

# Callodine Credit Management, LLC

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## Form ADV Part 2A: Firm Brochure

March 28, 2024

This brochure provides information about the qualifications and business practices of Callodine Credit Management, LLC ("Callodine Credit"). If you have any questions about the contents of this brochure, please contact us at 617-880-7494. 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.

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

Registration as a registered investment adviser pursuant to the Investment Advisers Act of 1940, as amended, (the "*Advisers Act*") does not imply any level of skill or training.

This document is not an advertisement for the advisory services of Callodine Credit, nor an offer to sell or the solicitation of an offer to purchase interests in any fund managed by Callodine Credit.

## **Item 2 – Material Changes**

This brochure replaces the last version of Callodine Credit's Form ADV Part 2A (the "Brochure") dated April 2023. The information in this updated Brochure does not contain any material changes, but includes routine annual updating changes, clarifying and/or enhanced disclosures and updated regulatory assets under management. We recommend that you read this Form ADV Part 2A in its entirety.

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## Item 4 – Advisory Business

Callodine Credit Management, LLC (“Callodine Credit”) was formed in 2021. The principal owner is Callodine Credit, LLC, a subsidiary of Callodine Group, LLC (“Callodine Group”). Callodine Group is majority owned by James Morrow (“*Principal*”).

Callodine Credit provides advisory services to privately offered pooled investment vehicles exempt from registration under the Investment Company Act of 1940, as amended, organized by Callodine Credit or its affiliates (collectively, the “*Callodine Credit Funds*” or the “*Funds*”). We may, in the future, organize additional investment vehicles that follow an investment program similar to or different from the investment program of the Callodine Credit Funds.

Callodine Credit is an affiliate of Callodine Commercial Finance, LLC (“CCF”), an operating company that is a private asset-based provider of loans to middle market companies, whose investment objective is substantially similar to the investment objectives of the Callodine Credit Funds. The personnel of the investment team responsible for managing the Funds’ portfolios are employed by CCF. CCF is majority owned by Callodine Group as a result of Callodine Group’s acquisition of Gordon Brothers Finance Company, LLC (“GBFC”), the predecessor company to CCF, on November 3, 2020.

The Callodine Credit Funds are organized as Delaware limited partnerships: The Callodine Asset Based Loan Fund II, LP (“CABL II Fund”) and the Callodine Perpetual ABL Fund, LP (“PABL”). The Funds rely on the relief from registration contained in Section 3(c)(7) of the Investment Company Act. Investment vehicles organized outside of the United States (“Offshore Funds”) may be established by the General Partner or an affiliate thereof as parallel funds in the future.

Callodine Credit manages the Funds in a manner consistent with the investment strategy described in the Funds’ offering documents. In addition to day-to-day portfolio management responsibilities, Callodine Credit bears primary responsibility for making investment decisions for the Funds and developing investment strategies consistent with the investment objectives, policies and restrictions applicable to the Funds. Callodine Credit does not provide specifically tailored advice to investors in the Funds. Any investment restrictions applicable to the Callodine Funds are set forth in the organizational or offering documents of the Funds.

As of December 31, 2023, Callodine Credit’s assets under management were approximately \$442,949,601, all of which are managed on a discretionary basis.

## Item 5 – Fees and Compensation

As compensation for its advisory services provided to the Funds, Callodine Credit receives a management fee based on the assets under management, payable quarterly in advance, as set forth in the offering documents of each respective Fund. The management fee is generally not negotiable, although Callodine Credit retains the discretion to waive fees for one or more investors, in whole or in part., Callodine Credit does not collect a management fee from its affiliated and employee investors.

All Investment Related Fees, in connection with each Fund’s allocable portion of an investment, received by Callodine Credit or its affiliates (other than the portion thereof allocable to the Callodine Credit Commitment) will be applied to reduce future Management Fees otherwise payable with respect to the

Limited Partners. *Investment Related Fees* means all transaction fees, syndication fees, director fees, break-up fees, monitoring fees, commitment fees, termination fees, closing fees, origination fees, amendment fees, waiver or consent fees and other similar fees in connection with the consummation, holding or disposition of an investment or the termination of a proposed but unconsummated investment (net of any expenses incurred by the Investment Adviser or its affiliates); provided, however, that Investment Related Fees will not include any administration, loan servicing or agency fees or reimbursement of costs or expenses in connection with such activities. For the avoidance of doubt, any fees earned by Callodine Credit or its affiliates which are not subject to offset as described above shall be retained by Callodine Credit or its affiliates, as applicable. The Funds retain all Investment Related Fees, in connection with each Fund's allocable portion of an investment, either directly or through a management fee offset, described above. The Funds' do not retain Investment Related Fees for the portion of loans not allocated to the Fund. After allocating investments to the Funds, there may be instances where there is additional capacity in a loan. In these instances, CCF may syndicate the additional capacity to co-investments and may earn a syndication fee on that portion of the loan. These syndication fees are compensation earned by CCF, that are not allocated to the Funds.

### Expenses

In addition to the management fee, an investor in the Funds bears its allocable share of expenses associated with the operations of the Funds.

The Funds will collectively bear up to the aggregate expense cap detailed in the Fund Offering Documents legal and other expenses incurred by the General Partner, the Investment Adviser and their respective affiliates in connection with (i) the organization of the Funds, any Parallel Funds (including, the Offshore Fund(s), if established), any Feeder Funds and related entities, and (ii) the offering of interests therein ("Organizational Expenses"). Organizational Expenses in excess of the cap may be paid by the Funds, as applicable but be borne by the Investment Adviser and its affiliates through a 100% offset against Management Fees otherwise payable to the Investment Adviser.

The Funds will also be responsible for the payment (or reimbursement of the General Partner and/or the Investment Adviser) of all costs, expenses and liabilities relating to its operations, including, but not limited to: (i) Management Fees; (ii) expenses related to, or incurred in connection with, any investment (or proposed investment which is not consummated including any broken deal expenses) including, without limitation, the fees and expenses of outside counsel, accountants, consultants, experts and other third party service providers (including, without limitation, third party valuation, pricing services, monitoring), third party research expenses (including market data, research analytics, newswire fees), rating expenses, origination fees, loan servicing, loan administration, due diligence expenses, investment banking and finders' fees, appraisal fees, clearing and settlement charges, brokerage fees, custodial fees, monitoring fees, stamp and transfer taxes, hedging costs and travel expenses; (iii) expenses associated with the operation and administration of the Funds including, without limitation, outside counsel, third party valuation, accounting (including, without limitation, shadow accountants), audit, tax planning and tax return preparation and other out-of-pocket expenses and the fees and expenses of any third party fund administrator and the Independent Advisor; (iv) expenses associated with reporting and providing information to Limited Partners; (v) expenses associated with Limited Partner and L.P. Advisory Committee meetings and the reasonable out-of-pocket expenses of the members of the L.P. Advisory Committee in connection with their services; (vi) compliance expenses relating to the operation of the Fund or its investments including, without limitation, expenses relating to regulatory filings (or portions thereof) that the Investment Adviser, the General Partner or their respective affiliates are required to make in connection therewith (including, if

applicable, Form PF expenses, and, if applicable, expenses in connection with Alternative Investment Fund Manager Directive reporting); (vii) the costs of forming and operating any Alternative Investment Vehicle (including, without limitation, administration costs); (viii) the costs of operating any Feeder Fund (including, without limitation, administration costs); (ix) commitment fees, principal payments, interest amounts and other fees and amounts payable in connection with subscription and other credit facilities or borrowings, including, without limitation, investment banking and finders' fees in connection therewith; (x) insurance costs (including, without limitation, directors and officers, errors and omissions, fidelity, general liability and workers compensation insurance costs); (xi) indemnification amounts payable to persons entitled to indemnification under the Partnership Agreement; (xii) all taxes imposed on the Fund, as determined by the General Partner (it being understood that the Fund shall be responsible for its own taxes); (xiii) costs and expenses associated with any litigation, threatened litigation or governmental or regulatory inquiry (including, without limitation, any judgments, settlements or other amounts paid in connection therewith) and all other extraordinary expenses; (xiv) fees paid to any placement agent, provided that 100% of any such fees paid by the Fund will be offset against Management Fees otherwise payable to the Investment Adviser; (xv) expenses associated with the organizational costs and the offering of interests in a Fund (including legal and accounting fees, printing costs and "blue sky" filing fees and expenses excluding travel and out-of-pocket expenses incurred in connection with the offering of limited partner interests; and (xvi) all other costs and expenses incurred that are authorized by the Partnership Agreement or approved by the General Partner and a majority in interest of the Limited Partners or the L.P. Advisory Committee (these costs, expenses and liabilities, together with Organizational Expenses, are collectively referred to herein as "Fund Expenses"). The term "travel expenses" as used in this paragraph includes reimbursements for airline travel and other transportation expenses, meals and accommodation expenses of Callodine Credit incurred in connection with Fund activities.

The capital account of an investor admitted to a Fund on a day other than the first day of the calendar quarter is charged a pro rata portion of the management fee corresponding to the number of months remaining in the quarter.

Investors should review the expanded summary of expenses in the Funds' private offering memoranda.

Certain of the Funds' investments may generate co-investment opportunities. Callodine Credit may make these opportunities available to certain investors in its Funds, however, it may also choose to offer some or all of any available co-investment opportunity to affiliates, strategic investors, third -party sponsors, consultants, advisors, lenders, or others. Management and incentive fees on co-investments will be assessed as outlined in the governing documents.

Where CCF acts as facility agent for loans, CCF earns and retains loan administration, loan servicing and agency fees and the reimbursement of costs or expenses in connection with such activities. These fees are paid by the borrower and retained by CCF.

Neither Callodine Credit nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

In addition to the management fee, investors in the Funds are subject to performance participation or carried interest which is payable to Callodine Commercial Partners, LLC, the General Partner and an affiliate of

Callodine Credit, if and when specified performance thresholds are met as set forth in each Fund's offering documents. In general, the General Partner receives a share in the profits realized by the Funds once all capital contributions have been returned and the Fund achieves a specified rate of return.

The carried interest terms with respect to any investor may be waived or altered by the General Partner in its discretion, including without limitation, employees and affiliates and certain Limited Partners with significant commitments to the Funds.

#### Conflicts surrounding Performance-Based Fees:

The potential management of different types of accounts and accounts with different fee arrangements for the same strategy may give rise to potential conflicts of interest. Performance-based arrangements create an incentive for Callodine Credit to purchase investments that are more risky or speculative than those that would be purchased under a different fee arrangement. Performance-based arrangements also create an incentive to favor higher paying accounts over lower paying accounts in the allocation of investment opportunities.

Certain of Callodine Credit's principals and other personnel are invested in the Funds. The General Partner may, in its discretion, agree to special terms regarding carried interest with respect to certain Partners, including, without limitation, CCF employees, Callodine Credit affiliates, and certain Limited Partners with significant capital commitments to the Funds. As a result, the potential for Callodine Credit's related persons to receive different fees or allocations from performance-based accounts creates a potential conflict of interest with respect to the allocation of investment opportunities because This creates an incentive to direct the best investment ideas to, or to allocate investments in favor of, the account that pays a more favorable performance fee or allocation. Callodine Credit has adopted an allocation policy to mitigate this potential conflict.

Additionally, CCF follows a substantially similar investment strategy to the Funds' and participates in investments alongside the Funds, pursuant to an Allocation Policy. CCF is majority owned by Callodine Group. We may have a material incentive to favor certain, more lucrative accounts over those that may be less lucrative. Additionally, we may have a material incentive to favor accounts in which we, or our affiliates, have significant proprietary interest. For example, we have an incentive to direct the best investment ideas to, or to allocate investments in favor of CCF's portfolio, as Callodine Group has a significant proprietary interest in CCF. To address these conflicts, our policies and procedures require that investment decisions be made based on the best interests of our Clients, without consideration of pecuniary interests of Callodine Credit or its employees.

Callodine Credit has implemented policies and procedures that govern the allocation of portfolio transactions and investment opportunities across Client accounts. In general, the way portfolio transactions and investment opportunities are allocated to accounts depends upon multiple factors, including, but not limited to how much capital is available within a Client Account, the desired position size, the investment period of the portfolios, whether there are limitations or restrictions imposed on an account due to its investment mandate, differences in risk profile at the time the opportunity becomes available, portfolio concentration considerations, and tax considerations. Trade allocation is reviewed periodically by the Chief Compliance Officer to determine compliance with established policies and procedures. See also Item 12 – Brokerage Practices: Trade Allocation Between Client Accounts.

## **Item 7 – Types of Clients**

As noted in Item 4 above, we currently provide investment advisory services to the Callodine Credit Funds.

The Funds are exempt from registration under Section 3(c)(7) of the Investment Company Act. Investors, which currently include endowments, pension plans, charitable institutions, family offices, other funds, and high net worth individuals and other entities, are admitted to the Callodine Credit Funds at the discretion of such Funds' general partner, as applicable. Some employees of CCF have investments in the Callodine Credit Funds.

CABL II is closed to new investors. The minimum investment for the PABL Fund is \$1,000,000 although the General Partner may waive the minimum investment amount, in its discretion.

Interests in the Funds may only be purchased by investors that are "accredited investors," as defined in Regulation D under the Securities Act of 1933, and either "qualified purchasers," as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, for purposes of Section 3(c)(7) thereunder, or a "knowledgeable employee" as that term is defined in Rule 3c-5 of the 1940 Act.

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

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

The Adviser expects to originate, structure, and invest in private market debt with a focus on fully secured, formula driven asset-based lending (a top of the capital structure focus). The Funds' portfolio is expected to be comprised of senior secured first lien, second lien, first lien last out (FILO) and unitranche investments across a variety of sectors and collateral types. All of the portfolios' investments, including second lien and FILO investments, are expected to be fully covered by assets under borrowing base structures at initial underwriting.

Fund investments will include loans that typically have a legal final maturity of between three and five years. The average duration of a typical investment, however, is frequently shorter than the stated maturity. Often, the average life of a transaction is expected to be between 18 to 24 months before the Fund exits. It is not the Fund's investment strategy to exit a loan before the final maturity, however this often happens because a borrower is successfully able to "graduate" from Callodine Credit's more expensive cost of capital into a structure with a lower cost of capital, thereby refinancing out of its position. In fact, the Firm believes that remaining in a transaction for longer often allows the Fund to restructure or reprice the loan to its benefit. Alternatively, some exits result from the liquidation of a borrower's assets (typically in a bankruptcy proceeding).

There is no assurance our strategy and methodologies will be successful over any given period of time.

An investment in the Funds is speculative, entails a high degree of risk and is suitable only for investors who have no immediate need for liquidity and who can afford to bear a loss of the entire amount invested. No representation or guarantee is made as to the likelihood of the Funds achieving its objectives.



## Investment Related Risks

**General Economic and Market Conditions.** The success of the Funds' activities will be affected by general economic and market conditions, including but not limited to interest rates, commodity prices, availability of credit, credit defaults, inflation rates, economic uncertainty, disruptions in the global debt markets, changes in laws (including laws relating to taxation of the Funds' investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may adversely affect the Funds' ability to source attractive investment opportunities, the pricing of such investment opportunities, the value of investments held by the Funds and the Funds' ability to exit or monetize its investments.

**Financial Market Fluctuations.** General fluctuations in the market prices of securities may affect the value of the Funds' investments. Instability in the securities markets may also increase the risks inherent in the Funds' portfolio investments. The ability of portfolio companies to refinance debt securities may depend on their ability to sell new securities in the public high- yield debt market or otherwise.

**Market Disruptions; Governmental Intervention.** The Funds may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Funds from its banks, dealers and other counterparties is typically reduced or could cease entirely, in disrupted markets. Such a reduction may result in substantial losses to the Fund. The downturn in the credit markets and the global economic crisis in the past several years have led to extensive and unprecedented governmental intervention. These interventions typically have been unclear in scope and application, resulting in confusion and uncertainty that in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies. Further additional legislative or regulatory action could be taken, and the effect of such actions could have a negative impact on the Funds' investments.

**Inflation.** Inflation and rapid fluctuations in inflation rates have had in the past, and may in the future have, negative effects on economies and financial markets. In an attempt to stabilize inflation, countries may impose wage and price controls or otherwise intervene in the economy. Governmental efforts to curb inflation often have negative effects on the level of economic activity. As such, inflation and rapid fluctuations in inflation rates can adversely affect the financial performance of the Fund.

**Senior Secured Loans.** The Investment Adviser intends to invest a portion of the Funds' capital in senior secured loans. There is a risk that the collateral securing the Funds' loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise, and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital. In some circumstances, the Fund's lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio investment's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that the Funds will receive principal and interest payments according to the loan's terms, or at all, or that the Funds will be able to collect on the loan should it be forced to enforce its remedies.

**Second Lien and Subordinated Loans.** The Investment Adviser intends to invest a portion of the Funds' capital in second lien and subordinated loans issued by the Funds' portfolio companies. The portfolio

companies usually have, or may be permitted to incur, other debt that ranks equally with, or senior to, the loans in which the Funds invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which the Funds are entitled to receive payments in respect of the loans in which the Funds invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to the Funds' investment in that portfolio company would typically be entitled to receive payment in full before the Funds receive any distribution in respect of their investments. After repaying senior creditors, a portfolio company may not have any remaining assets to use for repaying its obligation to the Funds. In the case of debt ranking equally with loans in which the Funds invest, the Funds would have to share any distributions on an equal and ratable basis with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

***Investments in Special Situations.*** The Investment Adviser may invest a portion of the Funds' capital in the obligations of companies involved in (or the target of) acquisition attempts or tender offers or companies involved in workouts, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. Investments in such companies are generally considered speculative. In any investment transaction involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which may be materially less than the purchase price paid by the Funds for the security or other financial instrument in respect of which such distribution is received. Similarly, if such an anticipated transaction does not in fact occur, the Funds may lose all or a material portion of their investment.

***General Risks of Lending, Secured Lending and Loan Origination.*** Callodine Credit's lending strategy is subject to general market, credit and interest rate risks. Secured lending is also subject to the risk of inadequate collateral, and lending generally is subject to the risk of default.

***Syndication and/or Transfer of Debt Instruments.*** The Investment Adviser, on behalf of the Funds, may originate and/or purchase secured debt assets. The Funds may also purchase secured debt assets (including, participation interests or other indirect economic interests) that have been originated by the Funds or from other parties and/or trading on the secondary market. The Funds may, in certain circumstances, originate or purchase such secured debt assets with the intent of syndicating and/or otherwise transferring a significant portion thereof. In such instances, the Funds will bear the risk of any decline in value prior to such syndication and/or other transfer. In addition, the Funds will also bear the risk of any inability to syndicate or otherwise transfer such secured debt assets or such amount thereof as originally intended, which could result in the Funds owning a greater interest therein than anticipated.

***Investments with Co-Investors.*** Callodine Credit may co-invest on behalf of the Funds in one or more investments with one or more Limited Partners (other than the Callodine Credit Parties) or, through partnerships, joint ventures or other entities, certain strategic investors, lenders, or other third parties, including, without limitation, investors in separately managed accounts or vehicles managed or advised by Callodine Credit and/or its affiliates. CCF and any successor entity thereto, and/or one or more affiliates of Callodine Credit (but not to the Key Person or any other employees of the General Partner, the Investment Adviser or their affiliates) which parties in certain cases may have different interests to those of the Funds.

***Insolvency and Bankruptcy.*** Various laws enacted for the protection of creditors may apply to the

Funds' investments. In a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of a Funds investment, such as a trustee in bankruptcy, a court may find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting such Funds investment. If, after giving effect to such indebtedness, the issuer (1) is insolvent, (2) is engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (3) intends to incur, or believes that it will incur, debts beyond its ability to pay such debts as they mature, such court could determine (1) to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, (2) to subordinate such indebtedness to existing or future creditors of the issuer or (3) to recover amounts previously paid by the issuer in satisfaction of such indebtedness.

**Call and Prepayment Risk.** The ability of issuers to prepay Funds investments will vary. The Funds will experience a loss if a Funds investment was purchased at a price greater than par and is prepaid at par or at a price lower than the purchase price.

**Investments in Private Middle-Market Companies and Smaller Issuers.** The Funds will invest primarily in the debt obligations or securities of middle-market, lower middle-market and/or less well-established companies. In addition to limited liquidity, investments in loans issued to, and debt instruments of, private middle-market companies may involve a significant number of additional risks.

**Portfolio Company Management.** Each portfolio company's day-to-day operations will be the responsibility of such portfolio company's management team. Although Callodine Credit will be responsible for monitoring the performance of each portfolio company, there can be no assurance that the existing portfolio company's management team, or any successor, will be able to operate the portfolio company in accordance with Callodine Credit's expectations. The success of the Funds investment depends in substantial part upon the skill and expertise of each portfolio company's management team.

**Unitranche Debt Securities.** Unitranche debt securities are generally unrated or below investment grade rated investments that may have greater credit and liquidity risk than more highly rated debt obligations. Unitranche debt securities are often issues in traditional private placements or in connections with acquisitions and other business combinations and have no trading market. Unitranche debt securities may combine secured and unsecured, subordinated debt. Issuers of such debt securities may be highly leveraged, and their relatively high debt to equity ratios, create increased risks that their operations might not generate sufficient cash flow to service their debt obligations.

**Distressed Borrowers.** The Funds may invest in loans and debt instruments of companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to the Funds, they involve a substantial degree of risk. Distressed borrowers may be less likely to meet their obligations in connection with such loans or debt instruments, and the inability to meet such obligations may result in certain loans of the Funds becoming nonperforming. The level of legal and financial sophistication necessary for successful investment in the loans issued to, or the debt instruments of, companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing the loans invested in by the Funds or the prospects for a successful reorganization or similar action, if any, or the general performance of such loans. In addition, to the extent that the Funds invest in loans or debt instruments with respect to companies that subsequently undergo bankruptcy or similar liquidation proceedings, such investments may be subject to additional risks. Many of the events within a bankruptcy case are adversarial and often beyond the control of creditors. Although creditors generally are afforded an

opportunity to object to significant actions, there is the possibility that a bankruptcy court could approve actions that may be contrary to the interests of the Funds. The duration of bankruptcy proceedings is often difficult to accurately predict, and such proceedings may be lengthy. The administrative costs in connection with bankruptcy proceedings are frequently high and will be paid out of the debtor's estate (other than out of assets or proceeds thereof that are subject to valid and enforceable liens and other security interests) prior to any return to unsecured creditors and equity holders. In connection with a bankruptcy proceeding, the Investment Adviser, on behalf of the Funds, may seek representation on creditors' committees or other groups to ensure preservation or enhancement of the Funds' position as a creditor. If the Funds are represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of their investments in such company while it continues to be represented on such committee or group. In addition, the Funds' return on investment can be adversely affected by the passage of time during which the plan of reorganization of a bankrupt debtor is being negotiated, approved by the creditors and confirmed by the bankruptcy court. Reorganizations outside of bankruptcy are also subject to unpredictable and potentially lengthy delays.

***Distressed Investments; Restructurings.*** Fund investments may include privately negotiated investments in distressed situations involving companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings (e.g., investments in defaulted, out-of-favor or distressed bank loans and debt securities). Certain of the Funds' investments therefore may include specific investments of issuers that are highly leveraged, with significant burdens on cash flow, and, therefore, involve a high degree of financial risk although they also may offer the potential for correspondingly high returns. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Callodine Credit will evaluate correctly the value of the assets collateralizing such investments or the prospects for a successful reorganization or similar action. In certain periods, there may be little or no liquidity in markets for these securities. The public market prices of distressed securities may be subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and ask prices of such securities may be greater than normally expected. It may take a substantial period of time for the market price of such securities to reflect what the Investment Adviser believes is their intrinsic value. Troubled companies and other asset-based investments also require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Investment Adviser.

#### **Fund Risks:**

***Lack of Operating History.*** The Funds are newly formed and have limited operating history. There can be no assurance that the Funds' investment returns will be comparable to the past performance of the Investment Adviser, the Key Person and other investment professionals described in Funds' offering documents or that the Funds will achieve their investment or return objectives.

***Dependence on CCF Investment Professionals.*** Successful execution of the Funds' investment strategy depends on the efforts of certain of CCF's investment professionals, including the Key Person. There can be no assurance that such investment professionals will be actively involved in the affairs of the Funds throughout their term. If one or more of these investment professionals became incapacitated or were no longer associated with Callodine Credit for any reason, the Funds' performance could be adversely affected.

**Fund Interests are Illiquid.** As a result of the limitations on withdrawals and the fact that Interests are not tradeable, an investment in the Funds are illiquid and involves a high degree of risk. A subscription for Interests should be considered only by sophisticated investors financially able to maintain their investment and who can afford to lose all or a substantial part of such investment.

**Recycling of Distributions.** The Funds expect to retain all principal amounts received by the Fund from repayment of investments to make future investments, to repay any indebtedness of the Funds, to pay Fund Expenses (including Management Fees) and to provide for reserves and other obligations. Accordingly, a Limited Partner may be required to make aggregate capital contributions to the Funds in excess of their Capital Commitment. In addition, recycling may have the effect of delaying the receipt of distributions by Limited Partners and there can be no assurance that the investments in which the Fund invests with recycled proceeds will be profitable.

**Competition for Available Investments.** Although Callodine Credit believes that it can identify and capture opportunities to invest in floating rate senior secured loans to mid-market companies and other investment types targeted by the Funds, the activity of identifying, completing, and realizing attractive investments of the type being targeted by the Funds are nonetheless highly competitive. The Funds will be competing for investments with many other investors, including banks, other credit funds, hedge funds and other institutional investors. There can be no assurance that the Funds will be able to locate, complete and exit investments which meet the Funds' investment objectives or that it will be able to fully invest its available capital.

**Concentration of Investments.** Callodine Credit will endeavor to diversify the Funds' investments; however, difficult market conditions or slowdowns affecting a particular asset class, geographic region or other category of investment could have a significant adverse impact on the Funds if their investments are concentrated in that area, which would result in lower investment returns. This lack of diversification may expose the Funds to losses disproportionate to market declines in general if there are disproportionately greater adverse price movements in the particular investments. If the Funds hold investments concentrated in a particular issuer, security, asset class or geographic region, it may be more susceptible than a more widely diversified portfolio to the negative consequences of a single corporate, economic, political, or regulatory event. Accordingly, a lack of diversification could adversely affect the Funds' performance.

## **Other Risks**

**Projections.** The Funds may rely upon projections developed by Callodine Credit concerning a portfolio investment's future performance and cash flow. Projections are inherently subject to uncertainty and factors beyond the control of Callodine Credit and the portfolio investment. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values and cash flow.

**Tax Risks.** The investments by the Funds may involve various tax risks for the Funds, or the Limited Partners in general or for certain Limited Partners in particular. Certain of these risks are discussed in more detail in the Funds' offering documents. Each prospective investor should consult with and must rely upon their own tax advisor regarding the tax consequences and liabilities related to an investment in the Funds.

**Cybersecurity Risks.** The Funds and their service providers are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and

practices designed to protect networks, systems, computers, programs and data from cyber-attacks and hacking by other computer users, and to avoid the resulting damage and disruption of hardware and software systems, loss or corruption of data, and/or misappropriation of confidential information. In general, cyber-attacks are deliberate, but unintentional events may have similar effects. Cyber-attacks may cause losses to the Funds or the Limited Partners by interfering with the processing of investor transactions, affecting the Funds' ability to calculate net asset value or impeding or sabotaging Fund investments and/or asset management activity. The Funds may also incur substantial costs as the result of a cybersecurity breach, including those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage.

## **Item 9 – Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

Neither Callodine Credit nor any of its management persons is currently registered, or has an application pending to register, as a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of any of the foregoing entities. Certain CCF employees are expected to become registered representatives of an unaffiliated broker-dealer in connection with their activities relating to the private placement of the Funds.

Through our common control by Callodine Group, we are affiliated with various U.S. registered investment advisers (as reported on Part 1 of our Form ADV) and pooled investment vehicles, among other financial and operating entities. We occasionally may engage in business activities with some or all of these entities, subject to our policies and procedures governing how we handle conflicts of interest. Callodine Group shares personnel and certain resources with its affiliated registered investment advisers, including Callodine Credit, except where limited by applicable policies and procedures. Currently, these entities focus primarily on different investment strategies and are generally operationally independent from Callodine Credit.

Callodine Credit does not recommend or select other investment advisors for our clients in return for direct or indirect compensation from such advisors.

As noted in Item 4, CCF is an affiliated entity that is an operating company which focuses on providing asset-based loans to middle-market companies. CCF has an investment objective that is substantially similar to the Funds and invests alongside the Funds in accordance with Callodine Credit's allocation policy. Individuals performing investment advisory services to Clients on behalf of Callodine Credit are employed by CCF pursuant to a Resource Sharing Agreement. Certain members of the Board of Directors of CCF are employed by and serve in senior roles for our affiliated investment adviser, Callodine Capital Management, LLC.

## **Item 11 – Code of Ethics**

### *Code of Ethics*

Callodine Credit has adopted a Code of Ethics for all employees and partners of Callodine Credit describing its high standard of business conduct and fiduciary duty to its clients. The Code includes provisions relating to the confidentiality of client and firm information, prohibitions on insider trading and market manipulation, policies and procedures regarding personal trading, and disclosure and approval requirements for gifts, business entertainment and other conflicts of interest. All employees must acknowledge receipt of the Code and any amendments and report any violations of the Code to the Compliance Officer.

Callodine Credit's personal trading policy permits employees to make investments in their personal accounts, subject to certain restrictions and pre-approval requirements. Employees may also invest in the Callodine Credit Funds, subject to eligibility requirements.

A copy of our Code of Ethics will be provided to investors upon request.

### *Conflicts of Interest*

In the ordinary course of conducting its activities, the interests of Callodine Credit and its affiliates may conflict with those of Callodine Credit's Clients. Some of these potential conflicts, and our measures to address them, include:

#### *Performance-Based Fees.*

Performance-based arrangements create an incentive for Callodine Credit to recommend investments that are more risky or speculative than those that would be recommended under a different fee arrangement. Performance-based arrangements also create an incentive to favor higher paying accounts over lower paying accounts in the allocation of investment opportunities. Refer to Item 6 for additional information pertaining to how Callodine Credit addresses this conflict.

#### *Valuation.*

Callodine Credit and the General Partner of the Funds exercise authority over the valuation of assets held in the Funds. Valuation methodologies for certain investments can be subjective and involve a measure of judgment by Callodine Credit. The portfolio valuations that we oversee affect the calculation of management fees payable to us and the performance allocation paid to our affiliate, the General Partner. We have a valuation policy designed to mitigate this potential conflict of interest.

#### *Side Letters.*

Callodine Credit has entered into side letter arrangements with certain investors in the Funds that have established different rights or privileges with respect to, but not limited to, more favorable terms over time with respect to management fees, capacity, and reporting of fund information.

## **Item 12 – Brokerage Practices**

This item is generally not applicable to Callodine Credit because the Funds do not conduct transactions in publicly-traded securities requiring the use of brokers. However, if required to select a broker-dealer for a

client transaction, the Firm will seek “best execution” and make the selection based on a combination of cost, execution capability, and trading expertise consistent with the transaction.

#### *Trade Allocation Between Client Accounts and Affiliates*

CCF is generally expected to invest alongside the Funds. During the investment period of the CABL II Fund, the PABL Fund and the CABL II Fund are generally expected to invest in parallel, subject to the firm’s allocation policy, which takes into account multiple factors including but not limited to, applicable investment limitations or terms of the Funds and the capital of each fund available to be invested. The investment objective of the Fund may also be similar to, or overlap with, the investment objectives and proposed investment programs of other Clients of Callodine Credit, Callodine Group and/or their respective affiliates. Other Clients, including the Funds, and/or CCF may hold or may acquire investments in which the Funds invest or has invested, and similarly the Funds may hold or may acquire investments in which other Clients, and/or CCF invest or have invested. Therefore, CCF and certain other Clients of Callodine Credit, Callodine Group and/or their respective affiliates, including the Funds, will regularly compete for investment opportunities with each other. As a result, the allocation of investment opportunities gives rise to potential and actual conflicts of interest. In addition, such investments and transactions may raise potential conflicts of interest for the Funds if the Funds and CCF and/or such other Clients, invest in different classes or types of securities or investments of the same underlying investment. In that regard, actions may be taken by CCF and/or such other Clients, that are adverse to the Funds, including, but not limited to, during a restructuring, bankruptcy or other insolvency proceeding or similar matter.

In making allocation decisions with respect to limited investment opportunities that could reasonably be expected to fit the investment objectives of multiple clients and/or accounts, Callodine Credit will allocate such opportunities in accordance with Callodine Credit’s investment allocation policy. The investment allocation process is reviewed periodically by the Chief Compliance Officer to determine compliance with established policies and procedures.

## **Item 13 – Review of Accounts**

#### *Review of Accounts*

Callodine Credit’s Investment Committee reviews the Funds’ portfolio periodically to monitor performance and evaluate whether the portfolios are optimized to execute our investment strategy and achieve our investment objectives or whether adjustments are appropriate in light of changing market conditions, issuer developments and current opportunities and investment ideas. The Funds’ investments are also reviewed to assure conformity with the investment objectives and guidelines set forth in the investment management agreements and specific Fund offering documents.

#### *Reports to Investors*

Regular reporting to Clients and investors includes quarterly account information. On an annual basis, investors of the Funds receive Schedule K-1s and audited financial statements for the Callodine Credit Funds.



The Funds, or the Administrator on behalf of the Funds, may elect to deliver such notices and documents by using a variety of means including, but not limited to, by telephone, e-mail, password protected Internet website and regular mail.

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

Callodine Credit does not receive any economic benefit from anyone other than its clients for providing investment advice or other advisory services to its clients.

Callodine Credit enters into written agreements with third party placement agents to refer potential investors to Callodine Credit as permitted by applicable laws. Pursuant to such solicitation or placement agent agreements, third parties receive fees based on providing investor referrals. Callodine Credit compensates these firms with a percentage share of the management fees as outlined in the agreement with each respective firm. No additional fees are charged to investors as a result of our participation in these arrangements. Typically, these arrangements last for a period of time, but fees are paid to the solicitor or placement agent for a trailing period following termination of the arrangement.

## **Item 15 – Custody**

Callodine Credit does not maintain physical possession of client funds or securities. Together with the General Partner, however, Callodine Credit is authorized to withdraw funds or securities from the Callodine Credit Funds for the payment of management fees and other expenses, and our capacities as investment manager and general partner afford us overall access to Funds' securities and funds. As a result of this access and authority, we are deemed to have custody of client funds and securities within the meaning of the Advisers Act.

Callodine Credit is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is deemed to have complied with certain requirements of the Custody Rule with respect to each unregistered pooled fund because it requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

## **Item 16 – Investment Discretion**

Callodine Credit has full discretionary authority over all assets it manages for its Clients, consistent with the investment objectives and strategy described in the offering documents and investment management agreements. Callodine Credit does not provide advisory services directly to investors in the Callodine Credit Funds.

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

This item is not applicable given Callodine Credit's investment strategy generally does not include investments in publicly traded equities.

## **Item 18 – Financial Information**

Callodine Credit does not require or solicit prepayment of any fees six months or more in advance and does not have any financial condition that would impair its ability to meet contractual commitments to clients.