

Part 2A of Form ADV: Firm Brochure

DDJ Capital Management, LLC

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Date: March 28, 2011

This Brochure provides information about the qualifications and business practices of DDJ Capital Management, LLC. If you have any questions about the contents of this Brochure, please contact us at (781) 283-8500 and/or inforequest@ddjcap.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about DDJ Capital Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.



Item 2 Material Changes

This Brochure dated March 28, 2011 is a new document prepared according to the SEC's new requirements and rules. As such, this Brochure is materially different in structure and requires the inclusion of certain new information that DDJ's previous Brochure dated March 31, 2010 did not require. In the future, pursuant to applicable SEC rules, DDJ will include in this Item only a summary of specific material changes that are made to the Brochure since its last delivery or posting of this document on the SEC's public disclosure website (IARD) www.adviserinfo.sec.gov. In this Item, DDJ will also reference the date of the last annual update of its Brochure.

Item 3 Table of Contents

<u>Item</u>	<u>Description</u>	<u>Page</u>
1	Cover Page	i
2	Material Changes	ii
3	Table of Contents	iii
4	Advisory Business	1
5	Fees and Compensation	2
6	Performance-Based Fees and Side-by-Side Management	4
7	Types of Clients	6
8	Methods of Analysis, Investment Strategies and Risk of Loss	7
9	Disciplinary Information	13
10	Other Financial Industry Activities and Affiliations	14
11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	15
12	Brokerage Practices	18
13	Review of Accounts	21
14	Client Referrals and Other Compensation	22
15	Custody	23
16	Investment Discretion	24
17	Voting Client Securities	25
18	Financial Information	27

Item 4 Advisory Business

DDJ Capital Management, LLC (“DDJ”), which has operated continuously since its inception in 1996, provides investment advice directly to various institutional clients, including corporate pension accounts, public retirement plans and Taft-Hartley plans, as well as to pooled investment vehicles (generally in the form of limited partnerships). DDJ also acts as investment adviser to certain U.S. and non-U.S. investment advisers and asset managers. David J. Breazzano, a co-founder of the firm and its President and Chief Investment Officer, is the principal owner of the firm.

DDJ offers investment advisory services that specialize in identifying investment opportunities among high yield and financially stressed companies primarily in the small to mid-cap arena. In providing such advisory services, irrespective of the specific investment strategy implemented on behalf of a client, DDJ adheres to a value-oriented, bottom-up, fundamental investment approach with an emphasis on downside protection. As part of this fundamental approach to investing, DDJ attempts to create a comprehensive analytical overview of the target company by examining its current and future business prospects. More detailed information regarding DDJ’s advisory services, its fundamental method of analysis, and the significant investment strategies that DDJ pursues on behalf of its clients is set forth in Item 8 of this Brochure.

Although DDJ pursues highly focused investment strategies, DDJ nonetheless customizes its advisory services to the individual needs and requirements of its clients. Such clients may and frequently do impose restrictions on investing in certain securities or types of securities as set forth in the applicable governing advisory agreement(s).

As of February 28, 2011, DDJ managed approximately \$4,156,100,000 of client assets. All of such assets are managed by DDJ on a discretionary basis.

Item 5 Fees and Compensation

Compensation for Advisory Services

DDJ's compensation for its advisory services generally comprises up to two components. The first component, which is presently utilized for all investment products managed by DDJ, is an asset-based (management) fee. Such asset-based fee may be charged monthly, quarterly, or semi-annually, in arrears or in advance. To the extent that an asset-based fee is charged in advance (such as for certain pooled investment vehicles with a management fee based on committed capital rather than asset value) and the applicable advisory contract is terminated before the end of the current billing period, DDJ will refund to the client a *pro rated* amount of such asset-based fee paid in advance based on the number of days remaining prior to the next scheduled billing date.

The second component of DDJ's compensation, which may be applicable for certain investment products managed or advised by DDJ, is a performance-based fee or an allocation of profits. Clients may pay this amount either to DDJ directly as a performance fee, or to DDJ or an affiliate, such as the general partner of a limited partnership managed by DDJ, as an incentive allocation of certain profits. Any such performance fees (or incentive allocations) will be computed and charged, to the extent applicable, in accordance with the terms of the applicable governing documents for such client, as well with Section 205 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") and Rule 205-3 (including the client qualification provision) promulgated by the SEC under the Advisers Act. DDJ charges such performance-based fee component annually or in connection with a partial withdrawal or complete termination of a client account, and always in arrears.

Advisory Fee Arrangements

With respect to separate account clients, DDJ typically negotiates its fees on an individual basis taking into account the particular investment strategy to be pursued, the degree of management involved, the size of the account and other relevant considerations. In addition, with respect to certain of its investment strategies, DDJ has adopted a "standard" fee schedule that is available to prospective clients upon request. Such separate account clients may select either for DDJ to deduct fees directly from their assets under management, or for the client to receive a bill for fees incurred and then make payment to DDJ in arrears.

With respect to pooled investment vehicles, DDJ typically does not negotiate such fees with the underlying investors in such vehicles; such fees are deducted directly from the client's assets managed by DDJ.

The applicable advisory agreement for each client will typically set forth any other types of fees or expenses that clients may incur in connection with DDJ's advisory services. Such expenses may include, without limitation, brokerage fees and commissions, custodian fees, consulting fees, and legal fees and other expenses incurred in connection with the actual and proposed acquisition of an investment or in connection with the enforcement of a client's rights and remedies as a holder of such investment. For more information regarding brokerage and other transaction costs in particular, please refer to Item 12 of this Brochure.

DDJ and each of its personnel do not accept any compensation (e.g., brokerage commissions or service fees) for the sale of any securities or other investment products. DDJ does not have any affiliated broker-dealers.

Conflict of Interest Relating to Valuation of Certain Illiquid Assets

From time to time, certain assets held by DDJ clients may be illiquid or otherwise hard-to-price as a result of a thinly traded or inactive secondary market. In such circumstances, consistent with applicable accounting principles and standards, DDJ may internally "fair value" such investments. Because DDJ receives an asset-based and/or performance-based advisory fee from its clients, DDJ may have an incentive to inflate the value of such "fair valued" investments, thereby increasing the fees payable by its clients. To address this potential conflict of interest, DDJ has adopted rigorous pricing procedures, which include the preparation of written fair value reports setting forth in reasonable detail the fair value of such investment as of the valuation date; a monthly review of such fair valued investments by the DDJ Chief Financial Officer; and a quarterly review by the DDJ fair value committee (the composition of which includes both the Chief Financial Officer and the Chief Compliance Officer, as well as certain members of the DDJ investment team). On an annual basis, the independent auditors for separate account clients as well as pooled investment vehicles typically vet each asset that has been fair valued by DDJ. More information regarding DDJ's pricing policies and procedures concerning these fair valued investments is available upon request.

Item 6 Performance-Based Fees and Side-by-Side Management

As described above in Item 5 of this Brochure, DDJ (or its affiliated entities) charges certain clients performance-based fees, or fees based on an allocation of profits. Further, DDJ may manage both accounts for which DDJ charges a performance-based fee (or incentive allocation of profits), coupled with an asset-based fee component, and accounts for which DDJ charges strictly an asset-based fee component. Because accounts with different fee structures nonetheless may pursue similar investment strategies and objectives, DDJ and its portfolio managers may face a potential conflict of interest when concurrently managing these accounts, as DDJ may have an incentive to favor those accounts for which DDJ receives a performance-based fee with its best investment ideas.

To address this potential conflict of interest, DDJ adheres to written initial order and allocation guidelines, which guidelines are designed to ensure the equitable allocation of investment opportunities across all of DDJ's client accounts without regard to fee structure. Pursuant to these guidelines, a portfolio manager may evaluate several factors in determining whether or not to place an order for a security that may be suitable for more than one client. Although any given order will be based on a number of factors in light of the facts and circumstances existing at the time that the portfolio manager places such order with the DDJ trading desk, the most important factor in determining whether a client will participate in any given order is the investment strategy of the client and whether/how the particular security under consideration fits the particular investment strategy. Once an order is placed, it is reviewed on a daily basis by the portfolio manager as well as a DDJ trader.

Certain client accounts that include a performance-based fee component may pursue more complex and legally intensive investment strategies, and accordingly such accounts may receive a different allocation of certain investment opportunities than accounts pursuing a different investment strategy that may or may not include a performance-based fee component. However, in determining the order allocation for a security that may be suitable for more than one client, pursuant to DDJ's written allocation guidelines, DDJ portfolio managers are expressly prohibited from taking into consideration the compensation paid to DDJ potentially resulting from any performance-based fee attributable to certain client fee arrangements. Finally, pursuant to DDJ's Code of Ethics, inappropriate favoritism of one client over another client constitutes a breach of DDJ's fiduciary duty and is likewise prohibited.

Once a trade has been executed by DDJ, securities actually purchased or sold will be allocated in accordance with the actual order placed by the portfolio manager(s), as documented by the DDJ trader, unless otherwise approved by the Chief Compliance Officer in a manner consistent with DDJ's fiduciary obligations to its clients. In cases where an executed trade only partially fills an order, securities purchased or sold will be allocated among clients on a *pro rata* basis based on order size. Such

procedures restrict a portfolio manager from improperly re-allocating limited investment opportunities on a post-trade basis to higher fee-paying accounts.

In order to further ensure the effectiveness of DDJ's initial order and allocation guidelines in addressing this potential conflict of interest, the DDJ Chief Compliance Officer, as a component of DDJ's annual review of its compliance policies and procedures, reviews on a periodic basis a random selection of orders placed for all client accounts, including accounts that charge a performance-based fee. The Chief Compliance Officer may also compare performance between accounts pursuing a similar investment strategy but containing different advisory fee arrangements. Such a review enables the Chief Compliance Officer to assess whether DDJ, when allocating investment opportunities, equitably treats clients that have different fee structures but are nonetheless pursuing similar investment strategies. Finally, portfolios are regularly monitored by DDJ's compliance personnel for consistency with client objectives and restrictions.

Item 7 Types of Clients

As described above in Item 4 of this Brochure, DDJ provides investment advice directly to various institutional clients, including corporate pension accounts, public retirement plans and Taft-Hartley plans, as well as to pooled investment vehicles (generally in the form of limited partnerships). DDJ also acts as investment adviser to certain U.S. and non-U.S. investment advisers and asset managers.

The minimum size for opening and maintaining a separate account with DDJ is \$50,000,000; such minimum amount may be waived by DDJ in its sole discretion. The minimum investment amount by an investor in a pooled investment vehicle varies from account to account. Any such minimum amount may also be waived by DDJ (or an affiliated general partner of such investment vehicle) in its sole discretion.

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

Method of Analysis

In formulating investment advice and managing assets on behalf of its clients, DDJ adheres to an internally generated bottom-up, fundamental, credit-based analysis to evaluate all investment opportunities, irrespective of the specific investment strategy being pursued.

DDJ generally approaches new investments in prospective portfolio companies by creating a comprehensive analytical overview focused on such company's current and future business prospects. DDJ's fundamental analysis of a particular investment opportunity, which is the cornerstone to DDJ's investment philosophy with respect to each of its investment strategies, typically focuses on the following three components:

- Cash Flow – An evaluation of a company's ability to (a) service its fixed obligations, including interest, capital expenditures, and working capital needs, and (b) generate free cash flow that will enable it to repay debt or reinvest capital.
- Asset Coverage – An analysis of a company's overall asset coverage relative to its liabilities, which is important in assessing downside risk in the event that liquidity or cash flow deteriorates.
- Legal Protections and Contractual Remedies – An assessment of the rights and remedies contractually set forth in relevant legal documents, such as loan agreements, bond indentures, and intercreditor agreements, with a focus on the "waterfall of value" in worst-case scenarios (e.g., liquidation or other type of corporate restructuring).

Utilizing a variety of information sources, DDJ analysts evaluate a target company's financial position, with a particular focus on free cash flow generation capability, liquidity position over the coming years, intrinsic business valuation and asset coverage. With respect to the subject company's debt securities, DDJ generally considers the current yield, yield-to-maturity and yield-to-worst-call, taking into account DDJ's risk assessment of the targeted class, based on the liquidity and valuation analyses described above. DDJ will also analyze the anticipated treatment of such class of liabilities in the event of adverse circumstances. DDJ generally takes a proactive role in sourcing investment opportunities in businesses that are experiencing some degree of financial distress, but may nonetheless possess a competent management team, sustainable market position (i.e., a "reason to exist") and/or adequate asset value. Analysts then rank possible investment opportunities within their respective industries based on the anticipated return versus risk incurred. Following the completion of due diligence, a final decision on whether to

proceed with the investment is made by the portfolio manager in consultation with the applicable analyst responsible for monitoring and recommending the investment, as well as other senior members of the DDJ investment team, where appropriate.

When DDJ intends to exit an investment, DDJ causes its clients to adhere to a rigorous sell discipline in pursuing their respective investment strategies. Generally, DDJ will cause its clients to sell a security under three circumstances:

1. If DDJ believes that a fundamentally adverse change is occurring in a company's financial situation or competitive positioning, DDJ will attempt to aggressively sell the position.
2. If DDJ believes that a position can be replaced with another investment opportunity from DDJ's "buy list" which offers a more compelling return-versus-risk proposition given the particular investment strategy that is being pursued, DDJ will attempt to prudently sell such existing position from client holdings as part of such relative value swap.
3. If positions approach internal limits due to a relative change in value or otherwise, DDJ will generally sell down the applicable position (or otherwise obtain a client waiver) in order to maintain compliance with investment guidelines or appropriate diversification within the portfolio.

DDJ will also cause a client to exit an investment if the client has expressed a desire to withdraw cash from the client account or otherwise reallocate resources among investment strategies.

Significant Investment Strategies

In pursuing the investment strategies set forth below, DDJ normally targets, on behalf of its clients, investment opportunities in small to mid-cap companies that are in the lower-rated (B and below) segment of the high yield market or otherwise experiencing some degree of financial distress. DDJ believes that such companies, which may oftentimes be overlooked by brokers and other investors, operate in an inefficient area of the market and provide ample investment opportunities.

Each of the following significant investment strategies is actively managed by DDJ.

- DDJ High Yield Strategy: Clients pursuing this strategy invest in a diversified portfolio consisting primarily of non-investment grade U.S. high yield instruments, bank loans (both primary and secondary investments), and other fixed income securities and obligations. This

strategy seeks to generate both capital appreciation and high current income.

- DDJ Distressed Debt and Special Situations Strategy: Clients pursuing this strategy invest in a diversified portfolio primarily consisting of control and non-control distressed situations, high yield fixed-income securities, bank loans, certain equities and equity-linked securities, and other obligations providing high current income and/or the potential for capital appreciation. DDJ's control distressed investments will target the "fulcrum" debt securities in an issuer's capital structure with the goal of obtaining for DDJ clients a controlling position in the ownership of the target company via a debt-for-equity conversion in a capital restructuring or reorganization. Following the establishment of such an equity stake (including any follow-on secondary equity purchases), DDJ will generally maintain an active role in managing these investments through their ultimate disposition. Non-control distressed situations include both minority or non-control investments in such fulcrum debt securities, as well as investments in non-fulcrum securities where DDJ may be expecting a default to occur, but is not necessarily aiming to convert the debt held by its client accounts to equity. DDJ will typically round out such a client's portfolio with investments in high yield fixed-income securities and bank loans with an attractive risk-return profile and no expectation of a default. Within a DDJ client portfolio pursuing this strategy, DDJ will shift allocations between these investment categories depending on the opportunities available within the current economic cycle.
- DDJ Value Opportunities Strategy: Clients pursuing this strategy attempt to generate long term capital appreciation by investing primarily in fundamentally undervalued equity and debt securities. Clients may also opportunistically invest in short positions with respect to such securities. In implementing this strategy on behalf of its clients, DDJ will attempt to identify businesses whose securities or obligations are priced at a substantial discount to DDJ's estimates of their intrinsic value, and invest in those opportunities that offer compelling combinations of margin of safety and potential return.

None of DDJ's current investment strategies involve the frequent trading of securities.

Material Risks

Investing in securities and other obligations involves a substantial risk of loss that clients of DDJ should be prepared to bear.

The following is a summary of certain significant risks particularly associated with the investment strategies pursued by DDJ on behalf of its clients; however, depending on the specific investment strategy to be pursued by DDJ on behalf of a client, there may be additional risks to investing with DDJ that may be described in supplemental materials provided to the prospective client at the time of its investment with DDJ.

- Risks related to investments in high yield debt securities, bank loans and other obligations: DDJ clients typically invest in high yield fixed income securities and other obligations, which instruments may be unrated, rated below investment grade or in default, and as such are considered speculative and may involve greater risk of loss than higher-rated debt securities. Furthermore, the prices of such securities are sensitive to changes in an issuer's creditworthiness. Issuers of lower-rated debt securities may have greater difficulty servicing their payment obligations, meeting projected operational goals, and/or obtaining additional financing. As with other types of debt instruments, debt securities and claims involve a heightened risk of loss in the case of default or insolvency of the obligor, particularly if the obligation is unsecured. This risk of loss is further heightened because DDJ investment strategies frequently target businesses that are in financial difficulty, or may be in, entering, or emerging from, bankruptcy proceedings.
- Risks related to investments in leveraged and financially troubled companies: DDJ may target investments in companies that are highly leveraged. These companies may be subject to restrictive financial and operating covenants, which may restrict their range of operating activity and impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to business opportunities may be limited.
- Risks related to liquidity of investments: From time to time, there may be little or no active market for some of the securities or other obligations purchased by DDJ clients. In addition, lower-rated debt securities may be thinly traded, adversely affecting the prices at which these securities can be sold and resulting in high transaction costs. Some of the securities and other obligations purchased by DDJ clients may have been issued in private placement transactions and accordingly may be subject to legal or contractual restrictions on resale in accordance with applicable securities

laws. In some instances, the sale of securities and other obligations owned by DDJ clients may require lengthy negotiations. In addition, a downturn or contraction in the overall economy or in the capital markets, which may be accompanied by severe technical dislocations in the high yield market in particular, may further disrupt DDJ's ability to effectively trade on behalf of its client accounts. The presence of any of these factors may limit liquidity and consequently, DDJ may not be able to dispose of a portfolio investment when it desires to do so or at an attractive price.

- Risks related to interest rates: Interest rate risk is the risk that fixed-income investments will decline in value because of changes in market interest rates. When market interest rates rise, the market value of fixed-income securities generally will fall, as investors demand a higher annual yield from future distributions. Rising interest rates also generally increase the costs of obtaining financing, which could cause the value of high yield fixed income investments purchased by DDJ on behalf of its clients to decline. Furthermore, the market price of floating rate securities, including interests in credit facilities, are generally based on LIBOR, and accordingly may also be susceptible to decline in the event that market interest rates decline.
- Risks related to investments in equity securities: DDJ clients may invest in equities of companies, which are generally acquired in a secondary market transaction or as a result of a restructuring of prior debt obligations. The value of such equities will rise and fall in response to the activities of the company that issued the securities, general market conditions, and/or specific economic or political conditions. Equity investments, as the most junior security in a company's capital structure, generally involve a high risk of loss. This risk of loss is further elevated because DDJ investment strategies frequently target businesses that may be experiencing or recently experienced financial distress, or may be in, entering, or emerging from, bankruptcy proceedings.
- Risks related to issuer information: The investment strategies pursued by DDJ, which are based on a fundamental analysis of an issuer's financial condition, rely to a material extent on the financial information made available by the management of the issuers of securities in which DDJ client accounts invest. DDJ generally does not have the ability independently to verify the financial information disseminated by the numerous issuers in which its client accounts may invest, and accordingly is dependent upon the integrity of both the management of these issuers and such issuers' financial reporting process in general. Recent industry events have demonstrated that investors may incur material losses as a result of corporate mismanagement and fraud as well as accounting and reporting irregularities by issuers of debt and equity securities.

- Risks related to systems and other operational disruptions: DDJ relies extensively on computer systems to trade, clear and settle securities transactions, to evaluate certain securities based on real-time trading information, to monitor the portfolios of its clients, and to generate reports that are critical to oversight of its investment management activities. In addition, certain of DDJ's operations interface with or depend on systems operated by third parties, including a client's custodian and market counterparties. DDJ's management of its client accounts is susceptible to a defect or failure in any of these systems.

A prospective client of DDJ should evaluate each of these risks, as well as any other risks related to the specific investment strategy to be pursued by DDJ on its behalf, prior to engaging DDJ as an investment adviser with respect to such prospective client's assets.

Item 9 Disciplinary History

DDJ does not believe that there are any legal or disciplinary events that are material to a client's or prospective client's evaluation of either DDJ's investment advisory business or the integrity of DDJ's management.

Item 10 Other Financial Industry Activities and Affiliations

DDJ does not have any material financial industry affiliations or relationships with any related person or other advisory affiliate.

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

Summary of DDJ's Code of Ethics

DDJ's reputation for integrity and ethics is one of its most important assets. In order to safeguard this reputation, DDJ believes that it is essential not only to comply with relevant federal and state securities laws and regulations but also to maintain high standards of personal and professional conduct at all times. DDJ's Code of Ethics, adopted pursuant to Rule 204A-1 under the Advisers Act, is designed to ensure that its conduct is at all times consistent with its fiduciary obligations to its clients, as well as with industry and regulatory standards for investment advisers.

The basic principles underlying DDJ's Code of Ethics are as follows:

- The interest of DDJ's clients must always come first.
- No DDJ employee should take inappropriate advantage of information he or she learns through his or her position with or on behalf of a client, whether or not such actions would result in a loss to the client.
- Each DDJ employee must take care to avoid even the appearance of impropriety in his or her personal actions.
- No DDJ employee should advise or encourage others to take actions that such employee would be prohibited by the Code of Ethics from taking himself or herself or for his or her own account.
- Information concerning the identity of security holdings and financial circumstances of DDJ clients is confidential.

In order to implement these basic principles, the Code of Ethics contains detailed rules, including prohibitions and preclearance procedures with respect to certain personal securities transactions applicable to all employees of DDJ. The prohibitions include, among other things, rules designed to prevent DDJ employees from using knowledge about pending or currently considered securities transactions for clients to profit personally, directly or indirectly, as a result of such transactions, including by purchasing or selling such securities for an employee's personal account. To properly monitor and enforce these rules, DDJ requires its employees to provide to the Chief Compliance Officer either duplicate brokerage confirmations or monthly statements for each brokerage account maintained; to submit an annual personal securities holdings report; and to submit quarterly reports of all securities transactions covered under the Code of Ethics.

Upon request, DDJ will provide any client or prospective client with a copy of its Code of Ethics.

Personal Trading by Related Persons and DDJ Employees

DDJ clients pursue highly specialized investment strategies and objectives in a limited investment universe that oftentimes do not overlap with the investment goals and objectives of DDJ employees in their personal accounts. However, from time to time, DDJ employees may also invest in their personal accounts in the same securities (or related securities) that DDJ also recommends to its clients, in each case subject to compliance with applicable restrictions set forth in the DDJ Code of Ethics. In all such cases, whether or not a specific provision of the Code of Ethics applies, each DDJ employee must conduct his or her personal trading activities in accordance with the general principles of the Code of Ethics outlined above, and in a manner that is designed to avoid any actual or potential conflict of interest or any abuse of such employee's position of trust and responsibility.

When an employee desires to execute a personal trade in an investment, if a portfolio manager believes that such investment may also be appropriate for a DDJ client, a conflict of interest may arise, as such employee may have an incentive to place orders first in his or her personal account prior to making a corresponding recommendation for a client. Similarly, employees may have an incentive to benefit from the market effect of trades in client accounts by trading shortly thereafter in their personal accounts. In order to address these conflicts of interest, DDJ has implemented specific blackout periods for certain securities during which time personal trading by portfolio managers (prior to the placement of a client trade in the securities of a particular issuer) and all employees (following the placement and subsequent execution of a client order) is prohibited. DDJ believes that the implementation of such blackout periods, which are more restrictive than the personal trading limitations set forth in the Advisers Act (and rules promulgated thereunder), effectively minimizes these potential conflicts of interest. Pursuant to the Code of Ethics, the DDJ Chief Compliance Officer may provide a waiver of the blackout period, taking into account the specific facts and circumstances surrounding a trade, prior to the execution of a trade. As all personal trades in certain securities are subject to preclearance, the DDJ trading desk monitors compliance with such blackout periods on a pre-trade basis. Furthermore, on a post-trade basis, the Chief Compliance Officer, in connection with the annual review of DDJ's compliance policies and procedures, also periodically reviews compliance with such blackout periods as well as other personal trading preclearance requirements.

In addition, on a periodic basis, the Chief Compliance Officer (or an authorized designee) may review a random sampling of personal trades by DDJ employees in certain securities that are also held by DDJ clients. This review is designed to identify any suspicious or otherwise irregular pattern of trading behavior by DDJ employees in their personal accounts (e.g., purchases or sales of securities in personal accounts consistently at more favorable prices than the prices paid by DDJ clients, or transactions that otherwise suggest a deliberate evasion of the blackout

period included in the Code of Ethics). DDJ believes that its preventative compliance procedures enable the firm to identify such personal trading patterns and accordingly address any potential conflicts of interest arising as a result of DDJ employees investing in the same securities (or related securities) that DDJ also recommends to its clients.

To ensure that all employees are cognizant of their responsibilities under the Code of Ethics, DDJ requires that all new employees meet with the Chief Compliance Officer to review the material requirements of the Code of Ethics shortly following their initial employment with the firm. Furthermore, all employees must attend periodic refresher training sessions to review these requirements as well.

Participation or Interest in Client Transactions

In certain instances, DDJ may recommend that its clients invest in securities in which DDJ or an affiliate has a material financial interest. For example, DDJ has an indirect financial interest in the securities owned by certain of its clients because affiliates of DDJ serve as the general partner of certain investment fund clients organized as limited partnerships. A conflict of interest may arise because DDJ has an incentive to direct additional client assets to such investments in which it or its affiliates has such a material financial interest. To address this conflict, as further outlined in Item 6 of this Brochure, DDJ has drafted initial order and allocation guidelines that prohibit DDJ from taking into consideration the compensation paid to DDJ (or its affiliates) in connection with the allocation of investment opportunities. Although DDJ does not believe that any material conflict of interest is likely to arise, to the extent that DDJ did not believe that its interests were aligned with its clients in such circumstances, DDJ would disclose to the underlying client the appropriate facts and circumstances related to such investment before proceeding.

In addition, affiliates of DDJ, including its principals and other employees, may also invest as limited partners in certain pooled investment vehicles managed by DDJ that are organized as limited partnerships (and for which DDJ or an affiliate serves as general partner). Notwithstanding the investment by these DDJ affiliates, such pooled investment vehicles are not subject to the blackout and other restrictions set forth in the DDJ Code of Ethics. From time to time, clients of DDJ also may be solicited by DDJ to invest in such pooled investment products. DDJ will conduct any such solicitation in accordance with all applicable securities laws. Because the interests of DDJ and its investment fund clients are generally aligned in these instances, DDJ does not believe that the investment by affiliates, or the solicitation of its clients to invest, in other DDJ-managed investment products present any material conflict of interest.

Item 12 Brokerage Practices

Research and Other Soft Dollar Benefits; Potential Conflict of Interest

In selecting brokers for client transactions, DDJ attempts to seek the best overall combination of price and execution of purchase or sale orders under each possible circumstance (unless otherwise provided in the governing documents with respect to a particular client account). The best net price, giving effect to brokerage commissions, spreads and other costs, is normally an important factor in this decision, but a number of other judgmental facts will be considered by the DDJ trader as they are deemed relevant. Consideration may be given to the reputation, perceived soundness, and performance of the various firms, their demonstrated execution capability, both generally and in regard to particular securities transactions, their proposed commission charges, as well as other factors, including the nature of the security or instrument being traded, the size and type of the transaction, the nature and character of the markets for the security or instrument to be purchased or sold, the desired timing of the trade, the activity existing and expected in the market for the particular security or instrument, confidentiality, and the firm's clearance and settlement capabilities.

When it appears that a number of brokerage firms can satisfy the required standards with respect to a particular transaction, consideration may also be given to research services that such firms have provided in the past or may provide in the future. A portion of brokerage commissions incurred in connection with transactions in certain equity securities ("soft dollars") may be paid to such firms which, in the normal course of business, publish proprietary statistical, research or other research-related material that is then received by DDJ. In addition, DDJ may utilize brokerage firms that, in lieu of providing their own proprietary research services, instead credit DDJ with soft dollars generated by DDJ client brokerage commissions in connection with transactions in certain equity securities, which DDJ then utilizes to pay for eligible research services created or developed by a third party.

In certain situations, in return for such soft dollar benefits, DDJ may cause its clients to pay commissions higher than those that may be charged by other broker-dealers. This "paying-up" of commissions creates a potential conflict of interest, as DDJ may have an incentive to select or recommend a broker-dealer based on DDJ's interest in receiving soft dollars and accompanying research services, rather than based on DDJ's clients' best interest in receiving the most favorable execution on their transactions. Furthermore, DDJ does not use soft dollar benefits to service only those accounts that paid for such benefits, and DDJ does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits that such accounts generate. Soft dollars generated by client accounts are accordingly utilized to purchase eligible research services, irrespective of whether such research material proves useful to DDJ in connection with the management of any client or

particular client accounts that may have originally generated such soft dollars. Nonetheless, DDJ may derive substantial direct or indirect benefit from these research services, particularly to the extent that DDJ uses soft dollars to pay for expenses that DDJ would be otherwise required to pay for itself.

To address any potential conflicts of interest arising in connection with the use of any soft dollars to pay for research services, DDJ, under the direction of the Chief Compliance Officer, complies with the safe harbor regarding the use of client funds to purchase certain research services as established by Section 28(e) of the Securities Exchange Act of 1934, and as such safe harbor was clarified by the SEC interpretive release effective as of July 24, 2006. Over the last fiscal year, such approved research services utilized by DDJ have included supplemental investment research, including information on particular securities or individual companies, general, economic and political information, analytical and statistical data, relevant market information and market quotations utilized in connection with the analysis of securities.

During the last fiscal year, DDJ utilized a soft dollar trading arrangement with two brokers that provided an electronic trading platform. Both brokers provided DDJ with the same commission rate and soft dollar credit. DDJ believes that the commission rate charged by such brokers is very competitive relative to the execution services provided by other brokers, and that the value of the research services obtained as a result of such soft dollar credits is reasonable in relation to the commission rate charged by such firms. DDJ would address any future relationships with broker-dealers that provided soft dollar benefits on a case-by-case basis following an appropriate review by applicable DDJ trading and compliance personnel.

Brokerage for Client Referrals

In selecting or recommending broker-dealers for its clients, DDJ does not consider the possibility of client referrals from any broker-dealer.

Directed Brokerage

DDJ does not routinely recommend, request or require that any client direct DDJ to execute transactions through a specified broker-dealer. While DDJ will permit its clients to direct brokerage, historically clients with the authority to direct brokerage to a particular firm have not required DDJ to do so, and have instead provided DDJ with full discretion to select broker-dealers with whom to trade on their behalf. DDJ would address any directed brokerage arrangements on a case-by-case basis.

Aggregation of Orders

Occasions commonly may arise when DDJ determines to purchase or dispose of an investment in a particular security for more than one of its clients. When DDJ deems the purchase or sale of a security to be in the best interests of a number of clients, it may aggregate such securities to be purchased or sold among a number of accounts to obtain best execution and lower brokerage commissions in such manner as DDJ deems equitable and fair to its clients. Furthermore, purchases and sales over the course of a trading day through a single broker normally may be averaged as to price and allocated as to amount among the participating clients in a manner that DDJ deems fair and equitable to each client.

Item 13 Review of Accounts

DDJ assigns each client a portfolio manager, as well as other responsible investment professionals, with the requisite skills to manage the particular type of account. As a general rule, these DDJ investment professionals review client accounts on a daily basis. Such review may involve an examination of the current market value of portfolio investments, developments in portfolios companies, recent transactions and other factors affecting investment decisions with respect to the portfolio. In addition, the portfolio managers and other investment professionals meet on a regular basis to discuss specific positions in, and potential investments for, client accounts.

With respect to its separate account clients, DDJ generally reports on a quarterly or monthly basis depending on the needs of the client, the particular investment strategy and the type of assets under management. Such written reports generally include the current value of the account, the performance and attribution of the account for the particular time period, and a list of all or selective position holdings for the account. For pooled investment vehicles, such as an investment fund, DDJ will provide the written reports and/or information required to be provided to such client's underlying investors as set forth in the fund's underlying governing documents; typically, such reports are provided on a quarterly basis, with audited financial statements also provided to such investors following the end of the applicable fiscal year.

Item 14 Client Referrals and Other Compensation

No third party provides any economic benefit to DDJ for providing investment advisory services to DDJ's clients.

In certain limited circumstances where DDJ previously engaged a solicitor with respect to the introduction of new clients, DDJ may be obligated to pay a portion of the asset-based (and performance-based) fees paid by such clients to such solicitor. In such circumstances, as well as with respect to any potential future fee sharing arrangements with third parties, DDJ will fully comply with the provisions of Rule 206(4)-3 under the Advisers Act, including (i) requiring solicitors to make appropriate written disclosure to prospective clients required by such Rule and (ii) receiving from clients appropriate written acknowledgments required under such Rule prior to or at the time of entering into any advisory contract. With respect to this arrangement, DDJ does not believe that any conflict of interest exists.

Item 15 Custody

In connection with the safekeeping of securities and other assets held in client accounts managed or advised by DDJ, DDJ has adopted certain policies and procedures designed to ensure that DDJ complies with Rule 206(4)-2 under the Advisers Act. With respect to separate account clients, such clients choose a “qualified custodian” (as defined in Rule 206(4)-2) unrelated to DDJ to custody the funds and assets that the client has placed under DDJ’s management. As a result, DDJ does not hold, directly or indirectly, such client funds or assets; DDJ does not have any authority to obtain possession of such client funds or assets; and no arrangement exists under which DDJ would be authorized or permitted to withdraw client funds or securities maintained with a custodian upon DDJ’s instruction to such custodian. Accordingly, DDJ does not have custody of such client funds or securities.

With respect to DDJ’s pooled investment vehicle clients, although the assets of such managed vehicles are maintained by DDJ at an independent, qualified custodian, DDJ is nonetheless deemed to have custody of such assets under the Advisers Act because an affiliate of DDJ serves as the general partner (or in a comparable position) of each respective pooled investment vehicle. Accordingly, as it pertains to DDJ’s management of such clients’ assets, DDJ has adopted internal procedures designed to comply with the requirements of Rule 206(4)-2 and appropriately safeguard client assets (including, without limitation, that such pooled investment vehicle must be audited at least annually by an independent public accountant, and must distribute such audited financial statements to each member or beneficial owner (e.g., limited partner) of the pooled investment vehicle within 120 days of the end of such vehicle’s fiscal year).

Item 16 Investment Discretion

DDJ manages its accounts on a fully discretionary basis, consistent with each client's investment objectives and restrictions, with authority to determine the securities to be bought or sold, the amount of securities to be bought or sold, and the broker-dealers to be used and related commission rates. DDJ generally negotiates the breadth of its investment powers directly with each client, which powers are then memorialized in the investment management agreement or other applicable governing document. In general, clients delegate broad authority to DDJ to manage their accounts, typically subject to limitations set forth in the investment restrictions or guidelines that are negotiated between DDJ and the client at the inception of the relationship; such client-specific investment restrictions or guidelines may limit DDJ's authority to invest in particular issuers or may set a maximum percentage (relative to the overall size of the account) with respect to investments in single issuers, industries or a certain type of security (e.g., equities).

In order to most effectively pursue the desired investment objective, DDJ requests from each client, and such clients oftentimes grant to DDJ, a power of attorney or other written authority for DDJ to execute investment contracts, agreements and other undertakings in the name of such client as it may deem necessary or advisable for, or as may be incidental to, DDJ's management of such client account.

Item 17 Voting Client Securities

DDJ primarily manages investments in fixed income, rather than equity, securities. As a result, equity investments, in particular in public companies that disseminate proxy materials to their shareholders, typically constitute a small percentage of the investments held by DDJ client accounts (though such percentage may vary depending on the investment strategy pursued by DDJ on behalf of any particular client account). Nonetheless, in accordance with Rule 206(4)-6 under the Advisers Act, DDJ has adopted and implemented certain proxy voting policies and procedures, which DDJ believes are reasonably designed to ensure that proxies are voted in the best interests of its clients. DDJ votes proxies on behalf of its clients based on its judgment as to what voting decision is most likely to maximize total return to the client as an investor in the issuer whose securities are being voted. Among other factors, DDJ may consider returns to the client on positions held in non-voting securities of that issuer, or securities of other issuers that may be materially affected by the outcome of the vote. With the exception of certain routine matters, DDJ generally reviews and makes a voting decision on each matter presented in such proxy on an individual, case-by-case basis.

In rare instances, DDJ may encounter a conflict of interest with respect to a matter to be voted upon in a proxy. If DDJ identifies a potential conflict of interest, DDJ will convene a meeting of DDJ's internal proxy committee, which has been created to address situations when such conflicts arise. The internal proxy committee, which consists of one or more members of the DDJ legal department and such other DDJ personnel as may be designated to serve on the committee from time to time, will then determine whether voting on such proxy matter presents a conflict of interest. In the event that the internal committee concludes that there is a conflict of interest, DDJ generally will request from the client, a representative of the client or an appropriate third party either a waiver of the conflict or other specific voting instructions.

Upon the inception of a client account, DDJ will typically negotiate for the authority, as set forth in the investment management agreement, to vote all proxy matters. DDJ believes that obtaining proxy voting authority better enables DDJ to implement its investment strategies. In the event that a client does not grant DDJ such authority, then such client will retain proxy voting authority, or may retain the authority to direct a vote with respect to a particular solicitation. In such circumstances, clients will generally receive their proxies or other solicitations directly from their custodians, and DDJ would be available to answer any questions with respect to such matters.

Upon request, DDJ will provide any client with a copy of DDJ's proxy voting policies and procedures. In addition, DDJ will also provide any client with information regarding how DDJ voted their securities in any particular instance; any such

questions or requests may be directed to Michael Yeomans, Director of Sales and Client Service, at (781) 283-8500.

Item 18 Financial Information

DDJ does not require any of its clients to prepay its fees six months or more in advance.

DDJ has discretionary authority with respect to each of its clients, typically subject to specific restrictions and guidelines established by each client. Furthermore, with respect to its pooled investment vehicles, although DDJ maintains such assets with an independent qualified custodian, DDJ nonetheless has deemed custody of client funds and securities (as described under Item 15 above). At the present time, DDJ does not believe that there is any financial condition affecting DDJ that is reasonably likely to impair its ability to meet its ongoing contractual commitments to its clients.