe that these additional services are material and the receipt of

such services was not a consideration when selecting prime brokers. In addition to the services noted above, the prime brokers may also provide additional services, which are discussed in more detail in the **Client Referrals and Other Compensation**, below.

Allocation of Investment Opportunities

Canyon attempts to act in a fair and reasonable manner in allocating investment and trading opportunities among Canyon's Clients. Canyon's allocation procedures seek to allocate investment opportunities among the accounts over time on a fair and equitable basis, considering both the best interests and specific restrictions of the accounts. Canyon intends to ensure that each investment is appropriate for each account in light of the characteristics of the specific security and the overall portfolio composition of such account. Although the allocation of investment opportunities among Clients may create potential conflicts of interest because of the interests of Canyon or because Canyon may receive different fees or compensation from its Clients, the allocation decisions will not be based on such interests, fees or compensation.

Within the overall parameters, consideration is given to account investment objectives, strategies and guidelines, account constraints and restrictions, account size, diversification, cash availability (including anticipated contributions and redemptions), liquidity constraints, tax issues, exposure to asset classes, ramp-up or ramp-down status, investment time horizon and other factors, including, where appropriate, the value of having round lots in the portfolio. Canyon will not be obligated to allocate an investment opportunity across all of its Clients and may at times sell a portion (or all) of an investment for one or more of its Clients, while it continues to hold the same investment for other Clients. For example, if any Client is prohibited from purchasing a particular security due to any legal or other regulatory reason, such Client will not be allocated any portion of such security; however, the Advisor may over allocate certain trades to such accounts where the legal or regulatory issue does not otherwise prevent the Client from participating in such trade – with the goal being to allocate trades in a fair and equitable manner over time. Similarly, certain Canyon Clients may not fully participate in equity IPOs. Allocations of equity IPOs will generally be made among eligible Clients on a pro rata basis.

From time to time, Canyon may recommend securities to one or more accounts and it or its affiliates may purchase securities for their own accounts as well. Conflicts of interest may arise among the accounts, or among Canyon and the accounts, or as a result of some other securities investment activity or business in which one or more accounts may be engaged. In addition, Canyon is not obligated by contract to buy, sell or recommend for an account any security or other investment that may be bought, sold or recommended for any other accounts.

When a number of accounts and affiliates are attempting to purchase the same securities, Canyon typically aggregates orders to purchase or sell securities with those of its other accounts in order to facilitate execution and minimize transaction costs. Canyon receives no additional compensation or remuneration for such aggregation. The manner of aggregation is consistent with Canyon's duty to seek best execution for its accounts and with the terms of its investment advisory agreements. Each account participates in aggregated orders at the average share price for each completed transaction in a security with a given broker on a given business day, with transaction costs borne by each account participating in the transaction. If all such orders cannot be fully executed under prevailing market conditions, Canyon allocates on an equitable basis among all of its accounts the purchases or sales which can be made after taking into account the size of the order placed for the various accounts and such other factors as it deems appropriate. In some cases, this procedure could adversely affect the price paid or received by Canyon's accounts or the size of the position obtained by such accounts. In addition, due to certain minimum investment thresholds, certain smaller accounts may not participate in all transactions. This may, over time, result in such accounts holding fewer overall positions than larger accounts.

In addition, Canyon could, from time to time, cause the record title to securities purchased on behalf of the accounts to be held in the name of a nominee affiliate in trust on behalf of the accounts. Such nominee holdings will be undertaken when the size of the investment, the nature of the co-investment or other

considerations relating to the transaction militate in favor of holding the securities in the name of one person rather than subdividing the securities among the accounts. Any such nominee holdings will be held by a qualified custodian, for the sole benefit of the accounts, each of whom will retain full beneficial ownership.

Canyon and its affiliates will cause the accounts to share on a fair and equitable basis in the legal fees and other expenses incurred from investigating and negotiating potential transactions for the accounts, whether or not such transactions are consummated. In loan transactions sourced by Canyon and its affiliates, Canyon may serve as agent at no additional cost to the accounts.

Cross Trades between Investment Advisory Clients

From time to time, one Fund will sell or buy a security to or from another Fund. Although these transactions should not be deemed principal transactions where the Adviser (including its controlling persons) owns less than 25% of the interests of each Fund, the Adviser recognizes the conflict of interest such transactions may create. To mitigate such conflicts of interest, the Adviser will obtain an independent review of the fairness of the transaction to both Funds if the investment is private or an independent price (i.e., a pricing service or broker quote) if the investment is public.

Similarly, from time to time, one Fund will sell or buy a security to or from a managed account Client. The Adviser also recognizes the conflict of interest such transactions may create. To mitigate such conflicts of interest, the Adviser will provide the managed account Client with the name of each security to be crossed for review and confirm approval by such managed account Client before executing the trade. Public securities will typically be “crossed” at the mid-point between the bid and the ask. Private securities will be valued by the Adviser, based on its valuation procedures, and such valuation will be reviewed and approved by the managed account Client.

Depending on the nature of the transaction, cross trades are typically allocated to single account (rather than allocated among multiple accounts). However, from time to time Canyon’s onshore fund(s) could reduce exposure to a security by selling a portion of its holding to offshore fund(s)/account(s). In such cases, the Adviser will generally follow the procedures noted above, but will not seek the consent of the purchasing offshore fund(s)/account(s).

Canyon-Related Securitizations and Other Canyon Activities

Canyon may invest in (a) Canyon-Managed CLOs, (b) securitizations originated or sponsored by the Investment Advisor (or its affiliate) or other Canyon Funds and (c) any other securitizations in which the Investment Advisor (or its affiliate) or other Canyon Funds may be involved or hold interests (including any refinancings thereof and purchases on the secondary market) (clauses (a) through (c) collectively, “Canyon-Related Securitizations”).

Canyon may also invest in other securitizations and asset-backed securities of any kind (collectively with Canyon-Related Securitizations, “Securitizations”).

Canyon’s investments in Securitizations may be made alongside other Canyon Funds at the same or different times and/or on different terms than other Canyon Funds. Other Canyon Funds may be sponsoring such Securitizations and retaining an interest in the equity and/or debt tranches thereof or participating separately as purchasers (like the Fund) in such Securitizations. Canyon or its affiliate may receive fees or other benefits as collateral manager, sponsor or other party in an Canyon-Related Securitization or as manager or advisor of other Canyon Funds participating in such Canyon-Related Securitization.

Canyon may invest in the same or different tranches of the same Securitization as other Canyon Funds or otherwise at different levels of the capital structure, and the Fund or any other Canyon Funds may own a substantial portion of any tranche in which it participates. In such circumstances, Canyon and other Canyon

Funds may have conflicting interests. Investments by Canyon and other Canyon Funds in the same or different tranches may be potentially adverse to each other's interests. On any matter involving a conflict of interest, the Investment Advisor (or its affiliate) will be guided by its fiduciary duties to the Fund as well as its fiduciary duties to the other Canyon Funds, as applicable, which may include conflicting fiduciary duties in its capacity as sponsor or collateral manager of an Canyon-Related Securitization. In each case, the Investment Advisor (or its affiliate) will seek to act for Canyon in the Client's best interest while acting for other Canyon Funds in such Other Canyon Funds' best interests, even where these respective best interests conflict. An investment by Canyon may be a minority investment and/or may be in a non-controlling tranche of interests. Another Canyon Fund may control the tranche in which the Fund invests or may hold interests in different tranche that controls decisions for the entire Securitization; in such case, decisions made for such other Canyon Fund in such other Canyon Fund's best interest may be directly adverse to the Fund's best interest (including decisions that result in forced redemptions or refinancings, amendments to Securitization terms, rights to direct remedies and other actions or determinations). Accordingly, the Investment Advisor may take action, give direction or vote on behalf of the Fund in a manner that is consistent, different or opposite from the action, direction or vote it may take in connection with the investments in the same or different tranches of the same Securitization by other Canyon Funds. Moreover, the same investment team, and potentially the same investment professional, may be responsible for directing such votes on behalf of Canyon and other Canyon Funds.

If, during any period in which any Fund assets are held in an Canyon-Managed CLO, the Fund pays or bears any Canyon-Managed CLO Fees, then, during such period either (a) the Fund's share of such fee will reduce on a dollar-for-dollar basis the Management Fee (but not below zero) or (b) the basis against which the Management Fee is charged will be deemed to exclude the portion attributable to such Canyon-Managed CLO; provided that the choice between (a) and (b) shall be made in the Investment Advisor's sole discretion. The Investment Advisor shall determine in its reasonable discretion whether any tranche(s) of any such Canyon-Managed CLO are held as part of the assets of the Fund, and therefore whether the Fund (through such investment), bears any such Canyon-Managed CLO Fee. In addition, while investments made by the Fund in Canyon-Managed CLOs will provide for a reduction in the Management Fee otherwise payable by the Fund to the extent the Fund pays or bears fees payable to the Investment Advisor in respect of a collateral manager or sponsor role for any Canyon-Managed CLO, there will not be any offset for any fees or other compensation payable to the Investment Advisor or any other account associated with securitizations originated or sponsored by Canyon-managed or Canyon-advised funds and accounts, including any fees or other benefits other accounts may directly or indirectly receive from any affiliates acting as a servicer in such securitizations. Accordingly, the Investment Advisor (or its affiliate) may receive greater total fees, carried interest and other compensation as a result of the Fund investing in such securitizations than the Investment Advisor would receive if the Fund invested in other investment products not affiliated with other accounts (including, where the Investment Advisor does not receive fees or compensation from any such securitization itself, by receiving greater fees, carry or other compensation from another account that has originated or is otherwise involved with such securitization).

Canyon will generally be excluded from voting to remove and replace the Investment Advisor entities as collateral manager, servicer or other parties in certain Canyon-Related Securitizations.

Review of Accounts

Client accounts are reviewed and monitored on routine basis by Senior Management. Reviews may be triggered by, among other factors, changing market conditions, news concerning specific holdings, or at the request of a Client.

Separately managed accounts receive transaction confirmations and monthly statements from brokers, as well as a monthly report listing the holdings, the market value, cost and other information concerning the account.

Fund investors receive monthly account statements listing the value of their investment. Fund investors also receive an annual K-1, if applicable, and a copy of the annual audit for each fund in which they are invested.

Taxable accounts receive an annual tax summary.

Certain private funds advised by Canyon have retained the services of a third party administrator to act as administrator, share registrar, and transfer agent. The Administrator is generally responsible for producing and distributing monthly account statements and other information as specified above to investors. Also, due to legal/regulatory constraints that must be followed by some of our Clients/underlying Fund investors and/or the specific needs and requests by certain Clients/Fund investors, Canyon may, at its discretion, agree to provide certain Clients/Fund investors more frequent reports and/or certain other reports than those described above. Certain information is only provided after the Client/Fund investor has signed a confidentiality agreement.

Client Referrals and Other Compensation

From time to time, Canyon enters into arrangements with third parties whereby Canyon compensates such third parties for referring clients or investors to Canyon. To the extent Canyon does compensate a third-party or client for referrals, Canyon will comply with Rule 206(4)-6 (new Marketing Rule), including ensuring that any referred client/investor receives the required disclosure document. An affiliate of Canyon is a passive, indirect investor in a platform called Capital Integration Systems LLC (“CAIS”), which is one such third party. Neither Canyon nor any of its affiliates receive any fees directly from CAIS for client referrals.

In addition, Canyon’s executing and prime brokers, from time to time, refer to Canyon potential clients/investors or arrange for meetings with potential clients/investors who are also often clients of the broker. While this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. While the meetings may be arranged by the brokers, there is no guarantee that the clients/investors will invest with Canyon. Other than the standard commission rates paid by Canyon’s Clients, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for the meetings or the subsequent investments, if any. Canyon does not select or recommend broker-dealers based upon client referrals from a broker-dealer or third party. Clients do not direct brokerage.

Custody

Canyon has custody of certain Client funds and/or securities. Investors and Clients should carefully review any statements or reports provided by the fund Administrator as well as the Fund’s audited financial statements. The Funds are audited annually and Fund investors receive a copy of the annual audit within 120 days of a Fund’s year-end. With respect to such funds and/or securities held by managed account Clients, such Clients will have access to account statements prepared by a qualified custodian. Such account statements will be available on-line and will be updated at least quarterly. Managed account Clients will also receive accounts statements from Canyon, and Clients should compare the account statements received from the qualified custodian with those received from Canyon.

Investment Discretion

Canyon provides (accepts) advisory services on a fully discretionary basis. Clients (but generally not investors) are permitted to place limits on this discretion or with respect to certain investments and/or investment types. Prior to accepting this authority, Canyon will enter into an advisory agreement with the Client.

Neither Canyon nor any of its affiliates, principals or employees is required to devote full time to managing any single Client. They conduct other businesses and provide investment advisory services to other Clients, including, without limitation, other affiliated investment funds and managed accounts (such as corporate or governmental benefit plans, institutional investors and high net worth individuals), some of whom have objectives similar to those of other Clients. They give advice and make recommendations to such other Clients, which may be the same, similar to or different from those rendered to another Client. The compensation arrangements with other Clients may create incentives for Canyon or its principals or employees to favor such other Clients. However, Canyon will not knowingly or deliberately favor any Client over another Client as result of different compensation arrangements. Decisions affecting one Client may be made independently from such other Clients.

Class Actions

Unless otherwise specifically prohibited in the investment advisory contract, Canyon may, at its sole discretion, file proofs of claims in relation to class actions. Canyon will generally participate and file the necessary claim forms through the use of an unaffiliated third-party service provider. The service provider receives a contingency fee and is not compensated unless a recovery is obtained. Canyon will periodically review this process to determine if the cost associated with such filings exceeds the benefits.

Voting Client Securities

Generally, Canyon has authority to vote its Client's proxies (unless a Client retains authority pursuant to its advisory agreement with Canyon). Canyon has adopted formal written Proxy Voting Policies and Procedures (the "Proxy Policy"). Clients and investors may obtain a copy of Canyon's proxy voting policies and procedures and information on how the Client's securities have been voted upon the Client's request, free of charge from our CCO upon request (Doug Anderson (310) 272 1360).

Canyon shall vote proxies in a manner that is in the best interest of the Client. Canyon shall consider only those factors that relate to the Client's investment or dictated by the Client's written instructions, including how the result of the requested vote will economically impact and affect the value of the Client's investment. In voting on each and every issue, Canyon and its employees shall vote in a prudent and timely fashion and only after a careful evaluation of the issue(s) presented on the ballot.

Canyon has hired Institutional Shareholder Services Inc. ("ISS") to assist in coordinating its voting of proxies and to provide certain record keeping services. ISS does not vote proxies for Canyon, but does inform Canyon about upcoming proxies related to the securities held by its Clients.

Most of the securities held for Canyon's Clients constitute a small percentage of the ownership of the issuer of such securities, therefore Canyon does not expect such issuers to be impacted by its Clients' proxy votes related to such securities. Accordingly, Canyon has determined that its Clients' interests will not be impacted by such proxy votes and that the benefits to its Clients related to any such vote would be small and the costs associated with investigating how best to vote such proxies would exceed such benefits. Consequently, Canyon will not vote or evaluate proxies relating to a security if its Client is a beneficial owner of no more than one percent (1%) of the outstanding securities of such issuer. If, however, Canyon believes that the subject matter of a proxy for any such security may nonetheless be material to a Client's account and that the vote may impact the outcome of such vote, Canyon will vote the proxy in a manner that is in the best interest of its Client. Notwithstanding anything to the contrary in the forgoing, Canyon will vote a proxy as dictated by any Client's written instructions. Additionally, certain of its Clients have

securities lending agreements with their prime broker/custodian and for purposes of determining whether Clients are a beneficial owner of more than 1% of the outstanding securities of an issuer, Canyon will not include securities that are on loan as Canyon does not have the ability to vote such proxies.

Canyon will evaluate proxies relating to a security if the Client is the beneficial owner of more than one percent (1%) of the outstanding securities of such issuer and has the right to vote securities (which it may not possess if the securities are loaned out). Canyon will vote these proxies in a manner that is in the best interest of the Client. Canyon shall consider only those factors that relate to the Client's investment or dictated by the Client's written instructions, including how the result of the requested vote will economically impact and effect the value of the Client's investment (keeping in mind that, after conducting an appropriate cost-benefit analysis, avoiding further expense and investigation and not voting at all on a presented proposal may be in the best interest of the Client). In voting on each and every issue, Canyon will vote in a prudent and timely fashion and only after a careful evaluation of the issue(s) presented on the ballot.

In exercising its voting discretion, Canyon and its employees will seek to avoid any direct or indirect conflict of interest raised by such voting decision. Canyon will provide adequate disclosure to its Clients if any substantive aspect or foreseeable result of the subject matter to be voted upon raises an actual or potential conflict of interest to Canyon or any of its affiliates. After informing a Client of any potential conflict of interest, Canyon will either request such Client's consent to Canyon's vote recommendation or request that such Client vote the proxy directly or through another designee. If the Client is unreachable or the Client has not affirmatively responded before the response deadline for the matter being voted upon, Canyon may: (a) engage a non-Interested Party to independently review its vote recommendation if the vote recommendation would fall in favor of its interest (or the interest of its affiliate), to confirm that the vote recommendation is in the Client's best interest under the circumstances; (b) cast its vote as recommended if the vote recommendation would fall against its or its affiliate's interest and such vote recommendation is in the Client's best interest under the circumstances; or (c) abstain from voting if it determines that such action is in its Client's best interest under the circumstances.

Canyon will also exercise voting and/or consent rights with respect to fixed income securities, including but not limited to, plans of reorganization, and waivers and consents under applicable indentures, consent rights that primarily entail decisions to buy or sell investments, such as tender or exchange offers, conversions, put options, redemption and Dutch auctions.

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

Financial Information

Canyon does not require or solicit pre-payment of advisory fees. There are no financial conditions that are reasonably likely to impair Canyon's ability to meet its contractual commitments to clients.