

# Item 1 – Cover Page

DISCLOSURE BROCHURE

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## FCO Advisors LP

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

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

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

## Item 2 – Material Changes

The last update to FCO’s Form ADV Part 2A (this “Brochure”) was in March 2023. A summary of the material change since the last update of this Brochure is as follows:

1. The amount of FCO’s regulatory assets under management was updated in Item 4.

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

### **IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE**

*This Disclosure Brochure is not:*

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

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

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

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## Item 4 – Advisory Business

FCO Advisors LP (“FCO”) acts as a discretionary investment advisor to U.S. and non-U.S. private investment vehicles that FCO or a related entity sponsors (each a “fund client”) as well as through separate accounts (each a “separate account”). FIO Advisors LP, (“FIO” and together with FCO, the “Advisors”, “we” or “us” and each of FCO and FIO, an “Advisor”) currently provides non-discretionary advisory services to advisory clients through separate accounts and acts as a discretionary investment advisor to U.S. and non-U.S. private investment vehicles that it or a related entity sponsors. Additionally on a discretionary basis, we also advise institutional investors and private investment vehicles through separate accounts following strategies similar to our fund clients.

FCO’s core investment strategy seeks to deliver consistent total returns investing across a range of opportunities in the large, fragmented municipal universe. We believe this platform is well positioned to capitalize on the frequent, recurring opportunities and offer a sophisticated strategy for this asset class. We identify tactical and strategic opportunities with varying time horizons and employ both relative and fundamental value analysis in order to capture the recurring opportunities driven by the market’s distinctive characteristics. Critical to our value proposition is marrying decades of expertise and relationships with a rigorous analytical framework and tailored capital base to efficiently execute a broad, agnostic mandate across the entire municipal market. Our goal is to capitalize on the above and deliver significant and consistent total returns under a rigorous risk management framework. The investment objectives, strategies, fees and risks of each fund client and other material information, are set forth more fully in the fund client’s confidential offering documents, which are available to investors and qualified prospective investors with whom FCO or its agents have a pre-existing substantive relationship.

FCO is a limited partnership formed in Delaware in 2012. FCO Management LLC, a Delaware limited liability company also formed in 2012, is FCO’s general partner. FCO’s principal owners (each having a greater than 25% ownership interest) are Hector Negroni and PAM Foundation Investments, Inc. More detailed information regarding FCO’s ownership is provided in Schedules A and B of ADV Part 1A.

FIO’s core investment strategy is principally to invest in performing credit investments in U.S. infrastructure assets across a variety of sectors (including the transportation, water, renewable energy, environmental, social and smart infrastructure sectors) in order to produce uncorrelated, attractive risk-adjusted returns. Such investments may include public and private bond offerings, private notes, loans, contracts, securitizations and other debt or debt like financing structures.

FIO is a limited partnership formed in Delaware in 2019. FCO Management LLC, a Delaware limited liability company formed in 2012, is the general partner of both FCO and FIO. FCO owns 100% of the limited partnership interests in FIO.

Each Advisor’s advised funds and separate accounts depend on the Advisor for their day-to-day operations. Each Advisor and its principals and affiliates may be involved in other business activities not involving such main strategy funds, including, but not limited to, the organization and management of other investment partnerships, pooled investment vehicles and individual separate

accounts, many of which may employ strategies similar to those employed by the main strategy funds. Entities using such strategies may or may not have parallel positions or performance. Each Advisor and its principals and affiliates may also engage in other business opportunities not involving the main strategy funds with some but not all of the investors in the main strategy funds.

As of December 31, 2023, FCO had approximately \$868,555,000 discretionary regulatory assets under management and approximately \$536,155,000 on a non-discretionary basis.

The Advisors may tailor the specific advisory services with respect to each client based on the particular investment objective and strategies described in the applicable client's offering memorandum, limited partnership agreement, or investment management agreement.

## **Item 5 – Fees and Compensation**

All of our fund clients currently are investment vehicles exempted from the definition of investment company by Section 3(c)(7) of the Investment Company Act of 1940 and we would expect any new fund clients to be “qualified purchasers” or private funds with “qualified purchaser” investors. Our fees and other compensation are set forth in the agreements between an Advisor and our fund clients and are disclosed to investors through the offering documents for the vehicles. An Advisor's management fees generally are based on a flat percentage of net assets, typically paid quarterly in advance or monthly in arrears and a performance fee paid to the Advisor or its related persons, based on net profits after exceeding a high water mark. The governing documents generally permit an Advisor to negotiate different fees with investors and to waive the fees for certain affiliates, principals and employees.

The fund client's administrator calculates the management fees in the place of the general partners of the fund clients, and the Advisor causes fund clients to pay them to the general partner or to the Advisor. The provisions under which the Advisor (or its related persons) is entitled to management fees and performance allocations are detailed in each fund client's offering memorandum, limited partnership agreement, or investment management agreement. Management fees may be prorated for each capital contribution or withdrawal made during the applicable monthly or quarterly date. An Advisor (or its related person) is generally eligible to receive a performance allocation based on a percentage of net profits of each share class after exceeding a high water mark and/or hurdle rate. The management fees due to an Advisor are typically deducted by the administrator. An Advisor's (or its related persons) management and performance fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses that the fund clients may incur. As typically required by an Advisor's valuation policies and procedures, the administrator for an Advisor's main strategy funds provides valuation confirmation services to such funds and issues a transparency report on a monthly basis for the FCO advised funds and on a quarterly basis for the FIO advised funds.

Each fund client typically bears all costs and expenses (subject to a cap where applicable), other than fees paid to placement agents, incurred in connection with the formation and organization (such costs and expenses, the “Organizational Costs”) of the fund client as well as its *pro rata* share of the Organizational Costs of master funds. Such Organizational Costs are typically amortized over

the first 60 months of the fund's operations. The Advisor typically bears the costs of any fees paid to placement agents either directly or through an offset to the management fee.

In consideration of the management fee, an Advisor typically will provide investment management services, office space, utilities, computer equipment and secretarial, clerical and other personnel support to the fund client. An Advisor typically bears the costs of providing such goods and services, including paying its own administrative costs and expenses, which include rent, salaries, benefits and other compensation costs, if any, of Advisor's employees.

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

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

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

Current and prospective investors in fund clients of FCO and FIO should refer to the private placement memorandum or other offering documents of the respective fund client for detailed information with respect to the fees and expenses they may pay in connection with an investment in such fund client. The information contained herein is a summary only and is qualified in its entirety by such documents.

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

### **FCO**

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

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

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

### **FIO**

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

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

FIO will allocate investment opportunities and trades as disclosed in the offering documents or other account documents of its clients and fairly and equitably among accounts participating in each transaction, taking into consideration the objectives, restrictions, investment strategy, asset allocation, and capital commitment of each client. In general, given the differing investment objectives, asset allocations, investment parameters, benchmarks and other characteristics of various

client accounts, each account will not necessarily participate in each transaction in a security or instrument that might be considered within the range of permissible investments for that client account. FIO may agree in the future in client account documents or disclose in the offering documents for fund clients that some clients may have priority in allocation of some investments. Further the nature of many of FIO's investments may make it impossible to allocate to different accounts due to denomination, tenor or other factors.

## **Item 7 – Types of Clients**

### **FCO**

FCO currently manages the assets of U.S. and non-U.S. privately offered pooled investment vehicles for which its related persons act as general partner or sponsor, as well as certain parallel and alternative investment vehicles. The fund clients' structures most resemble those of "hedge funds" and would be considered "private funds" for purposes of the Advisers Act.

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

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

### **FCO**

FCO employs a municipal credit strategy that seeks to deliver consistent total returns investing across a range of opportunities in the large, fragmented municipal universe. FCO believes its platform is well positioned to capitalize on the frequent, recurring opportunities and offers a



sophisticated strategy in this asset class.

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

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

### **Material Risks**

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

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

These factors and others may significantly affect the results of the fund client's activities and the value of its investments. In addition, the value of the fund client's portfolio may fluctuate in response to fluctuations in the general level of interest rates.

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

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

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

Another risk involves the failure of a municipality to pay its creditors on time. Chapter 9 of the U.S. Bankruptcy Code provides a financially distressed municipality with protection from its creditors while it develops and negotiates a plan for adjusting its debts. The commencement of a Chapter 9 bankruptcy case operates as a stay, applicable to all creditors of the municipality, of most efforts to

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

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

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

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

The use of margin and short-term borrowings creates several risks for the fund client. If the value of the fund client's securities falls below the margin level required by a prime broker, the fund client could be subject to a "margin call," pursuant to which the fund client must deposit additional

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

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

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

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

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

and accurate information is not readily available.

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

experience adverse price movements upon liquidation of its investments.

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

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

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

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

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

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

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

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



accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the security underlying the option which the writer must purchase or deliver upon exercise of the option.

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

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

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

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

perceptions about lower rated debt securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities. Limited partners should be aware that ratings are relative and subjective and are not absolute standards of quality. An issue of securities may cease to be rated or its rating may be reduced. Neither event will require the fund client to reduce its exposure to such securities, although FCO will consider such events in its determination of whether the fund client should continue to invest in such securities.

- Distressed Securities. The fund client may purchase, directly or indirectly, debt securities and other obligations of companies or municipalities that are experiencing significant financial or business distress, including companies or municipalities involved in bankruptcy or other reorganization and liquidation proceedings. Although investments in such distressed securities and other obligations may result in significant returns, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these securities and investments ordinarily remain unpaid unless and until the entity reorganizes and/or emerges from bankruptcy proceedings, and as a result may have to be held for an extended period of time. In some circumstances, such securities or other obligations may be converted to equity as part of the reorganization. A wide variety of considerations, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others may affect the value of these securities and investments. The uncertainties inherent in evaluating such investments may be increased by legal and practical considerations which limit the access of FCO to reliable and timely information concerning material developments affecting a company or municipality, or which cause lengthy delays in the completion of the liquidation or reorganization proceedings. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies or municipalities experiencing significant business and/or financial distress is unusually high. There is no assurance that FCO will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to the entity in which the fund client invests, the fund client may lose its entire investment or may be required to accept cash or securities with a value less than the fund client's original investment.
- Futures Contracts. The fund client may invest in futures contracts. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices in various commodities occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the fund client from promptly liquidating unfavorable positions and subject the fund client to substantial losses. In addition, FCO may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

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

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

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

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

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

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

the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the fund client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

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

*Equitable Subordination.* Loans to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities which may exceed the amount of the fund client's loan. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). FCO does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the fund client may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

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

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

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

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

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

fund client's assets held by or through such entity.

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

The general partner of a fund client may in its discretion make available co-investment opportunities to strategic investors, lenders, other investment funds (or investors therein) managed by FCO, one or

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

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

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

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

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



of any such fees or carried interest and capital contributions to a fund client.

- Market Disruptions. General fluctuations in the market prices of securities may affect the value of the investments held by the fund client. Instability in the securities markets may also increase the risks inherent in the fund client's investments. The fund client may incur substantial losses in the event of disrupted markets or other extraordinary events in which historical pricing relationships (on which FCO bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. Investments may also be subject to catastrophic events and other force majeure events, such as fires, earthquakes, adverse weather conditions, major health crisis or pandemic, changes in law and other similar risks, which events could result in the partial or total loss of the investment or significant down time resulting in lost revenues, among other potentially detrimental effects. The financing available to the fund client from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction could require the fund client to sell off into a declining market, which would result in substantial losses to the fund client. Market disruptions may from time to time cause dramatic losses for the fund client, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.
- Potential Public Health Crisis; Covid-19. A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent outbreak of Coronavirus (or Covid-19) in China, the United States and other countries, could have an adverse impact on global, national and local economies, which in turn could negatively impact fund clients. Disruptions to commercial activity relating to the imposition of quarantines or travel restrictions (or more generally, a failure of containment efforts) may adversely impact a fund client's investments, including by delaying or causing supply chain disruptions or by causing staffing shortages. In addition, the imposition of travel restrictions may impact the ability of the Advisors' personnel to travel in connection with potential or existing investments of a fund client or to the Advisors' offices, which could negatively impact the ability of the Advisors to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of Coronavirus has contributed to, and may continue to contribute to, volatility in financial markets, including changes in interest rates. A continued outbreak may reduce the availability of debt financing to a fund client and potential purchasers of a fund client's investments, which could have material and adverse impact on a fund client's returns. The impact of a public health crisis such as the Coronavirus (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to a fund client's performance.
- Tax Risk Associated with Tax-Exempt Municipal Bonds. The fund client will invest in, among other things, tax-exempt municipal bonds. The interest from such bonds is generally exempt from U.S. federal income tax. The United States Internal Revenue Code of 1986, as amended (the "Code") imposes certain continuing requirements on issuers of tax-exempt bonds regarding the use, expenditure and investment of bond proceeds, the payment of rebates to the United States and the registration of certain bonds. Failure by the issuer to comply, subsequent to the issuance of tax-exempt bonds, with certain of these requirements could cause interest on the bonds to become includable in gross income retroactive to the date of issuance, which may reduce the value of the bonds. For example, certain housing authority bonds are subject to special requirements that must be met to preserve the bond's tax-exempt status. If such requirements are not met, the interest on such

bonds may become taxable, the value of the bonds may be reduced, the fund client may be required to sell the bonds at a reduced value and fund client investors may be subject to unanticipated tax liabilities.

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

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

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

- Systems Risks. FCO relies extensively on computer programs and systems (and may rely on new systems and technology in the future) in connection with fund client investment activities, that are critical to oversight of fund client activities. In addition, certain of the fund clients', FCO's and their affiliates' operations interface with or depend on systems operated by third-parties, the administrator and market counterparties and their sub-custodians and other service providers, and FCO may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures, interruptions or security breaches, including, but not limited to, those caused by computer "worms," viruses, power failures and social engineering schemes such as "phishing". FCO's operations are highly dependent on each of these systems and the successful operation of such systems is often out of FCO's control. Any such defect or failure could have a material adverse effect on fund clients, FCO and their affiliates. For example, systems failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades, and cause inaccurate reports, which may affect the ability of FCO to accurately monitor fund client investment portfolios and risks.
- Cybersecurity Risk. As part of its business, FCO processes, stores and transmits large amounts of electronic information, including information relating to the transactions of fund clients and personally identifiable information of the investors in fund clients. Similarly, service providers of FCO and fund clients, especially the administrator, may process, store and transmit such information. FCO has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long

periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to FCO may be susceptible to compromise, leading to a breach of FCO's network. FCO's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by FCO to fund client investors may also be susceptible to compromise. Breach of FCO's information systems may cause information relating to the transactions of fund clients and personally identifiable information of fund client investors to be lost or improperly accessed, used or disclosed.

The service providers of FCO and fund clients are subject to the same electronic information security threats as FCO. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of fund clients and personally identifiable information of fund client investors may be lost or improperly accessed, used or disclosed.

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

## **FIO**

FIO's core investment strategy is principally to invest in performing credit investments in U.S. infrastructure assets across a variety of sectors (including the transportation, water, renewable energy, environmental, social and smart infrastructure sectors) in order to produce uncorrelated, attractive risk-adjusted returns. Such investments may include public and private bond offerings, private notes, loans, contracts, securitizations and other debt or debt like financing structures.

FIO employs: i) a team of industry specialists with expertise in U.S. public purpose infrastructure, including direct experience in credit, portfolio and risk management, structuring and financing in that market; ii) a mandate that includes structuring flexibility with an ability to invest across private and public bond offerings, loans and other debt financing structures; iii) a focus on the growing demand for flexible, project-specific financings it believes are not adequately provided by current market participants; and iv) a flexible, patient capital base.

FIO seeks to manage risk by: i) sound investment underwriting focused on durable security packages, essential assets and projects, strong sponsors and operators, possible governmental support, regulation or oversight, and/or reliable, recurring cashflows; ii) utilizing modest leverage; iii) frequent review of underlying investment theses and active credit surveillance; and iv) consideration of long-term ESG factors supportive of resilient infrastructure.

## **Material Risks**

An investment in a fund client is speculative, involves a high degree of risk and is suitable only for sophisticated investors who can assume the risks of losing their entire investment. There can be no

assurances or guarantees that (i) the fund client's investment objectives will be realized, (ii) the fund client's investment strategy will prove successful or (iii) investor will not lose all or a portion of their investment in the fund client. Please note that the following is not meant to be an exhaustive listing of all potential risks associated with investing in a fund client. Additional risk factors are set forth in the offering documents for each fund client provided to investors and potential investors. The following summary of risks is qualified in its entirety by the respective fund client's offering documents. Certain fund clients invest all of their investable assets through a master-feeder structure. Unless specifically noted, references to fund client include a fund client organized as a master fund in a master-feeder fund structure where relevant. Although FIO does not currently advise any fund clients it expects to in the future. These risk factors are also applicable with respect to investments made by FIO in connection with managing separate accounts.

The material risks described above for FCO are generally also applicable to FIO's proposed investment strategy, including, but not limited to, general market, investment and operational risks, as well as those risks relating to the specific securities and instruments in which fund clients and separate accounts managed by FIO also may invest. Investors and prospective investors in fund clients or separate accounts managed by FIO should carefully review such material risks prior to making a decision to invest in a fund client or separate account managed by FIO.

### **Infrastructure Investment Risks**

Investments in infrastructure assets through various debt vehicles pose certain specific risks that may not be present in other investments.

#### General Risks Regarding Infrastructure Investments.

Some of the risks involved in the making of investments in infrastructure assets through various debt vehicles include, but are not limited to, the following:

- (i) infrastructure projects in general generate revenue directly from their operations, from user fees and/or from the collection of government-imposed taxes of various forms and each of these revenue sources introduce differing degrees of risk and volatility caused by either project specific, local economic or macro-economic factors which may impact the cash flows available to service debt obligations;
- (ii) infrastructure projects involve various forms of operational risks as well as long-term repair and maintenance obligations which may increase annual operating expenses and impact the cash flow available for such projects (including, without limitation, its ability to service its debt obligations);
- (iii) because infrastructure projects typically rely on significant amounts of debt, the value and available cash flows of an investment in an infrastructure project may be especially sensitive to adverse interest rate movements, unfavorable financing terms and/or a deterioration in operations and thus cash flow from such project that is available to service its debt obligations;
- (iv) infrastructure debt may exhibit elevated levels of illiquidity requiring a long-term

investment perspective, and may be difficult to value or sell;

- (v) investments in infrastructure projects may be particularly sensitive to changes in regulations, taxation (including the loss of tax-exempt status for bonds issued with respect to certain infrastructure projects) and economic conditions and shifts in population;
- (vi) infrastructure projects are often subject to complex permitting requirements (including renewal requirements), which can have an adverse impact on the value of such projects, or cause delays in the completion of construction or may increase operating expense which may impact the cash flow available for such projects (including, without limitation, its ability to service its debt obligations);
- (vii) volatility in commodity prices or in the supply of and demand for infrastructure projects may impact the revenues collected by a infrastructure project or company and/or make it more difficult for a company in the infrastructure sector to raise capital to the extent the market perceives that its performance is or may be tied, directly or indirectly, to commodity prices;
- (viii) infrastructure projects may be poorly maintained and operated, which can have an adverse impact on the value of such projects or the cashflows they generate;
- (ix) greenfield infrastructure investment introduces construction cost and completion risk as well as asset usage risk; if an infrastructure investment is made in a greenfield project, the costs, revenue and profitability of such investment may be subject to wide variations, and such investments are susceptible to potentially significant construction completion delays and cost overruns (caused by, among other things, adverse weather, catastrophic events (including, without limitation, hurricanes, earthquakes, floods, acts of terrorism, major health crisis or pandemic and other force majeure type events or occurrences), delays in receiving required permits, labor and material shortages, failure by third parties to perform their obligations, labor disputes, equipment failure, engineering problems and environmental problems);
- (x) if an investment is in an infrastructure project that provides services on a “demand” basis, if the level of use of the assets of such project is less than expected, such project will have lower revenues than expected and its ability to operate (including, without limitation, its ability to service its debt obligations) could be impaired;
- (xi) infrastructure projects may be exposed to significant environmental risks;
- (xii) infrastructure investments are subject to the risk that government bodies will exercise sovereign rights (including, without limitation, eminent domain) and take actions contrary to the rights of investors in the infrastructure project;
- (xiii) infrastructure investments may be exposed to contracts that are critical to their success such that if such contracts are amended, legally deficient or unenforceable, which may have a negative impact on investment returns relating to such an investment;
- (xiv) infrastructure investments are exposed to litigation risk (including, without limitation,

industrial disputes, legal action from special interest groups, contractual claims and occupational health and safety claims);

- (xv) although unlikely given FIO's focus on debt investments, if a controlling stake is taken in an infrastructure project, a fund client could be exposed to a risk of liability for violation of governmental regulations, environmental damage, project defects, failure to supervise management and/or other types of liability in respect of which the limited liability generally characteristic of business operations could be disregarded;
- (xvi) if an infrastructure investment involves an investment in real estate, the performance of the investment could be impacted by the performance of local real estate markets and could be exposed to risks associated with the ownership of real property (including, without limitation, the impact of economic conditions on the values of real estate, and, if applicable, on the ability of tenants to make lease, rental or other payments and the risks inherent in development and renovation activities);
- (xvii) infrastructure investments are subject to the general risk that the project in which the investment is made may not generate revenues in excess of operating expenses (including debt obligations);
- (xviii) insurance obtained to cover potential losses relating to an infrastructure project may prove to be inadequate in amount or unavailable in the future on commercially reasonable terms or at commercially reasonable rates;
- (xix) the projections and assumptions made with respect to the success of an infrastructure project may prove to be incorrect and the actual performance of the infrastructure project could be materially lower than the projected performance;
- (xx) infrastructure investments in debt issued in connection with the infrastructure project are subject to the risk of borrower default; and
- (xxi) infrastructure projects may be affected by a number of general economic and operational factors, including, without limitation, (a) changes in the general economic climate or in national or international economic conditions; (b) local conditions (such as oversupply or reductions in demand); (c) the quality and philosophy of management of the infrastructure project; (d) competition based on competing projects; (e) attractiveness and location of the properties or service provided and changes in the relative popularity of the services and locations; (f) financial condition of users, buyers and sellers of infrastructure properties; (g) quality of maintenance, insurance and management services; (h) changes in tax rates and other operating costs and expenses; (i) energy and supply shortages; (j) changes in interest rates and the availability of debt financing; (k) uninsured losses or delays from casualties or condemnation; (l) government regulations (including, without limitation, those governing usage, improvements, zoning and taxes) and fiscal policies; (m) potential liability under changing environmental and other laws; (n) risks and operating problems arising out of the presence of certain construction materials, operational cost and repair and maintenance costs; (o) structural or project level latent defects; and (p) acts of God, acts of war (declared or undeclared), terrorist acts, strikes

and other factors beyond the control of the owner and/or operator (or their affiliates) of the infrastructure project. Investments in existing entities (e.g., buying out a distressed partner or acquiring an interest in an entity that owns an infrastructure project) could also create risks of successor liability.

#### Investments in Land, Development and Redevelopment.

A fund client may acquire direct or indirect interests in debt vehicles secured by developed land, undeveloped land or underdeveloped real property (which may often be non-income producing) and/or infrastructure developments or redevelopments. To the extent that a fund client lends to such assets or activities, it will be subject to the risks normally associated with such assets and development activities (including, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of a fund client, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms). These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on a fund client. Infrastructure projects that are under development or properties that are acquired for development of an infrastructure project may receive little or no cash flow from the date of acquisition through the date of completion of development, and may continue to experience operating deficits after the date of completion. In addition, market conditions may change during the course of development, which could result in such development being less attractive than at the time it was commenced.

#### Governmental Regulations and Permitting Requirements.

The infrastructure industry is subject to substantial regulation by U.S. federal, state and local government agencies (including, without limitation, laws and regulations related to the environment, land use and development, health and safety) and associated compliance and permitting obligations. Many projects require government permits, licenses, concessions, leases and/or contracts. Furthermore, permits or special rulings may be required with respect to taxation, financial and regulatory related issues. Due to the wide-ranging scope of their authority, governmental entities have significant leverage in setting their contractual and regulatory relationships with third parties. Moreover, the terms and provisions arising in connection with government permits, licenses, concessions, leases and contracts are often very complex, which may result in disputes over interpretation or enforceability and/or periods of non-compliance. If a particular infrastructure project fails to obtain or comply with applicable regulations, permits or contractual obligations, construction of that project could be prevented or delayed and/or the owner of that project could be required to make substantial additional capital expenditures or be subjected to monetary penalties or remedial liabilities or loss of or restrictions on operational rights, any of which could negatively impact project operating results and the returns on a fund client's investment in such project. In addition, government counterparties may have the discretion to change or increase regulation of project operations, or implement laws or regulations affecting project operations, separate from any contractual rights they may have. These actions could adversely impact the efficient and profitable operation of infrastructure projects in which a fund client invests. Such laws and regulations are also subject to change in connection with the passing of new laws and regulations or a change in the

interpretation of existing laws and regulations, which could result in substantially similar, or new and additional, risks to that infrastructure project. Additional or unanticipated regulatory approvals, including, without limitation, renewals, extensions, transfers, assignments, reissuances or similar actions, may be required with respect to infrastructure assets, and additional approvals may become applicable in the future due to a change in laws and regulations, a change in an infrastructure project's or company's customer(s), desire to expand the infrastructure project's or company's business or for other reasons.

Permits under federal, state and local regulations required for certain infrastructure projects may be subject to periodic renewal or reissuance. There can be no assurance that such renewal or reissuance will be granted by regulatory authorities nor that any renewed or reissued permit will not contain new and/or more stringent requirements resulting in the need for additional capital expenditures due to additions to or modifications with respect to the infrastructure project. Any loss of permits, any failure or delay in the renewal or reissuance of permits, any increase in operating costs resulting from any renewed or reissued and/or any expenditures, penalties, restrictions and/or liabilities resulting from any other non-compliance issues could adversely affect the success of an infrastructure project.

#### Demand and Revenue Risk.

Certain infrastructure investments involve projects that provide services on a "demand" basis, where the project's revenues depend on the level of use made of its assets and/or the level of fees or charges that may be imposed to access or use the infrastructure project. Accordingly, if the level of use of the assets of such project or the economic value of using the project is less than expected, the project will have lower revenues than expected and its ability to operate (including, without limitation, its ability to service its debts) will be impaired. The utilization of the assets of such a project or the economic value of using the project may be dependent upon many complex and potentially-interlinked factors that are outside the control of the owner of such project. These factors include, but are not limited to, macro-economic factors, local factors specific to the region in which the project is operated, competition, changes in government policy (including taxation) that may affect demand for the project's assets, the skill with which the project assets are operated and the pricing policies adopted with respect to the assets of such project. Any impairment of the ability to operate such a project (including, without limitation, a default with respect to a project that has borrowed money) could have an adverse effect upon the value of such infrastructure investment.

#### Environmental Liabilities.

Under various U.S. federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on, under or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. Thus, if there are environmental liabilities affecting an infrastructure investment made by a fund client (including, without limitation, clean-up and remediation liabilities), the issuer of the debt in which a fund client has invested may be required to contribute financially towards any such liabilities, which in turn may increase the risk of such investment (including, without limitation, the risk of default if such entity has borrowed capital). This may adversely affect the value of a fund client's investment (including, without limitation, the ability of the issuer of the debt to service its



debt obligations). The cost of any required remediation and the owner's liability therefore as to any property are generally not limited under such laws and could exceed the value of the property and / or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow funds using such property as collateral, which could have an adverse effect on a fund client's return from such investment.

Under certain circumstances, courts have held that a parent company or a person exercising control is responsible for the environmental clean-up obligations of a subsidiary or a controlled entity imposed by applicable federal statutes. Although unlikely given that fund clients are expected to invest in debt, if a fund client acquires a controlling interest in or otherwise controls such an entity, a court might find that a fund client is liable for such environmental obligations.

#### Harmful Mold and Other Air Quality Issues.

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to radon, airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at an infrastructure project in which a fund client holds an investment could require the owner of such project to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose the owner of such project to liability from its tenants, employees of its tenants and others if property damage or health concerns arise.

#### Americans with Disabilities Act and Similar Laws.

Under the U.S. Americans with Disabilities Act of 1990, as amended (the "ADA"), all public accommodations in the U.S. must meet U.S. federal requirements related to access and use by disabled persons. If an infrastructure project does not comply with the ADA, then the owner of such project may be required to incur costs to bring that project into compliance, which may or may not have been foreseen at the time of acquisition. Future changes to U.S. federal, state and local laws also may require modifications to projects within a fund client's portfolio, or restrict the ability to renovate such properties. A fund client cannot predict the ultimate cost of compliance with the ADA or other legislation. If a fund client incurs substantial costs to comply with the ADA and any other similar legislation, a fund client's financial condition, results of operations, cash flow, cash available for distribution and ability to satisfy its debt service obligations could be materially adversely affected.

#### Litigation.

In the ordinary course of its business, a fund client may be subject to litigation from time to time. In addition, the acquisition, ownership and disposition of infrastructure projects entail certain

litigation risks. Litigation may be commenced with respect to a project in relation to activities that took place prior to a fund client's investment in such project. Further, at the time of disposition of a project, a potential buyer may claim that it should have been afforded the opportunity to purchase the asset or alternatively that such buyer should be awarded due diligence expenses incurred or statutory damages for misrepresentation relating to disclosures made, if such buyer is passed over in favor of another as part of a fund client's efforts to maximize sale proceeds. Similarly, buyers of fund client assets may later sue a fund client under various damage theories (including, without limitation, those sounding in tort) for losses associated with latent defects or other problems not uncovered in due diligence. The outcome of any such proceedings may materially adversely affect the value of a fund client and its properties and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of a fund client's general partner's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

#### Controlling Person Liability.

Although unlikely given FIO's focus on debt investments, a fund client may have controlling interests in certain of its investments (including those made through direct and indirect subsidiaries of a fund client). The exercise of control over an entity can impose additional risks of liability for environmental damage, failure to supervise management, violation of government regulations (including securities laws) or other types of liability in which the limited liability characteristic of business ownership may be ignored. If these liabilities were to arise, a fund client might suffer a significant loss.

#### Insurance May Not Cover All Losses.

Uninsured and underinsured losses could harm the financial condition of the owner of an infrastructure project, the results of operations and the ability of such owner to make distributions to its investors. Various types of losses, such as losses due to wars, riots, nuclear reaction, terrorist acts, earthquakes, floods, hurricanes, pollution or environmental matters, generally are either uninsurable (or not economically insurable) or may be subject to insurance coverage limitations, such as large deductibles or co-payments or insurance only being available in amounts less than the full market value or replacement cost. In general, losses related to terrorism are becoming harder and more expensive to insure against. Some insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total costs of casualty insurance. As a result, there can be no assurance that all investments will be insured against terrorism, or that particular risks which are currently insurable will continue to be insurable on an economic basis. Should an uninsured loss or a loss in excess of insured limits occur, a fund client could lose all or a portion of the capital it has invested, directly or indirectly, in such infrastructure project, as well as the anticipated future revenue from such investment. In such event, a fund client nevertheless might remain obligated for any notes payable or other financial or contractual obligations related to the investment. Inflation, changes in building codes and ordinances, environmental considerations, provisions in loan documents encumbering the infrastructure project pledged as collateral for a loan and other factors might also prohibit the owner of such project from using insurance proceeds to replace or renovate the project after it has been damaged or destroyed. Under those circumstances,

the insurance proceeds the project owner receives might be inadequate to restore a fund client's economic position on the damaged or destroyed investment.

### Third-Party Involvement.

A fund client may co-invest in infrastructure projects with third parties through partnerships, joint ventures or other entities, thereby acquiring less than 100% of the ownership interests in such investments. A general partner may or may not operational and management control over any such co-investment. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that: (i) a fund client and such co-venturer may reach an impasse on a major decision that requires the approval of both parties; (ii) the co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of a fund client; (iii) the co-venturer or partner may encounter liquidity or insolvency issues or may become bankrupt; (iv) the co-venturer or partner may be in a position to take action contrary to a fund client's investment objective; (v) the co-venturer or partner may take actions that subject the property to liabilities in excess of, or other than, those contemplated; and/or (vi) in certain circumstances a fund client may be liable for actions of its co-venturers or partners. It may also be more difficult for a fund client to sell its interest in any joint venture, partnership or entity with other owners than to sell its interest in other types of investments. A fund client or its co-venturers or partners joint approval, as applicable, may be granted rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks. A deadlock could delay the execution of the business plan for the investment or require a fund client to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment. As a result of these risks, a fund client may be unable to fully realize its expected return on any such investment.

### Bridge Investments.

From time to time, a fund client may provide interim financing to facilitate a fund client investment on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio investments in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans or interim investments may be repaid, syndicated, transferred or converted into a more permanent, long-term security. However, for reasons not always in a fund client's control, such long-term securities issuance or other refinancing or syndication may not occur and such bridge loans or interim investments may remain outstanding. In such event, the interest rate on such loans or the terms of such interim investments may not adequately reflect the risk associated with the unsecured position taken by the fund client.

### Commodity Price Fluctuations.

Volatility in commodity prices or in the supply of and demand for infrastructure assets may impact the revenues collected by a infrastructure project or company and may make it more difficult for companies in the infrastructure sector to raise capital to the extent the market perceives that their performance may be tied directly or indirectly to commodity prices. Historically, commodity prices have been cyclical and have exhibited significant volatility. Should infrastructure companies experience variations in supply and demand or in commodity prices the resulting decline in operating or financial performance could adversely affect the value or quality of a fund client's investments.

Infrastructure assets are also subject to obsolescence risks that could occur as a result of changing supply and demand, available revenues, new types of construction, changing demographics, changing weather patterns and new technologies. In any such event, there might be few alternative uses for a fund client's investments in such assets, and such investments might drop in value.

#### Use of Subcontractors.

The performance of many infrastructure projects is often heavily dependent on the performance of subcontractors. If a key subcontractor is required to be replaced, the construction of the project could be delayed and/or the replacement subcontractor may charge a higher price for the relevant services than the prior subcontractor, either of which could have an adverse impact on the value of a fund client's investment in such project. Further, the risks of operating certain aspects of an infrastructure project may be contractually assumed by subcontractors. If such liability is not assumed by subcontractors (for example, as a result of limits on liability, default by or the insolvency of a subcontractor or defective contractual provisions), this could have an adverse impact on the value of a fund client's investment in such project.

#### Energy, Water and Transportation Sectors.

A fund client may make investments in the energy, water and transportation infrastructure sectors. Factors that may affect such investments include, but are not limited to, changes in supply and demand for infrastructure goods or services, prices of national and global commodities, government regulation, world and regional events and general economic conditions. The operations and financial performance of companies in these sectors may be directly or indirectly affected by commodity prices and fluctuations in infrastructure supply and demand. Commodity prices and infrastructure demand fluctuate for several reasons (including, without limitation, changes in market and economic conditions, the impact of weather on demand or supply, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation and taxation and the availability of local, intrastate and interstate transportation systems). Fluctuations in commodity prices may increase costs for consumers of energy-related infrastructure assets and therefore reduce demand for such infrastructure. Further, extreme price fluctuation, either upwards or downwards, could lead to the development of alternatives to existing energy-related infrastructure and impair the value of a fund client's investments.

Federal, state and local government regulations and policies concerning the water and electric utility industries, and internal policies and regulations promulgated by water and electric utilities, heavily influence the market for electricity products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation. In the United States, governments and utilities continuously modify these regulations and policies. These regulations and policies could deter customers from purchasing energy efficiency and clean energy systems, which could result in a significant reduction in the potential demand for such systems. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. In addition, there is an increasing trend towards initiating or increasing fixed fees for users to have electricity service from a utility. These fees could increase the cost to use clean energy and energy efficiency systems not supplied by the utility and make them less desirable, thereby affecting the value of a fund client's investments in such systems. In addition, any changes

to government or internal utility regulations and policies that favor electric utilities could reduce competitiveness and cause a significant reduction in demand for such systems.

Sustainable infrastructure projects that involve the generation, transmission or sale of electricity (such as clean energy projects) may be “qualifying facilities” that are exempt from regulation as public utilities by the Federal Energy Regulatory Commission (“FERC”) under the Federal Power Act (the “FPA”), while certain other such projects may be subject to rate regulation by FERC under the FPA. FERC regulations under the FPA confer upon these qualifying facilities key rights to interconnection with local utilities, and can entitle such facilities to enter into power purchase agreements with local utilities, from which the qualifying facilities benefit. Changes to these and other U.S. federal laws and regulations could increase regulatory burdens and costs and reduce revenue for the projects. In addition, modifications to the pricing policies of utilities could require sustainable infrastructure projects to achieve lower prices in order to compete with the price of electricity from the electric grid and may reduce the economic attractiveness of certain energy efficiency measures. To the extent that the projects are subject to rate regulation, the project owners will be required to obtain FERC acceptance of their rate schedules for wholesale sales of energy, capacity and ancillary services. Any changes in the rates that project owners are permitted to charge could raise credit risks in the clean energy projects, which could adversely affect a fund client’s investment in such projects.

Clean energy and other sustainable infrastructure projects are subject to various construction and operating delays and risks that may cause them to incur higher than expected costs or generate less than expected amounts of output (such as electricity in the case of a clean energy project). These risks include, without limitation, construction delays; a failure or degradation of the equipment of such project, its customers and/or the applicable utility company; an inability to find suitable equipment or parts; labor shortages; less than expected supply of a project’s source of clean energy (such as geothermal steam or biomass); or a faster than expected diminishment of such supply. Any extended interruption in the construction or operation of a project, any cost overrun related to such project and/or any failure of such project for any reason to generate the expected amount of output could have a material adverse effect on a fund client’s investments in such project.

Renewable energy investments may be adversely affected by variations in weather patterns, including shifting wind or solar resources and including variations brought about by climate changes, which would cause volatility in the returns on such investments. Renewable energy projects are dependent on a variety of factors (including, without limitation equipment costs and federal and state incentives). Changes in some or all of these factors could result in reduced construction of renewable projects and may make it harder for a fund client to source investments that are attractive to it, which could have an adverse effect on a fund client’s investment strategy. Volatility in project development and construction may result in uneven growth and negatively impact a fund client’s investments. Furthermore, the generation of power from renewable energy sources tends to be reliant upon relatively recent technological developments (or the application thereof), and therefore unforeseen technical deficiencies with installations may occur. Although such deficiencies may be covered by supplier warranties, the value of such warranties, if any, may be adversely affected by, among other things, time limitations on such warranties or credit events in relation to the relevant supplier. Some infrastructure projects may utilize relatively new or developing technologies. There may be issues in relation to those technologies that become apparent only in the future. Such issues may give rise

to additional costs for the relevant operator of the project or may otherwise result in the financial performance of the relevant project being poorer than is anticipated. This may adversely affect the value of and returns generated by a fund client's investments. Additionally, technological advances in the future may reduce the competitive efficiency of projects commissioned presently.

#### Change in Law Risk

Any significant changes in, among other things, economic policy (including with respect to interest rates, foreign trade and infrastructure spending), the regulation of infrastructure assets, the asset management industry, government subsidies, tax law, immigration policy and/or government entitlement programs could have a material adverse impact on a fund client and its investments in infrastructure assets.

#### Liquidity of Investments

Investment in a fund client requires a long-term commitment with no certainty of return. Many of the investments of fund clients will be highly illiquid, and there can be no assurance that a fund client will be able to realize on such investments in a timely manner. Although investments by a fund client may occasionally generate some current income, the return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of any investment. While an investment may be sold at any time, it is expected that an investment will not generally be sold until a number of years after it is made. Prior to such time, there may not be any current return on investment.

#### Limited Number of Investments

Many of the investments of fund clients will be highly illiquid, and there can be no assurance that a fund client will be able to realize on such investments in a timely manner. Although investments by a fund client may occasionally generate some current income, the return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of any investment. While an investment may be sold at any time, it is expected that an investment will not generally be sold until a number of years after it is made. Prior to such time, there may not be any current return on investment.

#### Investments Longer than Term

Fund clients expect to make investments which may not be advantageously disposed of prior to the date that a fund client will be dissolved, either by expiration of a fund client's term or otherwise. FIO expects that portfolio investments will be disposed of prior to dissolution or be suitable for in-kind distribution, and the general partner has a limited ability to extend the term of a fund client. However, a fund client may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

#### Follow-On Investments

In certain investments, a fund client may be called upon to provide additional funds to a

portfolio investment. There is no assurance that a fund client will make such follow-on investment or that a fund client will have sufficient funds to make such investments. Failure to make such investments may have an adverse effect on the performance of a fund client's portfolio.

#### Lack of Transferability of Interests

Fund client investors will not be permitted to assign, sell, exchange or transfer any of their interest, rights or obligations with respect to their interests in a fund client without the consent of the general partner, which may be granted or withheld in the general partner's sole discretion. The general partner will deny consent to any transfer that in the sole judgment of the general partner would result in adverse consequences to fund client or investors. Voluntary withdrawals from a fund client will not be permitted. Investors must be prepared to bear the risks of owning interests in a fund client for an extended period of time.

#### Dilution from Subsequent Closings

Investors subscribing for interests in a fund client at subsequent closing will participate in existing investments of the fund client, diluting the interests in the fund client of existing investors therein. Although, except in limited circumstances, such investors will contribute their pro rata share of previously made fund client draws (plus an additional amount thereon), there can be no assurance that this payment will reflect the fair value of the fund client's existing investments at the time such additional investors subscribe for interests in the fund client.

#### The Use of Credit Facilities for Capital Calls

Fund clients expect to enter into a credit facility to bridge capital calls. The use of such credit facilities has the effect of shortening the time that a fund client investor's capital is deployed. As a result, the use of such facilities can potentially cause the general partner to be paid carried interest distributions sooner than it would have been paid had no such credit facility been used. The fees and interest expenses associated with the use of such credit facilities are borne by the fund client.

#### Potential Exclusion from Participation

A fund client investor's participation in fund client investments may be limited by virtue of the general partner's right to exclude a fund client investor from participating in any fund client investment if the general partner determines that such participation might have certain adverse effects on a portfolio investment, the fund client or any of their respective affiliates.

#### Effect of Defaults; Consequences for Failure to Make Capital Contributions

Each fund client investor, unless excluded or excused by the general partner, will be required to participate in each investment by the relevant fund client. If a fund client investor fails to pay when due installments of its commitment to the fund client, and the capital contributions made by non-defaulting investors and borrowings by the fund client are inadequate to cover the defaulted capital contribution, then the fund client may be unable to pay its obligations when due. As a result, the fund client may be subjected to significant penalties that could limit opportunities for investment

diversification and materially adversely affect returns to the fund client investors (including non-defaulting fund client investors). If a fund client investor defaults, it may be subject to various remedies, including, without limitation, forfeiture of its interests in the fund client. A limited partner in default may forego any future income or gains on fund client investments made prior to its default and may, among other consequences, lose any rights to participate in future investments. Unless the general partner elects to terminate a defaulting fund client investor's unused commitment, the defaulting fund client investor will continue to remain obligated to make capital contributions as required by the general partner up to the full amount of its unused commitment.

#### Effect of Substantial Withdrawals

Substantial withdrawals from other investment vehicles and separate accounts advised by the Advisors could also detrimentally affect a fund client or account by increasing such fund client's or separate account's allocation of shared expenses. In addition, an overall reduction in an Advisor's assets under management, could limit such Advisor's ability to make particular investments.

#### Liability for Return of Distributions

Any fund client investor's investment is susceptible to risk of loss as a result of any liability of the fund client irrespective of whether such liability is attributable to an investment to which such fund client investor did not contribute any capital. If the fund client is otherwise unable to meet its obligations, the fund client investors may, under applicable law, be obligated to return, with interest, cash distributions previously received by them to the extent such distributions are deemed to constitute a return of their capital contributions or are deemed to have been wrongfully paid to them.

#### Contingent Liabilities on Disposition of Investments

In connection with the disposition of a portfolio investment, a fund client may be required to make representations about the business and financial affairs of such portfolio investment typical of those made in connection with the sale of a business. The fund client also may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate or with respect to certain potential liabilities, or indemnify indenture trustees. These arrangements may result in the incurrence of contingent liabilities for which the general partner may establish reserves or escrows. In that regard, fund client investors may be required to return amounts distributed to them to fund obligations of the fund client, including indemnity obligations.

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

There is no disciplinary information to report on FCO, FIO or their management persons.

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

Pursuant to an exemption from registration as a commodity pool operator ("CPO") set forth in



Commodity Futures Trading Commission (the “CFTC”) Regulation 4.13(a)(3), both FCO and FIO are not registered with the CFTC as a CPO.

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

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

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

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

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

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

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

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

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

The Code of Ethics also provides guidance on fiduciary duty, gifts and entertainment, political

contributions, outside business activities and confidentiality.

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

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

Generally, the Advisors policy is to not engage in cross trades. However, if the Chief Executive Officer of either FCO or FIO believes that the applicable Advisor should move a particular securities position in whole or in part from one fund client account to another fund client account, he will bring it to the attention of the other members of the senior management team and the Chief Compliance Officer and obtain approval for the trade from the advisory committees, if any, or other governing body of each participating fund client account. The Advisors will only engage in cross transactions (causing one fund client to buy or sell securities from or to another fund client) when the transaction is permitted under applicable law and is in the best interests of, and consistent with the investment objectives and policies of, both fund clients involved in the transaction. It is the Advisors' policy to effect all cross transaction in the most equitable and fair manner for all fund clients involved.

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

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

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

FIO allocates investment opportunities and trades as disclosed in the offering documents or other account documents of its clients and fairly and equitably among accounts participating in each transaction, taking into consideration the size, nature and type of investment opportunity, objectives, restrictions, investment strategy, asset allocation, diversification requirements, relative exposure to market trends, targeted leverage levels, target asset mix, target investment return, liquidity requirements of each client and capital commitment of each client, including, without limitation, any tax, legal, regulatory or other considerations that FIO deems necessary or appropriate to consider in light of the circumstances at the time. In general, given the differing investment objectives, asset allocations, investment parameters, benchmarks and other characteristics of various client accounts, each account will not necessarily participate in each transaction in a security or instrument that might be considered within the range of permissible investments for that client account. FIO may agree in the future in client account documents or disclose in the offering documents for fund clients that some clients may have priority in allocation of some investments. Further the nature of many of FIO's investments may make it impossible to allocate to different accounts due to the type of debt vehicle (e.g., a loan versus a bond), denomination, tenor or other factors. Clients may not be entitled to investment priority and may not necessarily participate in every investment opportunity. In cases where there is a limited amount of an investment opportunity, the allocation of such opportunity among client accounts will necessarily reduce the amount thereof available for purchase by other client accounts.

## **Item 12 – Brokerage Practices**

### *Best Execution and Soft Dollars*

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

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

We do not currently utilize soft dollar benefits. Soft dollar benefits include research and related

services furnished by brokers including written information and analyses (including specific market, financial and economic studies and forecasts), statistics and pricing services, discussions with research personnel and similar services used in the investment and trading process in return for the investment manager paying a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of such services or facilities provided by the broker. To the extent we should decide to enter into soft dollar transactions, we will effect such transactions in compliance with the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended.

### *Order Aggregation*

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

### **Item 13 – Review of Accounts**

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

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

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

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

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

## **Item 15 – Custody**

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

## **Item 16 – Investment Discretion**

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

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

The nature of certain of the instruments in which the Advisors invest client funds does not often require the voting of proxies. Where such proxy voting is called for and when granted the discretion to do so, the Advisors’ policy is to vote all proxies in the fund client’s best interest and to maximize the value of the investment to the fund client, on a case-by-case basis, considering such facts as it deems material. The decision on how to vote proxies generally will be made by the investment team

in the same manner as other investment decisions. Because we do not invest directly in securities in which our fund clients invest and we restrict employee investments in municipal securities, we do not expect any material conflicts of interest to arise in voting. Where the interests of different fund clients may conflict, the investment team will report the circumstances to the Chief Compliance Officer who will determine the appropriate course of action.

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

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

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

FIO is not aware of any financial condition that could impair its ability to meet its contractual and fiduciary commitments to its clients and FIO has not been the subject of any bankruptcy petition since its formation in January 2019.