

# FIVE ARROWS MANAGERS NORTH AMERICA LLC

**Alternative Name: FIVE ARROWS CREDIT MANAGEMENT  
(NORTH AMERICA)**

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March 28, 2024

This brochure (the “Brochure”) provides information about the qualifications and business practices of FIVE ARROWS MANAGERS NORTH AMERICA LLC which generally does business under the name of FIVE ARROWS CREDIT MANAGEMENT NORTH AMERICA and may also be referred to as FAMNA or FIVE ARROWS CM NA (Collectively referred to as “FAMNA”) or “the Adviser”). If you have any questions about the contents of this Brochure, please contact us at [Cynthia.Lopez@rothschildandco.com](mailto:Cynthia.Lopez@rothschildandco.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

The Adviser is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

## **Item 2 – Material Changes**

This Brochure dated March 28, 2024 replaces our last Amendment which was filed March 29, 2023.

The Adviser will generally do business as Five Arrows Credit Management (North America), Five Arrows CM (North America) or Five Arrows CM (NA). All the ownership interests of the Adviser were acquired by Rothschild & Co Holdings North America Inc. in September 2015.

We will provide you with an updated Brochure, as needed, based on changes or new information, at any time. Currently, this Brochure may be requested by contacting Cynthia Lopez at (213) 621-3735 or [Cynthia.Lopez@rothschildandco.com](mailto:Cynthia.Lopez@rothschildandco.com).

Additional information about the Adviser is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with the Adviser who are registered, or are required to be registered, as investment adviser representatives of the Adviser.

### **Updates were made to the following sections of Part 2A since our last amendment:**

- Item 4.E: Updated Adviser's assets under management as of December 31, 2023

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## **Item 4 – Advisory Business**

### **Advisory Services**

#### **4. A. Advisory Firm Description**

In September of 2015, the Adviser was acquired by Rothschild & Co (formerly known as Paris Orleans SCA), a global financial services organization that was founded in the 18th century by members of the Rothschild family and is still family-controlled. The Adviser is a business unit of Rothschild & Co. The sole owner of the Adviser is Rothschild & Co Investment Managers. The Adviser began operations in September of 2005 in connection with the purchase of all of the active investment management contracts of ING Capital Advisers, LLC (“ICA”) which resulted in substantially all of the employees of ICA becoming employees of the Adviser.

The Adviser focuses primarily on the management of US dollar denominated senior secured loans, unsecured loans, and other credit related investment securities (collectively, “Corporate Debt Instruments”). The name of the Adviser was changed to Five Arrows Managers North America LLC from West Gate Horizons Advisers, LLC in July 2016. The Adviser will generally do business as Five Arrows Credit Management (North America), Five Arrows CM (North America) or Five Arrows CM (NA). The Adviser may sometimes operate under the same branding (“Five Arrows Credit Management” or “Five Arrows CM”) as Five Arrows Managers, LLP (“FAM LLP”). FAM LLP may sometimes be referred to as Five Arrows Credit Management (Europe) or Five Arrows CM – Europe. FAM LLP operates a similar business to the Adviser except that it is based in Europe and manages corporate debt instruments that are generally denominated in currencies other than the US dollar. The relationship between the Adviser and FAM LLP is further described in Item 10 of this Brochure.

The Adviser’s basic investment strategy seeks to generate income while preserving capital through fundamental credit analysis performed by an experienced investment team complimented with prudent portfolio construction.

Senior secured corporate loans are sometimes referred to as “Bank Loans” or “Leveraged Loans” and unsecured loans are often referred to as “Second Lien Loans”. These Bank Loans and Second Lien Loans are typically non-investment grade debt instruments and are considered speculative investments and have greater credit and liquidity risk than investment grade investments. Other credit related investment debt securities may include structured finance obligations (typically other debt securities of CLOs managed by third-party investment advisers and sometimes called “SFOs”).

Item 8 of this Brochure gives more detail with respect to the investment strategies and underlying Corporate Debt Instruments utilized in these strategies.

In addition to managing CLOs, the Adviser manages Private Funds (as defined herein) and managed accounts that invest primarily in Bank Loans and other related debt instruments ("Managed Accounts"), both as an investment adviser or sub-adviser. A Private Fund is a pooled investment vehicle that is excluded from the definition of investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act").

Persons reviewing this Brochure should not construe this as an offering of securities or a solicitation to purchase shares in any of the Private Funds described herein, which will only be made pursuant to the delivery of a private placement memorandum to eligible investors. These Private Funds, as well Managed Accounts managed by the Adviser, will be provided with an investment management agreement executed by the client and the Adviser detailing the types of investments that may be purchased/sold, whether the client may use leverage and to what extent, and concentration limits with respect to the portfolio of investments.

#### **4.B. Types of Advisory Services**

The Adviser currently offers investment advisory services (or sub-advisory services) through the management of discretionary investment accounts for institutions and high net worth clients through Private Funds (together with such other funds as the Adviser may advise in the future, the "Funds" and each a "Fund"). The Adviser may also offer investment advisory services to Managed Accounts.

The Adviser's current clients include CLOs which are a type of a Private Investment Fund. A CLO is a special purpose vehicle with an independent Board of Directors. The Adviser will enter into an investment management agreement with the CLO to manage the CLO's assets. A CLO's assets primarily consist of Bank Loans and related investments in addition to cash. In order to fund its purchases of assets, the CLO will issue, typically through a third-party internationally known broker-dealer, on its closing date, debt and equity securities which are typically DTC eligible ("CLO Securities"). The investors who purchase such CLO Securities from the broker-dealer (and also those investors who purchase such CLO Securities in secondary transactions after the initial closing date) are generally sophisticated entities who must meet certain requirements. The investors in CLO Securities are typically limited in their ability to terminate their investment in the CLO under the CLO documentation through a redemption. Such redemption conditions and limits are set out in the CLO's offering

memorandum and other CLO documents. However, most investors in CLO Securities have the ability, subject to market conditions and the willingness of third-party broker-dealers to make markets in such CLO Securities, to sell their interests in the CLO Securities in secondary markets. CLO Securities are speculative investments and, as such, are generally held by experienced institutional investors which are willing, and can bear, the economic risk of investment.

The Adviser may also offer investment management services to other kinds of Private Funds and to Managed Accounts. Other kinds of Private Funds would include other pooled investment vehicles, including those sponsored by the Adviser or an affiliate of the Adviser and which are exempt from registration under the Investment Company Act. Managed Accounts are separately managed accounts, structured in various entity types and forms, including but not limited to trusts, partnerships, or limited liability companies.

In general, the Adviser provides investment advisory services with regard to Bank Loans, and related high yield products and does not provide investment supervisory services. Some examples of these related high yield products would consist of Second Lien Loans and high yield bonds ("High Yield Bonds"). In addition, the Adviser, in accordance with applicable investment guidelines, may also invest in CLO Securities (sometimes referred to as SFOs) on behalf of its clients. In some cases, investment policies of clients allow for the investment in synthetic securities which typically are designed to give exposure to Bank Loans and other related instruments.

#### **4.C. Client Investment Objectives/Restrictions**

Each of the Private Funds (including CLOs) and Managed Accounts will generally specify the investment guidelines related to, among other things, issuer and industry diversification, issuer ratings, desired interest spreads over base rates and account leverage ratios, if any. In the case of CLOs, many of the investment restrictions put in place by the client are designed to meet the requirements of the CLO debt holders and the rating agencies that rate the debt securities issued by the CLO. It is expected that such investment policies and restrictions required by the CLOs may be complex and compliance with such policies may be measured by a third-party custodian and administrator. Investment advisory contracts are for varying terms as determined through negotiation.

#### **4.D. Wrap-Fee Programs**

The Adviser does not participate in, nor is it a sponsor of, any wrap fee programs.

#### **4.E. Assets Under Management as of 12-31-2023**

Total Assets Under Management (“AuM”): \$3,187,707,338.

Accounts managed on a discretionary basis: \$2,790,777,176.

Accounts managed on a non-discretionary basis: \$396,930,162.

Once a CLO (or Private Fund) has reached the end of its reinvestment period, the AuM associated with that account is considered non-discretionary. Prior to the end of the reinvestment period, the AuM associated with that CLO would have been considered a discretionary account. The end of the reinvestment period means that all principal proceeds received from the sale of securities or the pay down of securities are not reinvested in new securities except under certain limited conditions, but rather are used to reduce the account size of the CLO by sequential repayment of the CLO’s debt followed by the CLO’s equity. The accounts in this non- discretionary category are CLOs which have reached the end of their respective reinvestment periods.

The Adviser includes all assets managed on both a discretionary and non-discretionary basis in calculating AuM. The assets are valued at fair market value for the purposes of calculating AuM. Fair market value typically consists of the mean of the bid and asked quotations received from an internationally recognized third-party pricing service.

### **Item 5 – Fees and Compensation**

#### **Advisory Contracts and Fees**

##### **5.A. Adviser Compensation**

The Adviser’s fees are generally described below and detailed in each client’s advisory agreement or applicable account documents as well as, with respect to a Private Fund (such as a CLO), in the Private Fund’s governing documents.

Fees for service may be negotiated with each client on an individual basis prior to the engagement of the Adviser. Typically, the Adviser charges clients quarterly in arrears, a base management fee (which for CLO clients may include both a senior and subordinated management fee component which are discussed below) for investment services. Base management fees are typically paid quarterly in arrears and are generally calculated on the value of gross assets (taking leverage into account) under management at the beginning of the quarter. At present, for purposes of the calculation

of base management fees with respect to CLO clients, gross assets are being calculated utilizing par value of Bank Loans and other related debt securities as well as the value of cash and cash equivalents which the Adviser believes is standard practice with respect to CLOs.

Private Funds other than CLOs or Managed Accounts will generally have similar, but not identical arrangements to those of CLOs in terms of base management fees. However, such accounts typically will not have a subordinated fee component of the base management fee. Also, it would be expected that the calculation of the base management fee will be based on the market value rather than par value.

Private Funds, as well as Managed Accounts may, under certain circumstances, pay a performance fee to the Adviser as well as the base management fee. Performance fees are discussed in Item 6 of this Brochure.

Fees for Private Funds are typically calculated and paid by an independent trustee (CLO clients) or a third-party independent custodian.

With regards to Private Funds, the respective fund's governing documents will generally permit the Adviser to waive, rebate or defer all or part of the management fee and/or performance fee with respect to investments made by certain investors without waiving, rebating, or deferring the fees charged to other investors. In addition, in certain cases the Adviser, as the investment manager, may have the discretion to grant special or more favorable rights, without limitation, with respect to fees, transfers, notices and transparency. Such rights may be granted to any Fund investor. To effect, such waivers, or modifications or to grant any special or more favorable rights, the Adviser or the Fund(s) will enter into agreements or issue other classes of shares.

The difference between the senior fee and subordinated management fee components of base management fees with respect to CLO clients relates to amount and certainty of collection. Typically, the senior fee and the subordinated fee are of differing amounts. The collection of such senior management fees by the Adviser is fairly certain. This is because senior management fees are typically paid by the Private Funds (including CLO clients) prior to most interest expense, if any, is paid to the fund's debtholders. Subordinated management fees (which are typically associated with CLO clients) are paid after most interest expense to the CLO's debtholders is paid and the CLO's coverage tests have been met. The collection of such subordinated management fees may be less certain under certain adverse credit conditions which may cause a failure in connection with the CLO's coverage test. However, in such instances,



subordinated management fees will typically be deferred and may be paid at a later date assuming there are sufficient funds and the CLO's coverage tests have been met at a later date.

In the event that additional assets are placed under management during the calendar quarter, the Adviser's compensation with regard to base management fees will be calculated and payable on a pro rata basis.

Fees may change over time and as discussed below, different fee schedules may apply to different types of clients or advisory arrangements. The amount, timing, and type of fees charged (i.e., base management fee and performance fee), and the manner in which fees are calculated, are determined through negotiations with clients and are set forth in an investment advisory agreement with the client. Accordingly, there may be differences in fees paid by certain clients based on a variety of factors. Negotiations between the Adviser and clients are influenced by such factors as the nature and extent of the investment advisory services to be rendered and the size of the managed account, among other things. The Adviser reserves the right to waive or reduce the fees charged to a particular client in its sole and absolute discretion.

Total base management fees charged to the client will typically range from approximately 30 to 50 basis points of gross AuM based upon negotiations with the client and depending upon the type of account/fund and strategy.

## **5.B. Direct Billing of Advisory Fees**

The specific manner in which fees are charged by the Adviser is established in a client's written agreement with the Adviser. Generally speaking, the independent trustee, custodian, and administrator for the Private Fund (such as a CLO) will calculate the base management and performance fees and remit payment to the Adviser. In the unlikely absence of such a procedure by the independent custodian, the Adviser would seek to bill the client its fees on a quarterly basis in arrears.

Although it is not current practice, pursuant to the investment management agreement, clients could also elect to be billed directly for fees or to authorize the Adviser to directly debit fees from client accounts. In such instances, if any, where the client has authorized direct billing, the Adviser will take steps to assure itself that the client's qualified custodian sends periodic account statements, no less frequently than quarterly, showing all transactions in the account including fees paid to the Adviser, directly to such clients in accordance with Rule 206(4)-2 (Custody Rule) of the Investment Advisers Act of 1940, as amended (the "Advisers Act").

## **5.C. Other Non-Advisory Fees**

The Adviser's advisory fee is exclusive of brokerage commissions, transaction fees and other related costs which shall be incurred by the client. Clients may incur certain charges imposed by third-party custodians, brokers, third-party investment and other third parties including legal and accounting fees pertaining to services rendered to the client as well as wire fees, taxes and other transaction-related fees. A client's portfolio may include positions in mutual funds, such as a money market fund in which excess cash is swept into, which will also charge a service fee.

Also, the client (through the independent custodian in the case of Private Fund clients) may reimburse the Adviser, pursuant to the negotiated investment management agreement, for certain out of pocket costs incurred by the Adviser (with respect to third-party investors) in the management of the client's account such as, among other things, the cost of specialty software involved with the portfolio management and compliance of the client's portfolio, legal charges in connection with portfolio assets and certain travel expenses. At present, these reimbursable out of pocket costs consist of specialized loan accounting software and third-party data processing in connection with the Private Fund's investments, customized portfolio compliance software, loan pricing services, license-based services and risk analysis software, public loan rating database, data and software charges in connection with security and company information (including company fundamental data), and third-party legal review of loan credit agreements among others. Such charges, fees and commissions are exclusive of, and in addition to, the Adviser's fee. Such charges to the Adviser, described above, may include additional costs and expenses incurred in connection with the data service providers such as news feeds, securities and company information, and company fundamental data.

Certain expenses can be attributed to a specific client (i.e., a legal expense in connection with a change in a Private Fund's governing documents) while other services are shared by one or more clients (i.e., loan pricing service). Such shared services and the expenses thereon are typically allocated to clients if the client derives a benefit for the service. If it is determined that the client derives a benefit, the cost of the service is allocated on a pro-rata basis determined by account size.

## **5.D. Advance Payment of Fees**

As a general matter, the Adviser bills for its services quarterly, in arrears.

## **5.E. Compensation for Sale of Securities or Other Investment Products**

The Adviser and its personnel do not accept compensation for the sale of securities (including loans) or other investment products.

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

The Adviser may also charge clients a performance fee in addition to a base management fee, consistent with Rule 205-3 under the Advisers Act for certain Managed Accounts and Funds.

More recently, the Adviser's performance fees with respect to CLO clients are generally calculated as a percentage of the actual cash on cash return to the equity securities of the CLO client after the IRR hurdle with respect to the CLO's equity securities have been met and the CLO has cash available to pay such fees, otherwise the performance fees are never paid. For example, if the actual cash on cash return to the holders of the CLO's equity securities (assuming the CLO equity securities were purchased on the closing date of the CLO at par and not purchased subsequently in the secondary market) reaches a predetermined IRR, thereafter, the Adviser would receive a certain percentage of future cash returns payable to the CLO's equity securities.

Alternatively, the potential amount of a CLO client's performance fee may be calculated in the same manner as the base management fee (i.e., as a percentage of gross AuM) beginning on the closing date of that CLO client. However, such performance fees are not payable to the Adviser unless the cash-on-cash IRR hurdle with respect to the CLO's equity securities has been met. Even then, the potential performance fees are paid periodically and are subject to limits and the availability of funds. If the cash-on-cash IRR hurdle is not met over the life of the CLO, then the performance fees are never paid.

Under either of these arrangements, the cash IRR hurdle rate is not expected to be triggered until after 4 years or more after inception of the CLO, even with ideal market conditions. At the point, the cash IRR hurdle is met, the performance fees are generally payable not more frequently than quarterly. The calculation of performance fees and the cash-on-cash IRR hurdle measurements is generally performed or reviewed by the independent custodian.

The Adviser may enter into different performance fee arrangements with other Private Fund clients or Managed Account clients than the performance arrangements described above.

“Side-by-side management” refers to the simultaneous management of multiple types of client accounts and/or investment products. For example, as discussed above, the Adviser manages Private Funds (including CLOs) as well as Managed Accounts. These accounts may be similar to each other (or even compete in certain circumstances). These accounts may have different advisory fee arrangements. In any event, the side-by-side management may give rise to actual or potential conflicts of interest.

Clients should be aware that performance-based fee arrangements create a potential conflict of interest for the Adviser as they may create an incentive for the Adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee-paying accounts with performance fees over other accounts in the allocation of investment opportunities. The Adviser has trade allocation procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 – Type of Clients**

The Adviser provides investment advice to Private Funds (including CLOs), and Managed Accounts. Investments in these vehicles are generally only available to institutional investors and certain high-net worth investors that are accredited investors and qualified purchasers or non-U.S. persons or in the case of employees and/or knowledgeable employees, within the meaning of the Investment Company Act. The Adviser’s Private Funds and Managed Accounts generally have a specific minimum investment amount, which is set forth in their offering materials and governing documents.

Each client is required to execute a written investment advisory contract with the Adviser, except in certain sub-advisory arrangements wherein the Adviser will execute a sub-advisory agreement with another advisor pursuant to that advisor’s agreement with the ultimate client.

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

### **8.A. Methods of Analysis and Investment Strategies**

CLO Investment Funds: The Adviser’s primary investment strategy is constructing a broadly diversified Bank Loan portfolio, selecting investments through is fundamental

analysis in connection with its clients. The Adviser actively manages its Bank Loan portfolios using its disciplined and long-standing investment process that seeks to maximize returns while minimizing volatility. Bank Loans are made to large corporate customers who undertake these loans to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, dividends and internal growth and for other corporate purposes. These Bank Loans are the most senior source of capital in a borrower's capital structure, and have certain of the borrower's assets and/or stock pledged as collateral.

These portfolios will consist of Bank Loans (including Second Lien Loans) that are institutional term loans and are actively rated by the major rating agencies. Typically, the Bank Loans' total issue size will exceed \$100 million or more and will be available to domestic and foreign borrowers. The Adviser will potentially select Bank Loans for investment from both the new issue market as well as the secondary market. The portfolios will also invest in related financial instruments, such as Second Lien Loans which are subordinated to more senior Bank Loans. Second Lien Loans are subordinated to Bank Loans and are typically riskier investments than Bank Loans.

The Adviser manages certain assets, primarily the debt securities issued by CLOs which are managed by unaffiliated investment managers, within some of the Private Funds it manages. These Structured Finance Obligations ("SFO") securities are typically secured by a portfolio of Bank Loans. These SFO debt securities are typically, at issuance, rated, but such ratings may be at or below investment grade.

Bank Loans, Second Lien Loans and SFOs are typically floating rate instruments in that they pay interest quarterly at a coupon that is a floating rate plus a spread. High-yield bonds (sometimes referred to as "Junk Bonds") are typically fixed income instruments. Bank Loans Second Lien Loans and high-yield bonds are typically of below investment grade quality and have below investment grade credit ratings. These speculative ratings (which typically cover all of the investments in the portfolio) are associated with securities having high risk, and speculative characteristics.

The Adviser's Corporate Debt Instrument investment process is built primarily upon credit reviews which employ extensive fundamental research. This process relies, in large part, upon the experience of the investment team in terms of deep familiarity with specific industries and the companies which operate within those industries resulting in loan selection. This experience extends to portfolio construction which emphasizes diversification among individual holdings and industry sectors. This process generally results in the purchase of loans to be held for one year or more. The portfolios are typically highly diversified in terms of issuers and industry

classifications. However, the Adviser may engage in short term trading of certain loans (or bonds) to seek to take advantage of opportunities in secondary markets as permitted under applicable investment guidelines.

Various sources of information are used to evaluate the Bank Loans or Second Lien Loans in connection with the issuing company and the industry it operates in. Sources include, private or public placement memoranda prepared by commercial and investment banks, financial information prepared by the borrower independent credit analysis, market research prepared by banks and brokers, bank meetings, and media, public filings, reports and other publicly available information disseminated in respect of issuers of publicly traded debt instruments. In addition, the Adviser may utilize third-party specialty modeling software to evaluate investments in SFOs.

Adviser may provide advisory services related to equity or other debt instruments received in connection with the purchase, restructuring or liquidation of a corporate bond or loan (known also as “work-out securities”) which will constitute only a small portion of the Adviser’s managed portfolios. Portfolios may contain other securities such as warrants or other equity-like securities received in connection with investments in Bank Loans and other related high-yield securities.

**Credit Analysis and Approval** is primarily performed by our Credit Analysts and is based on intensive fundamental research. This intensive fundamental research relates to financial risk, industry and business risk, credit risk, market risk, and relative value. Financial risk would include cash flow analysis, break-up value analysis, and capital structure among other things. Industry and business risk would include experience and tenure of management, market position and scale, completion, and barriers to entry. Market risk and relative value would relate to current trading levels and integrating the fundamental risk with the market valuation, the issue size, covenants, pricing, and liquidity among other things.

The Credit approval process involves an initial review, prior to the credit analysis, First, potential credit investment opportunities are filtered which includes a review of fund suitability in regard to the credit investment opportunities’ transaction terms as well as with respect to leverage ratios and sector analysis, among other things. In addition, the initial review may involve consultation with FAM LLP personnel (an affiliate disclosed in Item 10.C of this brochure) in connection with potential credit investment opportunities which have significant business operations in Europe. Next, a Credit Analyst, who specializes in the industry in which the company operates and then the opportunity is discussed internally. The Credit Analyst conducts intensive fundamental

credit research as described above. In the final step of this part of the process, the proposed credit is presented to the FAMNA's Investment Committee and, if approved, the credit will be added to the "Approved Purchase List."

**Portfolio Construction and Selection** is focused on a defensive approach to risk in terms of diversification with respect to percentage of issuers and industries and involves reviewing the fund's strategy and risk/return targets, the type of assets and the construction of a model portfolio. The fund's strategy will typically have investment policies and restrictions relating to asset types, liquidity, diversification, sector constraints and rating constraints, among others. Assets would generally mean first lien loans, secured loans or second lien loans and also distinguishing the tranche type. In constructing the model portfolio, the Portfolio Manager(s) will consider assets on the Approved Purchase List as well as assets outside of the Approved Purchase List (awaiting investment committee approval). Portfolio construction accounts for the availability of the asset, as well as the size.

**Certain Environmental, Social and Governance (ESG)** are incorporated into its investment analysis and decision-making processes. Evaluation of ESG factors are considered throughout each stage of our investment process.

- **Pre-investment:** Screening seeks to exclude investment in sectors and companies that are considered unethical. We do not invest in companies that a) have a core business engaged in activities in breach of international conventions; b) engage in material or systematic corruption; c) deliberately and repeatedly violate law in markets where they operate; d) export certain goods and services targeted by trade embargoes imposed by the UN or EU; and e) derive majority revenue from controversial weapons and munitions, tobacco, prostitution, pornography or thermal coal-based activity.
- **Due Diligence & ESG Decision:** Due to the nature of the syndicated loan asset class, our ability to impact the ESG policy of issuers can be limited. We therefore assess the ESG compliance of the issuer, its sponsor and the lead shareholders. In doing so, we generally rank each potential investment across 15 ESG criteria with a scoring system of zero to three points for each topic. If the investment opportunity scores 4 points or less in any one section, three zeros across sections or at/below 20 total points (out of 45), we decline.
- **Monitoring and Reporting:** Review of ESG factors is embedded into the ongoing monitoring of investments. Analysts, in communication with Portfolio Management, review ESG scorecard criteria with quarterly earnings.

**Risk Management and Portfolio Monitoring** typically involves dialogue with capital

market participants as well as ongoing fundamental research by the Adviser's investment staff. The Adviser engages in proactive portfolio management including daily "all-hands" meetings to discuss fundamental credit issues utilizing company information and industry data. In addition, in the daily meetings, the investment staff discusses the "markets" in general from a top-down view and potential "sell" decisions. These daily meetings are augmented by periodic meetings with Adviser's investment teams to discuss issuers, industries, and the markets in general. The Credit Analysts review company and industry data as it becomes available in connection with portfolio monitoring and are accountable for raising concerns/recommendations among issuers and industries. The portfolio performance is monitored to facilitate rapid exit/acquisition. In addition to the daily meetings, there are portfolio review meetings throughout the quarter to, among other things, refresh the Approved Purchase List and to review the watch list.

This investment process generally results in the purchase of loans to be held for one year or more. The portfolios are typically highly diversified in terms of issuers and industry classifications. However, the Adviser may engage in short term trading of certain loans (or bonds) to seek to take advantage of opportunities in secondary markets as permitted under applicable investment guidelines.

The Adviser utilizes various sources of information to evaluate the investment merits of particular Bank Loans or Second Lien Loans in connection with the issuing company and the industry it operates in. These include, private or public placement memoranda prepared by commercial and investment banks, and other information, including financial information prepared by the borrower, independent credit analysis, market research prepared by banks and brokers, information contained in newspapers, Internet websites, periodicals and other sources of information considered useful by the Adviser. The Adviser also may attend bank meetings related to prospective and existing loan investments. The Adviser utilizes many of the same public sources of information to evaluate the investment merits of High Yield Bonds and SFOs. In addition, the Adviser may utilize third-party specialty modeling software to evaluate investments in SFOs. These materials are supplemented by public filings, reports and other publicly available information disseminated in respect of issuers of publicly traded debt instruments. In terms of ongoing portfolio monitoring and surveillance, the Credit Analysts monitor the pricing on the loans they cover as well as reviewing financial reports submitted by the loan issuer and participating in earnings calls and other communications by the issuer of the loan. In addition, in connection with the monitoring process, changes in rating are reviewed as well as news and analysis of the borrower and the industry it operates in.



On occasion, the Adviser may provide advisory services related to equity or other debt instruments received in connection with the purchase, restructuring or liquidation of a corporate bond or loan (known also as “Work-Out Securities”). In addition, from time to time, the portfolios managed by the Adviser may contain certain other securities such as warrants or other equity like securities received in connection with investments in Bank Loans and other related high yield securities. It is anticipated that these equity instruments, which may contain restrictions on resale, will constitute only a small portion of the Adviser’s managed portfolios.

The Adviser, where directed by the client, invests excess cash in third-party money market funds, commercial paper, repurchase agreements and other money market instruments. Such balances are typically invested in funds maintained by the client’s independent custodian.

The Adviser specializes in the management of Bank Loans of domestic and foreign borrowers. The Adviser also specializes in the management of other related financial instruments, which includes Second Lien Loans which are subordinated to more senior Bank Loans. Bank Loans are loans made by U.S. Banks and other large financial institutions to large corporate customers who undertake these loans to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, dividends and, to a lesser extent, to finance internal growth and for other corporate purposes. Typically (but not always), these Bank Loans are the most senior source of capital in a borrower’s capital structure, have certain of the borrower’s assets and/or stock pledged as collateral. Second Lien Loans are subordinated to Bank Loans and are typically riskier investments than Bank Loans.

The Adviser also has experience in the management of SFO securities. The Adviser manages certain assets, primarily the debt securities issued by CLOs which are managed by unaffiliated investment managers, within some of the Private Funds it has managed. These SFO securities are typically secured by a portfolio of Bank Loans. These SFO debt securities are typically, at issuance, rated, but such ratings may be at or below investment grade.

Bank Loans, Second Lien Loans and SFOs are typically floating rate instruments in that they pay interest quarterly at a coupon that is a floating rate plus a spread. High Yield Bonds (sometimes referred to as “Junk Bonds”) are typically fixed income instruments. Bank Loans Second Lien Loans and High Yield Bonds are typically of below investment grade quality and have below investment grade credit ratings. These speculative ratings (which typically cover all of the investments in the portfolio) are associated with securities having high risk, and speculative characteristics.

## **8.B. Material Risks of Investment Strategies**

### General Risks

There can be no guarantee of success of the Bank Loan strategy offered by the Adviser. Bank Loans are generally rated below investment grade or may be non-rated. All investments made by the Adviser on behalf of its clients risk the loss of capital that the client should be prepared to bear. The Adviser believes that its investment process and research techniques moderate this risk through a careful selection of Bank Loans and other related securities. However, there can be no guarantee or representation that the Adviser's investment program will be successful.

Specifically, economic, or other events can reduce the demand for certain Bank Loans and other related securities which could reduce market prices and cause the value of a client's portfolio to fall. Certain Bank Loans and other related securities could experience downturn in trading activity and the supply of such securities may exceed demand. Imbalances in supply and demand in the market could result in imprecise valuations, significant volatility, and extremely limited liquidity.

In addition, if the client employs credit strategies involving leverage, the risk of loss could be increased.

### General Economic and Market Conditions

The success of the Adviser's investing activities can be affected by general economic and market conditions such as employment rates, interest rates, inflation (or deflation), economic uncertainty as well as changes in global health conditions and geopolitical circumstances which would include pandemics or disease outbreaks, wars, and terrorist attacks. These factors will likely impact investment prices and liquidity of investments. Volatility or lack of liquidity in the investing markets may result in losses.

### Limited Asset Class Diversification

Subject to compliance with any applicable client-imposed investment restrictions, the Adviser will make concentrated investments in the Bank Loan asset class and related assets. Losses incurred in a portfolio's more concentrated asset class could have a materially adverse effect on a client's overall portfolio performance.

### Highly Volatile Instruments

Prices of certain securities in which the Adviser may invest for clients can be highly

volatile. Price movements of Bank Loans, Second Lien Loans, SFOs and High Yield Bonds in which a client's portfolio may be invested may be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets. Such intervention may be intended to influence prices directly and may, together with other factors, cause markets to move rapidly in the same direction.

### Leverage

Depending upon the client's mandate, the Adviser may use leverage in connection with a managed portfolio. CLO's utilize leverage in their fund structure. The use of leverage can magnify the potential gains and losses from an investment and increase the risk of loss of capital.

To the extent that income derived from investments purchased with borrowed funds is greater than the cost of borrowing, net income will be greater than if borrowing had not been used. Conversely, if the income from investments purchased with borrowed funds is not sufficient to cover the cost of borrowing, the net income will be less than if borrowing had not been used, and the amount available for ultimate distribution will be reduced. The extent to which the gains and losses associated with leveraged investing are increased will generally depend on the degree of the leverage employed. Further, maintaining compliance with the various financial and overcollateralization tests and covenants imposed by a Creditor may require the sale of investments under unfavorable market conditions, thus creating a loss that might not otherwise have occurred. If an event of default under a leverage arrangement occurs and investments are sold, losses may also occur that might otherwise not have occurred.

### Liquidity of Fixed Income Markets (including Bank Loans and related securities)

At times, certain sectors of the fixed income market, which include the Bank Loans and related high yield securities in which the Adviser invests, have experienced significant declines in liquidity. While these events may sometimes be attributable to changes in "macro" and local market events, interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, the Adviser may be unable to sell assets in a client's portfolio or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of the client's portfolio.

During such periods of market illiquidity, the Adviser may not be able to readily

dispose of certain Bank Loans and related high yield securities. Under certain market conditions, this could involve significant portions of the portfolio and such Bank Loans and related high yield securities would be considered illiquid investments. In such a case, illiquid investments and other assets and liabilities for which no such market prices are readily available will generally be carried at values determined by an independent valuation party selected by the Adviser. It is possible that such valuations will form the basis for calculating the management fee and performance fee/allocation payable to the Adviser, although as discussed above, CLO clients typically use par value as the basis for calculating management fees and use actual cash on cash returns for calculating performance fees. There is no guarantee that such value will represent the value that will be realized by the client upon the eventual sale of the Bank Loan or related high yield securities or that would, in fact, be realized upon an immediate disposition of the investment. In addition, the Adviser may not be able to liquidate certain illiquid investments in order to satisfy client redemption requests. Accordingly, to the extent that client redemptions are financed through the sale of the more liquid investments, such redemptions would result in the remaining portfolio being comparatively less liquid.

#### Difficulty and Cost of Locating Suitable Investments

There is no guarantee that suitable deal flow will be available so that the Private Funds and Managed Accounts will be able to invest available capital during the applicable commitment period or that any such investments will be successful. The success, in terms of performance, of the Private Funds and Managed Accounts, depends on the ability of the Adviser to identify, select, purchase, and settle appropriate investments at an attractive price. The Adviser has instituted certain trade allocation practices, further described in Item 12.B of this Brochure, which are designed to mitigate the risks of a client's potential underperformance resulting from lack of investable Bank Loans.

#### Non-Public Information

From time to time the Adviser will come into possession of bank syndicated information which may fall into the category of material non-public information with respect to an issuer of public securities including High Yield Bonds. In the loan market, participants may choose to receive information in connection with a potential investment in a loan which may be material non-public information (sometimes referred to as "Syndicate Information") as opposed to information that does not contain material non-public information (sometimes called "Bank Loan Non-Restricting Information"). In addition to this, under certain more isolated circumstances, the Adviser may receive confidential information which may include material non-public information that may be available

to only some loan market participants (sometimes called “Borrower Restricted Information”). Generally speaking, the Adviser may receive Borrower Restricted Information through an existing investment in a loan undergoing a restructuring. Under Loan Syndications and Trading Association (“LSTA”) principles, a loan market participant in possession of Syndicate Information may trade loans in the secondary market on that information in a manner consistent with appropriate standards of professional integrity. Under LSTA principles, a loan market participant in possession of Borrower Restricted Information cannot trade the loan except under certain conditions. However, trading in the US securities market is a different matter from trading in loans. Loan market participants that choose to participate on the “private side” (i.e., investors that choose to obtain Syndicate Information that contains material, nonpublic information) generally may not purchase or sell (but may continue to hold) the securities of the borrower (e.g., high-yield bonds, convertibles, equities) until such time as the information in the Adviser’s possession is no longer deemed material, nonpublic information in the Adviser’s judgment. The Adviser’s judgment with respect to whether the firm has material, nonpublic information could prove incorrect and may potentially harm a client.

The Adviser may participate on either the “private side” or “public side” (i.e., choose to obtain borrower information that does not contain material, nonpublic information). However, if the Adviser participates on the “public side” to avoid such trading restrictions, the Adviser will not have access to borrower information that may be advantageous to a client. Furthermore, other market participants could have possession of, and benefit from, such information as described above. Although it is not anticipated that investments in High Yield Bonds or other public securities will constitute a significant portion of the Adviser’s investment strategy, possessing such information may limit the ability of the Adviser to buy or sell such High Yield Bonds. In addition, in certain instances (such as participation on a creditor’s committee), the Adviser may receive certain borrower restricted information which could limit the ability of the Adviser to buy or sell a particular Bank Loan.

As described in Item 10.C of this Brochure, the Adviser operates a shared deal log with an affiliate (the “Deal Log”) to which all of the Adviser’s and the affiliate’s respective clients are subject. Consequently, the Adviser may not be able to buy or sell a particular bond or equity security (or even a loan under certain circumstances) on behalf of its clients because one or more personnel of the affiliate possesses material, non-public information concerning the instrument’s issuer or the market for the issuer’s securities or other instruments even in a declining market, until the information becomes publicly available or immaterial and the trading in the issuer’s securities or instruments is no

longer restricted.

### Counterparty Risk

The markets in which the Adviser may execute client transactions are over the counter or interdealer markets. Some of the protections afforded to participants on organized exchanges, such as the performance guarantee of an exchange clearinghouse, are not available in connection with over-the-counter transactions. This exposes clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions, either due to a dispute over the terms of the contract (whether or not bona fide) or due to a credit or liquidity problem or the insolvency of such counterparty, thus causing the client to suffer a loss. Such counterparty risk is accentuated for contracts with longer maturities or transactions in instruments with an extended settlement cycle or where a client has concentrated its transactions with a single or small group of counterparties. If there is a default by the counterparty to such a transaction, the client may have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs that could result in the net asset value of the client's portfolio being less than if the client had not entered into the transaction.

### Non-U.S. Investments

The Adviser's clients may make investments in the corporate debt instruments of companies domiciled outside of the United States. Investing in the debt instruments of non-U.S. issuers may involve certain considerations usually not associated with investing in U.S. companies.

### Contingent Liabilities

From time-to-time clients may incur contingent liabilities in connection with an investment. For example, the Adviser may cause the client to purchase a Bank Loan which is a revolving credit facility that has not yet been fully drawn (commonly known as "revolvers") or a delayed draw term loan. If the issuer of the revolver or delayed draw term loan which is not already fully drawn subsequently draws down on the facility, a client would be obligated to fund the amounts due.

### Risks of Litigation

Investing in Bank Loans and other related instruments can be a contentious and adversarial process, particularly if the issuer of the Bank Loan or other related

instrument becomes financially distressed and becomes involved in a restructuring of the security. In such cases, these Bank Loans and other related instruments may be the subject of litigation surrounding the owners of the Bank Loan (which may include a client of the Adviser) and the underlying issuer of the Bank Loan. Different investor groups of the securities issued by the issuer may have qualitatively different, and frequently conflicting, interests. The Adviser's investment activities may include activities that are hostile in nature and will subject clients to the risks of becoming involved in litigation by third parties.

#### Risks Associated with Bankruptcy Cases

Certain Bank Loans and related instruments owned by clients may be the subject of bankruptcy and reorganizations. Many of the events within a bankruptcy case are adversarial and often beyond the control of creditors who own the Corporate Debt Instruments. While creditors generally are afforded an opportunity to object to significant actions, a bankruptcy court may approve actions that are contrary to the interests of the clients. Furthermore, there are instances in which creditors and equity holders in the issuer may lose their ranking and priority such as when they assume management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. Unless a client's claim in such case is secured by assets having a value in excess of such claim, no interest will be permitted to accrue. Therefore, the time necessary to negotiate the plan of reorganization of the debtor and secure approval from creditors and the bankruptcy court may adversely affect client's return on investment. The risk of delay may be particularly acute when the client holds an unsecured High Yield Bond or a Second Lien Loan or when the collateral value underlying the secured Corporate Debt Instrument does not equal the amount of the secured claim. Further, reorganizations outside of bankruptcy are also subject to unpredictable and potentially lengthy delays which can affect the performance returns of such investments.

Since Corporate Debt Instruments are subject to the risk of scheduled principal and interest, significant changes in economic conditions could reduce the capacity of borrowers to make required payments which could significantly impair the success of the investment strategy. Investments in Corporate Debt Instruments and related securities involve risk and potential loss of capital.

There can be no guarantee of success of the strategies offered by the Adviser. Economic or other events can reduce the demand for certain Bank Loans or other related securities which could reduce market prices and cause the value of a client's portfolio

to fall. Certain Bank Loans or related securities could experience downturn in trading activity and the supply of such securities may exceed demand. Imbalances in supply and demand in the market could result in imprecise valuations, significant volatility, and extremely limited liquidity. Since Bank Loans and other related investments are subject to the risk of scheduled principal and interest, significant changes in economic conditions could reduce the capacity of borrowers to make required payments which will, in all likelihood, significantly impair the success of the investment strategy. Investments in Bank Loans and related securities involve risk and potential loss of capital. Past performance is not indicative of future results.

#### Foreign Exchange (FX Risk)

Private Funds have two potential types of currency risk which may adversely affect performance: (i) Investments which are based in currencies other than US dollar denominated assets; and (ii) Shares issued by the Private Fund which are denominated in currencies other than the US Dollar. With respect to the first potential risk, it is not anticipated that the Adviser will make material investments in any Bank Loan which is not denominated in US dollars. However, it is possible that a Private Fund could issue shares in a denomination other than US Dollars. In this case, the net asset value of the Private Fund as expressed in US Dollars and the net asset value of the non-US Dollar shares may fluctuate in accordance with changes in the foreign exchange rate between such currencies.

In such cases, the Private Fund may enter into financial transactions in order to hedge the risk of loss due to a decline in the value of non-US Dollar shares relative to the US Dollar shares. However, there cannot be any assurance that it will in all cases be able to hedge or that the hedges will be completely effective. As a result, while the Private Fund will seek to minimize the exposure to such risk, investors in such Private Funds may potentially be exposed to some currency risk which may result in the depreciation of the value of their holding.

#### Risks Associated with Longer Term Investments with Uncertain Exits

Certain distressed investments including Work-Out Securities may be illiquid due to variety of reasons, including legal restrictions on resale at the time when the Private Fund or Managed Account is undergoing liquidation. Such a condition could have an adverse impact on the client.

#### Cyber Security Risks and Disaster Recovery

Cyber security incidents and cyber-attacks have been occurring globally at a more



frequent and severe level and will likely continue to increase in frequency in the future. The Adviser and its service providers' information and technology systems may be vulnerable to damage or interruption from computer viruses or other malicious code, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals or service providers, power, communications or other service outages and catastrophic events such as fires, tornadoes, floods, hurricanes, and earthquakes. If unauthorized parties gain access to such information and technology systems, they may be able to steal, publish, delete, or modify private and sensitive information. Although the Adviser has implemented, and service providers may implement or already have implemented, various measures to manage risks relating to these types of events, such systems could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly, or fail to adequately secure private information. Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm, and preventing it from being addressed appropriately. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the Adviser's operations and result in a failure to maintain the security, confidentiality, or privacy of sensitive data (including material non-public information in connection with investments) and, potentially including personal information relating to clients, if any.

## **8.C. Material Risks of Securities Used in Investment Strategies**

### Corporate Debt Instruments in General

As noted above, the Adviser primarily invests in Corporate Debt Instruments of U.S. and non-U.S. issuers, including, without limitation, Bank Loans. Bank Loans typically pay, variable or floating rates of interest, while other Corporate Debt Instruments may pay a fixed rate of interest. The value of these securities, particularly those instruments with a fixed rate of interest, will often change in response to fluctuations in interest rates. In addition, the value of Bank Loans (as well as other Corporate Debt Instruments) can fluctuate in response to perceptions of creditworthiness, foreign exchange rates, political stability, or soundness of economic policies. Bank Loans (as well as other Corporate Debt Instruments) are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity and

general market liquidity (i.e., market risk). Further, in seeking to capture certain price appreciation opportunities and subject to appropriate investment guidelines contained in the advisory agreement, the Adviser may purchase certain debt instruments for a client that are non-performing and possibly in default where the obligor or relevant guarantor may be in bankruptcy or liquidation (e.g., bankruptcy claims) although this strategy is highly unlikely with respect to CLO clients. Accordingly, while the Adviser seeks to garner the best investment opportunities for its clients, there can be no assurance as to the amount and timing of payments, if any, with respect to the purchase of any such debt investments or that any such investments will be profitable.

#### Non-Investment Grade Corporate Debt Instruments

A significant portion of the Adviser's investment strategies involve the use of below investment grade Corporate Debt Instruments such as Bank Loans, and to a much lesser extent, Second Lien Loans and High Yield Bonds. These Corporate Debt Instruments, which have significant liquidity and market value risks since they do not trade on an exchange, are traded by banks and other financial institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities. Corporate Debt Instruments that are rated below investment grade or are unrated face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated Corporate Debt Instruments tend to reflect individual corporate developments to a greater extent than do higher rated fixed income securities, which react primarily to fluctuations in the general level of interest rates. These types of securities also tend to be more sensitive to economic conditions than are higher-rated fixed income securities. As a result, the market prices of such below investment grade Corporate Debt Instruments may be subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and ask prices of such below investment grade Corporate Debt Instruments may be greater than those prevailing in other securities markets. The issuers of such below investment grade Corporate Debt Instruments may be highly leveraged and may not have access to more traditional methods of financing. The potentially concentrated nature of a client's investment strategy in these types of investments could magnify the effects of such risks.

#### Credit Risk – Corporate Debt Instruments

Credit risk is the risk that the issuer or guarantor of a Corporate Debt Instrument (including Bank Loans) or counterparty to the client portfolio's transactions will be unable or unwilling to make timely principal and/or interest payments, or otherwise will be unable or unwilling to honor its financial obligations. If the issuer, guarantor, or counterparty fails to pay interest, the client portfolio's income may be reduced. If the issuer of the Corporate Debt Instrument, guarantor, or counterparty fails to repay principal, the value of that security and value of client account may be reduced. In addition, as part of a work-out of a distressed Bank Loan or other Corporate Debt Instrument, the client may receive equity Work-Out Securities or other types of Work-Out Securities. Such Work-Out Securities may contain restrictions on resale and be generally illiquid and ultimately become worthless.

#### Interest Rate Risk – Corporate Debt Instruments

Interest rate risk is the possibility that High Yield Bonds with a fixed rate coupon and, to a lesser extent, Bank Loan and Second Lien Loans (which typically have a floating rate of interest) prices overall will decline over short or even long periods because of rising interest rates. Such declines in value as a result of declines in interest rates could be material to the client's account.

#### Rating Agency Risk - Corporate Debt Instruments

Ratings assigned by Moody's and/or S&P and/or Fitch to Corporate Debt Instruments acquired in a client's portfolio reflect only the views of those agencies. Explanations of the significance of ratings should be obtained from Moody's, S&P and Fitch. No assurance can be given that ratings assigned will not be withdrawn or revised downward if, in the view of Moody's, S&P or Fitch, circumstances so warrant.

#### Call Risk (or Prepayment Risk) – Corporate Debt Instruments

Call risk (sometimes called prepayment risk) is the chance that during periods of falling interest rates, issuers of Bank Loans and other Corporate Debt Instruments may call—or repay—the Corporate Debt Instruments with higher coupons (interest rates) before their maturity dates. Accordingly, the Adviser, on behalf of the client, may reinvest the call proceeds (i.e., repayment) into other Bank Loans and other Corporate Debt Instruments with reduced coupons which will reduce the client's portfolio performance. Additionally, in such circumstances, the Adviser, on behalf of the client, may reinvest the call proceeds into more risky Bank Loans and other Corporate Debt Instruments.

#### Bank Loans and Second Lien Loans

Bank Loans and Second Lien Loans are loans made by U.S. banks and other large financial institutions to large corporate customers who undertake these loans to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, dividends and, to a lesser extent, to finance internal growth and for other corporate purposes. Typically, these Bank Loans (or senior secured corporate loans) are the most senior source of capital in a borrower's capital structure, have certain of the borrower's assets and/or stock pledged as collateral. Second Lien Loans are subordinated to senior secured corporate loans and are typically riskier investments than senior secured corporate loans. However, both Bank Loans and Second Lien Loans are typically below investment grade Corporate Debt Instruments with Credit Risk. Bank Loans and Second Lien Loans are typically floating rate instruments in that they pay interest quarterly at a coupon that is a floating rate such as LIBOR plus a spread. Bank Loans and Second Lien Loans are not traded on established trading exchanges and there may be other trading restrictions on particular loans. For example, among other restrictions, in order to sell the loan to another party, it might be required to first obtain the consent of the issuer of the Bank Loan or Second Lien Loan. In addition, because of the provision to holders of such Bank Loans and Second Lien Loans of confidential information relating to the borrower, the unique and customized nature of a loan agreement, and the private syndication of loan investments, Bank Loans and Second Lien Loans may not be as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been smaller relative to certain other markets. Furthermore, to the extent that a client holds a Bank Loan investment not directly but through a participation arrangement with a particular counterparty, if the counterparty becomes insolvent the client may incur a loss in regard to the underlying loan that is being held on the books and records of the counterparty itself by for example becoming an unsecured creditor to the counterparty in such a circumstance.

All investments, including the ones described here, carry a certain amount of risk and there is no guarantee the Adviser will be able to achieve its investment objectives.

#### Structured Finance Obligations (SFOs) – Investments in CLO Securities

The Adviser may direct a client to invest in CLO Securities. These CLO Securities are collateralized principally by Bank Loans. Such investments are subject to various risks.

Some of these risks relate to price volatility of such securities. Prices of such securities are based on supply and demand and the market for such securities may be illiquid at various times. If CLO Securities are, or become illiquid, they may become difficult to value and the valuations could be based on indicative quotes from a dealer or even a

model price rather than actual prices at which a secondary trade may have occurred. Accordingly, the “spreads” of such securities could widen in the overall market, thus reducing the value of the client’s holdings of CLO Securities, and such reductions can be material.

A client’s investment in CLO Securities may involve significant leverage, and such leverage would magnify any losses incurred on the CLO Security. Also, the underlying CLO utilizes significant leverage, and, accordingly, the cumulative effect of leverage used by a CLO in a market which moves adversely to the CLO’s investments could result in a substantial loss to the holder of a CLO Security.

Also, the CLO Security may be subordinated to other CLO Securities issued by the same CLO. This means, to the extent any losses are incurred by the underlying CLO, the loss will be borne by the most subordinated CLO Securities (i.e., the equity), next to the holders of junior debt CLO Security holders followed by the senior debt CLO Security holders. Accordingly, a client of the Adviser may be the first, or one of the first CLO security holders to absorb losses.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client’s evaluation of them or the integrity of their management. The Adviser has no information applicable to this Item.

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

The Adviser’s officers, directors and employees may also be asked to serve as directors, advisors or in other forms of participation in other companies or organizations. Since such commitments can involve substantial responsibilities and potential conflicts of interest or the appearance of such conflicts, executive officers of the Adviser and other of the Advisers employees will seek prior approval of a CCO or Compliance Designee (“Designee”) of the Adviser before accepting such positions and must update the Adviser’s CCO or Designee on any changes to such outside appointments.

### **10.A. Registered Representatives**

The Adviser’s management persons are not registered, nor do any management persons have an application pending to register, as a broker-dealer or registered representatives of a broker-dealer.

## **10.B. No Other Registrations**

The Adviser's management persons are not registered, nor do any management persons have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading adviser, or an associated person of the foregoing entities.

## **10.C. Material Relationships or Arrangements**

As described in Item 4 above, the Adviser is a business unit of Rothschild & Co. Rothschild & Co provides M&A, strategy, and financial advice, as well as investment and wealth management solutions to large institutions, families, individuals, and governments, worldwide.

Rothschild & Co provides M&A, strategy, and financial advice, as well as investment and wealth management solutions to large institutions, families, individuals, and governments, worldwide.

The Adviser is part of the wider Five Arrows business, consisting of a number of regulated entities in the UK, France, Luxembourg and the United States, which together serves as the alternative investment arm of Rothschild & Co. As such, Five Arrows manages a series of private funds dedicated to corporate and secondary private equity, multi-managers funds and co-investments, as well as senior and junior credit strategies. Five Arrows' corporate private equity business focuses on investing in middle market companies in Western Europe through Five Arrows Principal Investments (FAPI) and in the United States through Five Arrows Capital Partners (which is also known as Five Arrows Managers (USA) ("FAM USA").

The Adviser is affiliated with Rothschild & Co Investment Managers ("R&Co IM") which is a Luxembourg-based investment adviser and manager of several private equity funds, including certain funds which are registered in Europe. R&Co IM is owned by K Developpement SAS, which is also an indirect owner of the Adviser.

The Adviser has a number of affiliates which operate in both Europe and in the US including other US registered investment advisers, all of which are ultimately owned by Rothschild & Co. These affiliates are other investment advisers, general partners (or similar) to private pooled vehicles managed by the Adviser or affiliated investment advisers, broker-dealers, and ownership entities or holding companies.

The Adviser's US affiliates include:

- Rothschild & Co US Inc. which is a wholly owned subsidiary of Rothschild & Co North America Inc. and is a broker/dealer registered with FINRA and the SEC which concentrates on investment banking activities. Rothschild & Co US Inc. does not trade or hold customer or proprietary accounts. The Adviser does not execute any client account transactions through Rothschild & Co US Inc.
- Five Arrows Managers USA ("FAM USA") a registered investment adviser involved in the management of private equity securities and/or funds. FAM(USA) also relies on R&Co US Inc for certain administrative services as referenced above. The Adviser and FAM(USA) do not share Access Persons or office space. Employees of FAM(USA) will not have access to portfolio information of the Adviser and will not be considered Access Persons of the Adviser.

The Adviser has procedures in place which seek to mitigate any potential conflicts of interest between itself and its affiliates. Information barriers have been put in place to prevent the dissemination of material nonpublic information between the Adviser and these affiliates. These procedures are laid out in the Adviser's Compliance Manual.

Rothschild & Co Risk Based Investments LLC ("RBI") is another wholly owned subsidiary of R&Co NA. RBI does not provide investment advisory services; it is a provider of risk-based weighted indices and strategies ("Smart Beta indices"). RBI employees have no access to the Adviser's material non-public information, including client personally identifiable information and portfolio information.

In addition, the Adviser is affiliated with Five Arrows Managers LLP ("FAM LLP"). FAM LLP, a wholly owned subsidiary of FAM LLP, may also do business as Elgin Capital LLP. The Adviser may sometimes operate under the same branding ("Five Arrows") as FAM LLP. FAM LLP may sometimes be referred to as "Five Arrows Credit Management (Europe)" or Five Arrows CM – Europe." FAM LLP is located in the UK. FAM LLP is an independent investment adviser registered under the Advisers Act and is also regulated by a foreign financial authority located in the UK. Five Arrows Managers LLP operates in Europe and specialize in the management of senior secured loans and related credit instruments on behalf of third-party clients. The senior secured loans managed by FAM LLP are generally, but not always, denominated in currencies other than US Dollars and are generally not public securities. Most of the Corporate Debt Instruments managed by the Adviser on behalf of its clients are denominated in US

Dollars and are typically not public securities.

Michael Clancy is a Director of the Adviser. Mr. Clancy is also a Member of the Investment Committee for FAM LLP. Mr. Clancy also serves as the head of Five Arrows and a member of the Five Arrows CM Investment Committee as well as the Rothschild & Co Merchant Banking Management Committee.

FAM LLP serves as the Sub-Manager on Ocean Trails CLO VII, each of which is one of the Adviser's CLO clients. Among other things, as Sub-Manager, FAM LLP participates in certain investment decisions relating to Ocean Trails CLO VII. FAM LLP also holds an economic interest in this CLO. In addition, it is contemplated that Five Arrows Managers LLP will serve as Sub-Manager, as well as make an investment in future CLOs managed by the Adviser as described above. In situations in which FAM LLP or another affiliate of the Adviser makes an investment in certain pooled vehicle clients of the Adviser (i.e., a pooled vehicle), there is an incentive for the Adviser to allocate more favorable investment opportunities (e.g., new issue securities) to those clients in which FAM LLP or another affiliate has an investment. In order to mitigate this potential conflict, the Adviser has implemented trade allocation policies and procedures that address the allocation of investment opportunities among clients in accordance with each such clients' investment programs, objectives, and investment restrictions (versus allocating transactions based upon ownership arrangements).

Also, as mentioned elsewhere in this Brochure, respective investment teams of the Adviser and FAM LLP periodically discuss macro-economic scenarios as well as the outlook for individual Bank Loan issuers as well as the industries in which they operate. As a result of these activities between the Adviser and FAM LLP, material non-public information is shared between the employees of the Adviser and FAM LLP. As a result of this, the Adviser and FAM LLP share a combined Deal Log which includes the issuers of Bank Loans in which either the Adviser or FAM LLP (or both) have investment information. This combined Deal Log is used in the implementation of the procedures set forth in the Code of Ethics more fully described in Item 11. The potential negative implications of the shared Deal Log in connection with clients is described in Item 8.B of this Brochure under Non-Public Information.

The Adviser, who specializes in US Dollar denominated Bank Loans, and FAM LLP, who specializes in Euro/Sterling denominated Bank Loans, will seek to market their services to much of the same investors who have interest in the Bank Loan asset class. Accordingly, the respective marketing departments of the Adviser and FAM LLP will collaborate in terms of preparation of marketing material and marketing strategies. In



certain specific instances, marketing personnel of the Adviser will perform certain marketing functions in Europe subject to joint supervision of FAM LLP as well as the Adviser.

The Adviser serves as the sub-adviser to an affiliate called Rothschild & Co Investment Managers in connection with the management of a Private Fund that is not a CLO. Under the sub-advisory agreement, Rothschild & Co Investment Managers will delegate its day-to-day portfolio management and certain risk management functions to the Adviser. The General Partner of this Private Fund, Oberon USA GP S.a.r.l., is also an affiliate of the Adviser. Certain affiliates of the Adviser, including FAM LLP, serve as a distributor of the Private Fund shares.

The Adviser has procedures in place which seek to mitigate any potential conflicts of interest between itself and its affiliates, including R&Co US Inc., R&Co AMUS, FAM LLP, Rothschild & Co Investment Managers, and FAM (USA). Information barriers have been put into place to prevent the dissemination of material non-public information between the Adviser and these affiliates. These procedures are laid out in the Adviser's Compliance Manual and Code of Ethics.

## **Item 11 – Code of Ethics**

### **Item 11.A. – Code of Ethics**

The Adviser has in place a Code of Ethics (the “Code”) designed to minimize conflicts of interest between clients and Access Persons. The Code is designed to ensure Access Persons do not use client information for personal benefit or to the detriment of the Adviser's clients. The Code contains a number of procedures to ensure that clients' interests are protected. For example, these procedures require Access Person's securities positions to be reported, require periodic review of their trading activities by compliance personnel, prohibit trading on inside information and generally prohibit trading ahead (if applicable) of or in a manner that takes advantage of client transactions. Other potential conflicts with clients must be identified by Access Persons to the Adviser and its Chief Compliance Officer so that they can be properly resolved. The Code also has procedures to verify that these measures are being followed.

*A copy of the Adviser's Code of Ethics will be provided upon request.*

### **11.B. Recommendations of Securities and Material Financial**

## **Interests**

The Adviser does not expect to engage in any principal trades in the future. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

From time to time, the Adviser may direct a client to sell corporate loans or other debt securities to another client (a “cross trade”) to provide liquidity as desired by a client, meet trade allocation objectives or achieve other investment objectives for the clients although this is not common practice for the Adviser. In these cases, the Adviser will execute such trade through a third-party broker-dealer at a transaction price generally determined by such third-party broker-dealer. Alternatively, the transaction price may be obtained from a quotation from another third-party dealer or from an independent pricing service if the transaction price is not supplied by the executing broker-dealer. Neither the Adviser nor its affiliates will receive any commissions or any other remuneration in connection with these transactions. A cross trade will only be affected where the Adviser believes that the transaction is in the best interest of, and is in accordance with the investment policies of, each client. All cross trades will be affected in accordance with applicable law.

The Adviser and/or related persons may make and, in the case of the Adviser, have made investments in the debt and/or equity securities issued by CLOs for which the Adviser serves as the investment adviser under the same terms and conditions in which other investors make investments in the debt and equity securities issued by the CLO (except the investment adviser may have restricted voting rights with respect to the selection of a replacement investment adviser). The Adviser also generally has performance fee arrangements, as permitted by Rule 205-3 under the Advisers Act, with its CLO clients. Such performance fee arrangements may constitute indirect equity interests. In addition, the Adviser or related persons may invest in securities of issuers (including Bank Loans) in which client accounts are also invested. Moreover, the Adviser and/or related persons and client accounts may buy, sell, or hold securities (including Bank Loans) while making a different investment decision for one or more client accounts.

## **11.C. Personal Trading**

The Adviser's Code of Ethics allows its employees to invest in and trade securities for their own account and those of others. The Adviser's Code of Ethics is intended, among other things, to ensure personal investing activities by the Adviser's employees are consistent with the Adviser's fiduciary duty to its clients. The Code of Ethics includes standards of business conduct requiring covered persons to comply with the federal securities laws and the fiduciary duties an investment adviser owes to its clients. For purposes of its Code of Ethics, the Adviser has determined that all of its employees are Access Persons in addition to one of its Directors who is also the business head of Five Arrows.

Among other things, all Access Persons are generally required to pre-clear all securities transactions involving stocks and corporate bonds among other things with the CCO or Designee. Certain other securities, such as shares of open-end mutual funds and investments in U.S. government bonds, as well as other transactions that are described in the Adviser's Code of Ethics, do not require pre-clearance to trade.

Access Persons must provide quarterly reports of their personal transactions to the CCO. Typically, this requirement is met by the CCO receiving duplicate copies of their monthly brokerage statements directly from the brokerage firm in all accounts in which the Access Person has a beneficial interest. Access Persons must report all brokerage accounts and stocks and corporate bonds held directly to the CCO at least annually and more often under certain circumstances.

The Adviser's employees may accept business meals, business entertainment or gifts from persons which have a nominal value. However, the Adviser's employees should decline gifts of an extravagant nature (except if approved by the Adviser's CCO). The Adviser has included these policies and procedures within its Code of Ethics to seek to prevent such activities from unduly influencing employee decisions with respect to managing client accounts including the selection of broker-dealers.

The Code of Ethics also requires that covered persons comply with ethical restraints relating to clients and their accounts, including provisions intended to prevent violation of laws prohibiting insider trading. These policies are intended to govern the flow and prevent the potential misuse of material non-public information. Among other things, the Adviser has procedures to assist it identifying potential material non-public information that it might receive. The Adviser maintains a restricted list in the form of a Deal Log (the "Deal Log"). The Deal Log contains the names of companies about whom certain employees at the Adviser may possess material non-public information. Transactions in issuers that are included on the Deal Log are subject to restrictions in the case of personal transactions.

## **Item 12 – Brokerage Practices**

### **12.A. Selection of Broker-Dealers**

In placing orders for Bank Loans and Second Lien Loans, which are generally privately negotiated principal transactions, the Adviser selects the agent bank, dealer or selling party. The selections of the agent, dealer or selling party will depend in large part upon the availability from such agent, dealer or other party of the corporate loan selected for purchase or sale (corporate loans are sometimes available only for purchase from a single source), and, where multiple sellers exist, and in connection with the sale of loans, the best price obtainable. Other discretionary factors are the desired time of the trade (including speed of execution), confidentiality, execution and operational capabilities, ongoing borrower diligence, reputation for integrity and sound financial condition and practices. These are generally the same selection criteria used for securities transactions (including SFOs, High Yield Bonds and Work-Out securities) with brokers. In selecting broker-dealers to execute securities trades for client accounts, the Adviser will seek to comply with its fiduciary duty to obtain the best price and execution and will take into account such factors as Adviser considers to be relevant, including (without limitation): (a) the price and the transaction cost, (b) the execution capabilities required by the transaction, (c) the importance to the transactions of speed and efficiency, and (d) the reputation and soundness of financial condition of the broker or dealer. Broker-dealers generally are placed in competition with one another when the Adviser looks to buy and sell a security where possible.

It should be noted that currently the Adviser does not seek to receive any products, research or other services from any broker or dealer in exchange for directing brokerage business to a particular firm (i.e., the Adviser currently does not enter into “soft dollar arrangements” but may receive typical unsolicited research materials routinely sent by broker-dealers to their customers). Thus, when the Adviser’s Portfolio Managers are seeking to either purchase a security or sell a security from a client’s account, the qualified and capable counterparty that bids the highest price, or offers the lowest price, as the case may be, generally will be selected by the Adviser to affect the trade.

#### **Research and Other Soft Dollar Benefits**

The Adviser does not receive research from brokers in return for generating commissions for such brokers (“soft dollars”) but may receive standard unsolicited

materials. However, from time-to-time personnel of the Adviser may attend conferences or similar functions sponsored by broker-dealers and financial institutions that are widely attended by other investment advisers.

## **12.B. Aggregation of Orders/Trade Allocation**

The Adviser may aggregate purchase or sale orders among more than one client account under the Adviser's trade allocation and aggregation allocation policy.

### Trade Allocation

In general, the Adviser seeks to allocate Bank Loans and other Corporate Debt Instruments to clients in a fair and equitable manner over time to create a well-constructed, fully invested portfolio of Bank Loans and other Corporate Debt Instruments as quickly as possible, in order to minimize the effects of under-investment, while adhering to a client's investment objectives and restrictions. Since the Adviser's clients have varying and complex investment restrictions coupled with the constraining mechanics of the Bank Loan market, (including, but not limited to minimum denominations with respect to assignment size in terms of purchase and sale transactions), and in certain cases, limited market supply and demand where allocation of trades through methods such as pro-rata allocation are not feasible. Therefore, the allocation of Bank Loans to various accounts is generally based on allocation factors such as the client's investment restrictions and objectives including third-party credit ratings, relative size of client including the cash availability on an absolute and a relative basis, the current measurement of the client's concentration limits and other investment restrictions, the client's acceptance or rejection of prospective investments, if applicable, and the relative percentage of invested assets of a client's portfolio, among others. In addition, during periods when new accounts (which includes the "warehousing period" prior to the closing of a new CLO) are being initially invested in Bank Loans (sometimes referred to as a client's ramp-up period), Bank Loans may be disproportionately (and, at times, exclusively) allocated to such new account. The length of the ramp up period will depend upon market conditions with respect to the availability of suitable investments. The Adviser's allocation decisions respecting the sale of corporate loans for client accounts may also be made disproportionately, based upon, among other considerations, the relative amount of the Bank Loan held in an account and applicable restrictions on the minimum Bank Loan amount that may be assigned as well as the particular circumstances of a client's portfolio relative to its investment policies and restrictions.

In addition to those allocation factors described above, dedicated investment

disciplines and portfolios may receive all or a larger percentage of a partially filled transaction if the security is generally the primary investment vehicle for the portfolio account. For example, a client with a Bank Loan strategy (such as a CLO) may receive a greater allocation of a partially executed Bank Loan transaction than a client with a High Yield Bond strategy. This is because the Bank Loan strategy client account (such as a CLO) invests a greater percentage of its assets in Bank loans, while the High Yield Bond strategy client account can only place a limited percentage of its assets in Bank Loans.

### Trade Aggregation

Trades will be aggregated when the Adviser believes that it is in the best interest of each client involved, typically because such aggregation will achieve overall better execution and/or better prices. In the case of Bank Loans, from time to time, the Adviser may aggregate purchase and sales orders of Bank Loans. The Adviser will seek to: (i) aggregate client orders only when consistent with the Adviser's duty of best execution and with the client's investment objectives, account guidelines and other objective criteria, and (ii) allocate on a pro rata basis the price and per share commission, if any, and transaction costs to each client participating in the aggregated transaction. In addition, the Adviser will identify the client accounts that will participate in any such aggregated transaction and will utilize a fair and equitable allocation method with respect to the aggregated order. The Adviser does not receive additional compensation or remuneration solely as a result of a trade aggregation or allocation.

The Adviser will typically purchase loans for its clients in the "primary" market and also the "secondary" market. Primary market loans refer to those loans that have recently been originated by an arranging bank (generally referred to as the "Agent Bank") and which, subsequent to the closing of the loan, are allocated and sold by assignment by the Agent Bank to loan market participants. In these primary market transactions, the Adviser will typically indicate to the Agent Bank its interest, if any, in the primary loan. Subsequent to the closing of the loan, the Agent Bank will allocate a portion of the loan to the Adviser based, in part, on the Adviser's interest. This allocation represents the final order. Secondary market loans relate to those loans which were previously closed and allocated, and these secondary transaction orders are executed through brokers. Sales of loans by the Adviser are executed through the "secondary" market order.

With respect to client orders in the primary market, the Adviser will generally prepare a written pre-allocation statement after its indication of interest to the Agent Bank but

prior to final allocation by the Agent Bank for all primary market orders for its various clients. However, in certain circumstances, primary market orders may be executed without the preparation of a written pre-allocation statement. Such an instance would typically occur where the Adviser is presented with an immediate request for allocation by the Agent Bank.

In the case of Bank Loans purchased in the primary market, the final allocation to the Adviser's client accounts, as determined by the Agent Bank, may not occur until days after the pre-allocation statement was prepared by the Adviser. In the event of a partial fill (especially in connection with purchases of Bank Loans in the "primary" market) the allocation factors described above under "Trade Allocation" may have changed materially from the date the pre-allocation statement was prepared and the date final allocation was received by the Adviser from the selling party. For example, the amount of available cash, which is an allocation factor, could change between accounts. Accordingly, while the final allocations may be made pro rata based on the initial allocations indicated on the pre-allocation statement, such final allocations may be modified based upon changes in the underlying allocation factors. Accordingly, in such instances, the allocations between client accounts in the final allocation statement may differ materially from the allocation between client accounts reflected in a pre-allocation statement.

After the final allocation by the Agent Bank, the Adviser will prepare a written final allocation statement which will indicate the allocation between client accounts, and typically, give information with respect to the allocation factors. Generally speaking, this written final allocation statement will be prepared by the close of business on the day the final allocation is received. However, the preparation of the written final allocation statement could be delayed because more time/attention is needed to determine the final allocation.

It is anticipated that secondary market purchases and sales will be allocated immediately after the order is placed and filled. Such transactions will also be included on the written final allocation statement as well.

## **Item 13 – Review of Accounts**

### **13.A. Frequency and Nature of Review**

The Portfolio Manager (with the assistance of the Credit Analysts) seeks, first, to review the portfolio with respect to determining the existence and extent of fundamental credit concerns as well as the credit's relative value (utilizing such factors

as ratings and coupon) on a regular and routine basis. Also, on a regular basis, the Portfolio Manager, with the assistance of Operations personnel, will frequently review the status of the CLO portfolio's compliance with the many investment guidelines and restrictions and develop specific investment strategies to meet any issues that may develop.

In addition to the regular review process described above, all available members of the investment team (i.e., Portfolio Manager and Credit Analysts) participate in daily meetings each morning, which typically include an update on market conditions, a review of news impacting the credits in the portfolios, and a review of the investment pipeline and opportunities.

In addition to the daily meetings, the Adviser's Investment Committee, which approves new proposed credits, also reviews portfolios, individual credits, and the Approved Purchase List periodically, typically at least quarterly.

### **13.B. Factors That May Trigger an Account Review Outside of Regular Review**

The Adviser typically does not have a significant number of accounts. As a result, generally, client accounts are reviewed as needed. However, with respect to individual Bank Loans, special attention will be given to those Bank Loans which have demonstrated pricing and/or rating volatility, or other signs of credit risk or improvement (such as a material proposed amendment). Ultimate investment decision-making authority for managed accounts is exercised by the Portfolio Manager.

### **13.C. Content and Frequency of Reports**

All the Adviser's discretionary (as well as non-discretionary) clients currently employ independent trustees, custodians, and third-party accounting service providers in connection with the portfolio managed by the Adviser. These third-party service providers produce client packages on a monthly basis that include data concerning performance. The performance metrics provided by the independent parties are set forth in each of the clients' governing documents. These packages are disseminated to holders of the securities issued by the CLOs for which the Adviser serves as investment adviser as well as certain other interested parties. The Adviser generally provides various data and market commentary periodically for its discretionary accounts and less often for its non-discretionary accounts.



Should the Adviser's future clients elect not employ a third-party accounting service provider, the Adviser will provide portfolio information monthly. This information would generally include monthly positions in the portfolio, segregated by industry, and monthly performance and transactions. The Adviser would, in all probability, provide commentary to accompany this information quarterly. In all instances, the Portfolio Manager is generally available daily to answer investor inquiries regarding portfolio management, performance, and operational issues.

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

The Adviser does not currently have an arrangement with any third parties to pay a fee for client referrals as permitted by Section 206(4)-1 under the Advisers Act, as amended and subject to the requirements of that Rule to the extent applicable. These fees typically involve payment by the Adviser of a portion of its investment management fee and/or performance fee.

As indicated above in 10C, in the future, employees of R&Co AMUS may assist the Adviser in marketing the Adviser's investment activities and/or strategies. R&Co AMUS may be compensated for such activities. Any compensation paid to R&Co AMUS will be based upon fees received by the Adviser. Any compensation paid to R&Co AMUS by the Adviser will not increase the fees or expenses paid by the client. The relationship between R&Co AMUS and the Adviser has been disclosed to the clients.

## **Item 15 – Custody**

The Adviser has the ability to deduct fees according to certain investment management agreements but does not do so in practice. Otherwise, the Adviser does not have custody with regard to client Assets. The Adviser only serves as investment adviser (or collateral manager) and does not serve as General Partner or the like for any of its clients.

## **Item 16 – Investment Discretion**

The Adviser anticipates that most clients will grant the Adviser full discretionary authority to manage the client's account, including discretion about corporate loan (and other securities) selection, purchase and sale, transaction terms and timing and the selection of agent banks, dealers, and brokers. In all cases, the Adviser's discretion is limited by each client's investment guidelines and the Adviser's internal policies. Clients may separately negotiate limitations on the Adviser's discretion or include such limitations in account investment guidelines. All such account investment

guidelines and restrictions will be set forth in writing.

A client's guidelines (which may take the form of the Memoranda and other Fund Documents of the Funds and investment management agreements for separately managed accounts) may include criteria such as (but not limited to): (1) credit worthiness of an issuer of a security; (2) industry allocation; (3) minimum coupon; (4) minimum third-party credit ratings; (5) average maturity; (6) maximum maturity; (7) issuer concentration.

Under certain circumstances (such as the end of a CLO's reinvestment period), the Adviser's discretion over purchasing and selling corporate loans and other securities may be limited or eliminated altogether. In such instances, investment discretion will likely not be assumed by the client or another party. The Adviser classifies CLO clients as "Non-Discretionary" once the CLO has reached the end of its reinvestment period (which is generally 5 to 7 years after its inception although it could be earlier).

## **Item 17 – Voting Client Procedures**

Although the Adviser's clients have very limited exposure to public equity investments, the Adviser recognizes its fiduciary responsibility to vote proxies solely in the best interests of its clients with the overall goal of maximizing the growth of its clients' assets. Toward that end, the Adviser has developed proxy voting guidelines, which its Portfolio Manager and Credit Analysts use to vote proxies, if any, for securities held in client accounts.

The Adviser generally votes proxies in furtherance of maximizing the short-term value of securities in respect of which proxies are solicited. As a general rule, the Adviser very rarely receives proxy solicitations since the Adviser's clients do not hold many equity positions. Generally speaking, the Adviser only manages equity positions when it receives them as a Work-Out Security. Typically, the investment guidelines of the accounts under which the Adviser operates do not provide for the discretionary investment in equity and equity like securities. From time to time, the Adviser may receive proxy solicitations in the context of reorganizations of borrowers in which equity securities are received in exchange for defaulted loans and/or bonds from the independent custodian. The Adviser considers each proxy proposal on its own merits, and it makes an independent determination as to the advisability of supporting or opposing management's position. The Adviser believes that the recommendations of management should be given substantial weight, but it will not support management proposals that it believes are detrimental to maximizing the short-term value of its clients' positions.

The Adviser would usually oppose proposals that dilute the economic interest of shareholders, reduce shareholders' voting rights, or otherwise limit their authority. With respect to takeover offers, the Adviser would vote for the merger, acquisition or leveraged buy-out if the offer approaches or exceeds the value estimate.

Any client of the Adviser may obtain a copy of the Adviser's complete proxy voting policy as well as information regarding how its shares were voted by contacting Cynthia Lopez at (213) 621-3735.

## **Item 18 – Financial Information**

### **18.A. Advance Payment of Fees**

The Adviser does not require the advance payment of fees.

### **18.B. Financial Condition**

Registered investment advisers are required in this Item to provide certain financial information or disclosures about the Adviser's financial condition. The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.

### **18.C. Bankruptcy Proceedings**

The Adviser has not been the subject of a bankruptcy proceeding.