

Part 2A of Form ADV: Firm Brochure

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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.

DDJ is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

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



Item 2 Material Changes

Prior to the filing of this Part 2A of Form ADV, the most recent update was filed by DDJ Capital Management, LLC with the SEC on March 28, 2012.

In 2010, the SEC required significant changes to the content and format of Part 2A of Form ADV beginning in the year 2011. This Brochure, which reflects those changes, is materially different from Brochures used by DDJ in years prior to 2011.

Material Changes:

The following are the material changes since the most recent filing of this Brochure on March 28, 2012.

As of the date of the filing of this Brochure, DDJ has bifurcated its high yield strategy into two separate sub-strategies: Opportunistic, which focuses on the most inefficient segments of the high yield market and in particular lower rated middle market companies, and Core, which focuses on the higher rated segment of the high yield universe and typically includes a high percentage of benchmark securities. DDJ has also launched a new significant investment strategy, the Senior Loan strategy, which targets primarily bank loans and other floating rate instruments senior in an issuer's capital structure with an emphasis on principal protection. Finally, DDJ has discontinued its former Distressed and Special Situations Strategy, as set forth in the prior Brochure; however, DDJ has incorporated several elements of this discontinued strategy in a new investment strategy named the Strategic Income Strategy, which is DDJ's most flexible and tactical strategy and incorporates a total return approach to investing. More information regarding each of these investment strategies is available in Item 8 of this Brochure or upon request.

In addition, as of December 31, 2012, DDJ concluded that the management of DDJ Value Partners, L.P. ("Value Partners"), a small, equity-oriented hedge fund, fell outside of DDJ's current strategic objectives and focus. As of such date, Value Partners constituted approximately 0.1% of DDJ's total assets under management. As a result of this decision, the DDJ Value Opportunities Strategy no longer constitutes a significant investment strategy being pursued by DDJ (as set forth in Item 8 of this Brochure). DDJ anticipates that Ted Wagenknecht, the portfolio manager for Value Partners, will depart DDJ as of May 1, 2013, at which time it is expected that Mr. Wagenknecht will establish an independent investment advisory firm that will assume the sole management of Value Partners on a going forward basis.

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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 domestic limited partnerships). DDJ also acts as investment sub-adviser to certain U.S. and non-U.S. investment advisers and asset managers, including managers affiliated with sovereign entities. David J. Breazzano, a co-founder of the firm and its President and Chief Investment Officer, is the principal and majority equity owner of the firm, as well as its sole manager. Anthony M. Ranaldi, the senior portfolio manager for DDJ’s credit products and the firm’s Executive Vice President, is the second largest owner of the firm. The firm has been registered as an investment adviser with the Securities and Exchange Commission since 1997.

DDJ offers investment advisory services that specialize in identifying investment opportunities among high yield and financially stressed companies operating primarily in the United States and Canada. DDJ’s distinctive investment style focuses on the lower tier of the non-investment grade credit markets, including high yield bonds, bank loans, distressed debt, and reorganized and leveraged equities. 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 further set forth in the applicable written advisory agreement(s).

DDJ does not participate in wrap fee programs.

As of February 28, 2013, DDJ managed approximately \$5.45 billion of assets, which consisted of approximately \$5.0 billion for separately managed accounts and \$0.45 billion for pooled investment vehicles (including investment funds comprising a single, dedicated investor). All of such assets are managed by DDJ on a discretionary basis, although some funds and/or accounts are beyond their investment period or otherwise in their wind-down stage.

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 or quarterly, 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. However, given the current client vehicles under management, DDJ does not currently charge any of its clients fees that are payable in advance.

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. Such component may be structured on an absolute basis (and tied to the overall profitability of the particular client fund/account) or relative basis (and typically tied to outperformance to a designated benchmark index), and in each case may be subject to a cap and/or other limitations depending on specific client arrangements. Clients may pay this amount either to DDJ directly as a performance-based fee, or to an affiliate of DDJ, such as the general partner of a limited partnership managed by DDJ, as an incentive-based allocation of certain profits (e.g., a "carried interest").

Certain clients may pay performance fees or incentive-based allocations, in whole or in part, on a mark-to-market performance, including unrealized appreciation on assets, at the end of a period (measured at year-end or in some cases over a multi-year period, or earlier upon a partial or full withdrawal of assets). The payment of such performance-based amounts may be subject to a high water mark and/or hurdle rate. Certain clients (e.g., closed-end funds) pay incentive-based allocations on realized returns; such incentive allocation payments are not paid to DDJ (or an affiliated entity) until investors first receive back 100% of their capital plus a preferred return.

Any such performance fees (or incentive-based 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.

Advisory Fee Arrangements

With respect to separate account clients as well as investment funds comprising a single, dedicated investor, 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 overall client relationship, and other relevant considerations. In addition, with respect to each of its significant 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 request the applicable custodian 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.

DDJ typically does not negotiate such fees with the underlying investors in its pooled investment vehicles. Such fees are deducted by DDJ directly from the investor’s assets within the pooled investment vehicle 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, settlement-related fees, custodian fees, administrator fees, consulting fees (including fees paid to expert valuation services), audit fees, tax preparation 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. With respect to pooled investment vehicles managed by DDJ, which are more costly to establish than a separate account, detailed information regarding the expenses to which such pooled investment vehicle is subject (including, without limitation, certain organizational expenses) is typically set forth in the applicable offering document. To the extent that such expenses are incurred for the benefit of multiple clients, DDJ will generally allocate such expenses on a *pro rata* basis, based on the investments purchased or sold, provided that DDJ may adjust such allocation if it believes in good faith that such adjustment is equitable and appropriate under the particular circumstances. For more information regarding brokerage and other transaction costs in particular, please refer to Item 12 of this Brochure.

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 where there are limited market inputs, DDJ may internally “fair value” such investments in a manner consistent with applicable accounting principles and standards. Because DDJ receives an advisory fee from its clients, DDJ may have an incentive to inflate the value of such “fair valued” investments, thereby increasing the fees payable to DDJ by its clients. Although the custodians for DDJ’s separate account clients are ultimately responsible for valuing the portfolio on

which the advisory fee is calculated, such custodians may rely upon DDJ for valuation information regarding these investments.

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 of such investments 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 senior members of the DDJ investment team). On an annual basis, the independent auditors for many of DDJ's separate account clients as well as for each of DDJ's pooled investment vehicles will audit the valuations of assets held by such clients that have been internally 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

Performance-Based Fees

As described above in Item 5 of this Brochure, DDJ (or its affiliated entities) charges certain clients performance-based fees, or fees based on either an allocation of profits or outperformance over certain agreed-upon benchmarks. Further, DDJ may manage both accounts for which DDJ charges a performance-based fee (or incentive-based 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 and accordingly invest in overlapping names within their portfolios, DDJ and its portfolio managers may face a potential conflict of interest when concurrently managing these accounts, as DDJ may have an incentive to direct its best investment ideas to, or allocate or sequence trades in favor of, those accounts for which DDJ receives a performance-based fee. In addition, in certain circumstances, this type of fee arrangement potentially may provide an incentive for DDJ to make investments that are riskier or more speculative than would be the case in the absence of a performance fee.

DDJ has a fiduciary duty to its clients not to favor the account of one client over that of another, without regard to the types and amounts of fees paid by those accounts. Accordingly, to address the potential conflict of interest outlined above, 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 light of the particular facts and circumstances existing at time of trade, in determining whether or not to place an order for a security that may be suitable for more than one client. The most important factor in determining whether a client will participate in any given order is the investment strategy selected by the client and whether/how the particular security under consideration fits the particular investment strategy. However, other factors, such as cash availability, specific investment guidelines and restrictions, and applicable regulatory concerns, are also evaluated by the portfolio manager when placing an order on behalf of a client.

Certain client accounts that include a performance-based fee component may pursue more complex and legally intensive investment strategies. 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. In

addition, consistent with 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 DDJ has executed a trade on behalf of its clients, 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 Head Trader. However, circumstances may arise prior to the settlement date of a transaction whereby a security may need to be reallocated after its initial allocation, such as an order that did not satisfy the client's investment guidelines but was not otherwise blocked by the compliance rules programmed into DDJ's trade order management system. Any such reallocation must be otherwise approved by the Chief Compliance Officer (or his designee) in a manner consistent with DDJ's fiduciary obligations to its clients.

In cases where an executed trade only partially fills a trade 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 or more profitable investment opportunities on a post-trade basis to higher fee-paying accounts. Portfolios are monitored by DDJ's compliance personnel for consistency with client objectives and restrictions, and the Chief Compliance Officer conducts a review to confirm that client accounts are treated fairly.

Side-by-Side Management

DDJ does not manage any investment vehicles dedicated for the benefit of DDJ principals, employees, and/or affiliates. However, affiliates of DDJ, including its principals and other employees, may also invest (and have invested), together with investors not affiliated with DDJ, 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). DDJ allocates opportunities to each of its clients, including such pooled investment vehicles in which DDJ affiliates have invested, fairly and equitably in a manner that is consistent with DDJ's written initial order and allocation guidelines.

Due to differing investment guidelines and restrictions, timing of inception of client accounts, ongoing cash inflows and outflows, particular regulatory considerations, and other factors, DDJ may give advice or take action with respect to the investments of one or more of its clients that may not be given or taken with respect to other clients with similar investment programs, objectives, and strategies. Accordingly, client accounts pursuing similar investment strategies may not hold the same securities or instruments or achieve the same performance.

From time to time, subject to applicable restrictions set forth in underlying management agreements and corresponding investment guidelines and restrictions, DDJ may direct one or more of its clients to sell securities to, or buy securities from,

another client through a cross transaction in which neither DDJ nor a related person will receive compensation. Such cross transactions are executed typically for purposes of rebalancing the portfolios of the designated clients or for other reasons consistent with the investment guidelines of such clients, and at all times are, in the reasonable determination of DDJ, in the best interest of each transacting client. DDJ will attempt to execute any such transaction through a broker-dealer generally at the midpoint between the bid and ask quote of an independent broker-dealer at the time of such execution; any applicable brokerage commission will be split evenly between the participating clients. To the extent that DDJ is unable to obtain an independent market price with respect to such security, DDJ will first obtain the consent of each affected client after the disclosure of all material facts prior to the execution of such transaction at the then-current fair value. DDJ maintains a cross transaction log that sets forth the relevant details of each cross transaction executed by the firm.

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 domestic and foreign 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 sub-adviser to certain U.S. and non-U.S. investment advisers and asset managers, including managers affiliated with sovereign entities.

The minimum size for opening and maintaining a separate account with DDJ is \$50,000,000; however, 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, and depends on the specific terms of the pooled investment vehicle. 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

Since its inception in 1996, DDJ has consistently employed an investment philosophy with deep core principles that have served as the nucleus for each of its investment strategies. This philosophy is predicated on DDJ's fundamental belief that the market segment encompassing lower-rated high yield bonds and leveraged loans is markedly inefficient, and, as a result, offers very compelling risk-adjusted investment opportunities.

DDJ attempts to exploit these inefficiencies in the lower-rated segment of the leveraged credit market by adhering to a bottom-up, fundamentally-oriented investment process that is heavily focused on downside protection. The objective of this process is to derive an accurate real-time valuation of a company and target those investments in its capital structure that offer a significant margin of safety coupled with strong return potential.

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 its debt or reinvest capital. Discretionary free cash flow is important in assessing downside risk in the event that liquidity or cash flow deteriorates.
- Enterprise Value Coverage – An analysis of a company's overall enterprise value relative to its liabilities and equity value. DDJ analyzes a company's value to prospective acquirer(s) of such business in whole or in pieces under a variety of economic assumptions.
- 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., a 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

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

- Senior Loan – The investment objective of this strategy is to provide high current income primarily achieved through floating rate instruments with an emphasis on principal protection. The senior loan strategy employs a relatively conservative approach by investing predominantly in secured terms loans senior in the capital structure of non-investment grade issuers. Clients pursuing this strategy may also permit small allocations to fixed rate bonds. Such investments are generally liquid. Portfolios are expected to consist of approximately 70-90 issuers across a wide range of industries primarily located within the United States and Canada.
- Core High Yield – This strategy aims to outperform the BB/B rated segment of the high yield bond market by employing a deep value approach. Portfolios pursuing this strategy have limited or no exposure to CCC rated debt issues, seek to avoid defaulted securities, and may or may not have exposure to syndicated bank loans depending on client guidelines. Such investments are generally liquid. Portfolios typically consist of approximately 75-90 issuers across a wide range of industries primarily located within the United States and Canada.
- Opportunistic High Yield – The investment objective of this strategy is to outperform the broader high yield market by primarily targeting middle market opportunities in the lower tier (single B and below) of the non-investment grade credit markets. The opportunistic high yield strategy employs a deep value approach with the flexibility to invest in a wide range of securities consisting of liquid and illiquid high yield bonds, syndicated bank loans, direct private loans, certain defaulted securities, mezzanine debt, convertible preferred, and other equity-linked securities. Portfolios are concentrated in 60-80 issuers across a wide range of industries primarily located in the United States and Canada with a relatively larger allocation to high conviction investments.
- Strategic Income – This strategy attempts to produce a high level of total return by targeting investments in all securities within the capital structure of leveraged middle market companies. This strategy employs a deep value approach and has a high degree of flexibility to make tactical allocations to the most compelling opportunities in the market, including all types of investments pursued by the opportunistic high yield strategy as well as distressed debt, and reorganized and leveraged equities. Portfolios are concentrated in 30-50 issuers across a wide range of industries primarily located in the United States and Canada with a significant allocation to high conviction investments.

DDJ also pursues certain legacy investment strategies with respect to various client portfolios (e.g., certain private funds) that are presently in their realization and/or

wind-down stage. A description of those investment strategies, which are no longer material to DDJ's business, is not provided herein.

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 (including, without limitation, the applicable private offering memorandum with respect to investors in any private funds managed by DDJ). Not all of these risks apply to each strategy.

- Risks related to investments in high yield debt securities: 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. The lower rating of securities in the high yield sector reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal and interest. 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.
- Risks related to investments in bank loans: DDJ's investment strategies may include investments in significant amounts of bank loans. These obligations are subject to unique risks, including the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; so-called lender-liability claims by the issuer or creditors of the obligations; environmental liabilities that may arise with respect to collateral securing the obligations; and limitations on the ability of DDJ clients to directly enforce their rights with respect to

participations. In addition, loan assignments are sold strictly without recourse to the selling institutions and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans. Furthermore, DDJ clients will be bound by provisions of the underlying loan agreements, if any, that require the preservation of the confidentiality of information provided by the borrower. Because of certain factors including confidentiality provisions, the unique and customized nature of the loan agreement and the private syndication of the loan, loans are not purchased or sold as easily as are publicly traded securities, and historically the trading volume in the loan market has been small relative to other markets.

In addition, clients may experience delays in the settlement of certain bank loan transactions, which are more complicated and require greater internal resources to settle compared with bonds, particularly in the case of loans that are or become distressed. Furthermore, pursuant to certain insolvency laws, a counterparty may have the ability to reject, or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, the client might lose any increase in value with respect to such loan that accrued while the transaction was unsettled.

- Risks related to investments in equity securities: Certain DDJ clients may invest in equities of companies, which are generally acquired as a result of a restructuring of prior debt obligations or in a secondary market transaction. 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 and typically are subject to significant volatility in price. 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 investments in leveraged and financially troubled companies: DDJ may target investments in companies that are highly leveraged; such leverage in turn will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. 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. Accordingly, these companies' flexibility to respond to changing business and economic conditions and

to business opportunities may be limited. As a result, a client may suffer a partial or total loss of capital invested in the company, which, depending on the size of such client's investments, could adversely affect the return on the capital of such client.

- Risks related to bankruptcies and restructurings of portfolio companies: Given the focus of each of the investment strategies pursued by DDJ, it may target securities and other obligations of issuers that are in financial difficulty, and may be in, entering, or emerging from, bankruptcy proceedings. Bankruptcy or other insolvency proceedings are highly complex and may result in unpredictable outcomes. In any investment opportunity involving work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions, there exists the risk that the contemplated transaction either may be unsuccessful, take considerable time or result in a distribution of cash or a new security the value of which is less than the purchase price of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, DDJ may be required to sell the investment at a loss. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. Because there is a substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which DDJ client portfolios may invest, there is a potential risk of loss of the entire investment in such companies, as well as the risk that such clients may be required to accept cash or securities with a value less than the client's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from such client's investments may not compensate the client adequately for the risks assumed.
- Risks related to litigation: Investing in below-investment grade and distressed securities in particular can be a contentious and adversarial process. Different investor groups may have qualitatively different, and frequently conflicting, interests. DDJ's investment activities may include actions that are hostile in nature and will subject its clients to the risks of becoming involved in litigation by third parties. This risk may be greater where DDJ's clients exercise control or significant influence over a company's direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments may be borne by a client and could be significant.
- 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. As a result, an exit strategy that appeared to be viable when an investment was initiated may be precluded by the time that the investment is ready to be realized. 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 investments in restricted securities: DDJ may be prevented from buying or selling certain publicly traded securities if DDJ acquires material non-public information with respect to such securities. In addition, with respect to a publicly traded security that a client already holds, the issuer of such security will be placed on DDJ's "restricted list", and securities issued by such issuer will not be traded until the material, non-public information becomes public or is no longer material.
- 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 investment volatility: A principal risk in investing in high yield and potentially distressed securities is the traditional volatility in the market prices of such securities. Fluctuations or prolonged changes in the volatility of such securities, therefore, can adversely affect the value of investments held by a DDJ client.
- Risks related to concentrated investment portfolio: Given the research intensive nature of the firm's strategies, the exposure of client portfolios

will be concentrated amongst a relatively small number of high yield, financially troubled or distressed issuers. Accordingly, any single loss may have a significant adverse impact on the investment returns of such client, and client assets may be subject to greater risk of loss than if they were more widely diversified. In addition, certain client portfolios will be more susceptible to any single economic, market, political or regulatory event affecting its portfolio companies than a more broadly diversified portfolio. Furthermore, concentration in financially troubled or distressed companies may subject DDJ client portfolios to greater volatility than a more diversified portfolio of investments.

- Risks related to unavailability of investment opportunities: Markets for securities in DDJ's investment universe are highly competitive. DDJ clients compete for investment opportunities with a significant number of financial institutions and private funds as well as various institutional investors. Some of these competitors are larger and have greater financial, human and other resources than DDJ, and may in certain circumstances have a competitive advantage. As a result of this competition, there may be fewer attractively priced investment opportunities than in the past, which could have an adverse impact on the ability of DDJ to meet its clients' investment goals or the length of time that is required for such clients to become fully invested. There can be no assurance that the returns on any client's investments will be commensurate with the risk of investing with DDJ.
- Risks related to market disruptions: Client portfolios managed by DDJ may incur major losses in the event of market disruptions and other extraordinary events in which historical pricing relationships (on which DDJ bases a number of trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets, many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. In addition, new investment opportunities are typically more limited during market disruptions.
- Risks related to issuer misrepresentations and fraud: 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, and the related representations and warranties made by such issuer in the underlying credit documentation. 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 it 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 both 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 various market counterparties. DDJ's management of its client accounts is susceptible to a defect or failure in any of these systems.
- Risks related to counterparty exposure: Some of the markets in which DDJ may execute its transactions are "over-the-counter" or "inter-dealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. As a result, DDJ clients are exposed to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing such client to suffer a loss. In addition, in the case of such a counterparty default, a client could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated where DDJ has concentrated its transactions with a single counterparty or small group of counterparties. DDJ is typically not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, DDJ has a limited internal credit function that evaluates the creditworthiness of its counterparties. The ability of DDJ to transact business with any one or more counterparties, the lack of complete evaluation of such counterparties financial capabilities, and the absence of a regulated market to facilitate settlement may increase the potential for losses by its client.

The foregoing discussion of certain risk factors does not purport to be a complete explanation of the risks involved with investing with DDJ. 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 Information

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

Except as set forth as follows, DDJ does not have any material financial industry affiliations or relationships with any related person or other advisory affiliate.

Material Relationships

The vast majority of DDJ assets under management are governed by separate account relationships with institutional clients. However, as of February 28, 2013, DDJ does provide investment advice and investment management services to the following private investment funds and other pooled investment vehicles:

- B III-A Capital Partners, L.P. ("B III-A"),
- B IV Capital Partners, L.P. ("B IV"),
- DDJ Total Return Loan Fund, L.P. ("TRLF"),
- DDJ/Ontario Credit Opportunities Fund, L.P. ("DDJ/Ontario"),
- DDJ/Arvo High Yield Fund, L.P. ("Arvo"),
- DDJ Strategic Income Plus Fund, L.P. ("SIP") (formerly known as DDJ Distressed and Special Situations Fund, L.P.),
- DDJ Value Partners, L.P. ("VP"), and
- DDJ Capital Management Group Trust.

Each of GP III-A, LLC, GP Capital IV, LLC, GP Total Return, LP, GP DDJ/Ontario Credit Opportunities, L.P., DDJ/GP Arvo High Yield, LLC, DDJ/GP Strategic Income Plus, LLC, and DDJ/GP Value, LLC is an affiliate of and controlled by DDJ and serves, respectively, as the general partner of B III-A, B IV, TRLF, DDJ/Ontario, Arvo, SIP, and VP. There is no general partner or other DDJ-related affiliate for DDJ Capital Management Group Trust.

DDJ serves as the investment adviser or investment manager with full discretionary authority with respect to investment and trading decisions on behalf of the aforementioned private investment funds and pooled investment vehicles. David J. Breazzano serves as the sole manager of DDJ, which controls each of the aforementioned general partners.

Occasionally, DDJ may receive directors' fees, break-up fees and other fees in connection with the investments made by such pooled investment vehicles, as well as its separate account clients. The amount received by DDJ will typically reduce dollar-for-dollar the management fees otherwise to be received from such clients.

As indicated above, DDJ manages portfolios for a number of clients, many of which pursue investment strategies that are similar or substantially similar. In addition, DDJ may in the future establish new separate account client relationships, or otherwise sponsor and become affiliated with other pooled investment vehicles that

pursue investment programs that are similar or substantially similar to the investment program of DDJ's current clients. As a result of the foregoing, DDJ personnel may have conflicts of interest in allocating their time and resources between clients, as well as in effecting transactions between clients, including ones in which DDJ or its personnel may have a financial interest. Accordingly, DDJ will devote so much of its time, and will allocate the time and resources of its investment, operations and client service teams, to its clients as in its judgment the ongoing management of each client's account reasonably requires.

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.
- Each employee is required to comply with applicable federal securities laws.
- 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 all 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. The Code of Ethics also restricts employee participation in initial public offerings or private placement transactions without first obtaining appropriate preclearance. To properly monitor and enforce these rules, DDJ requires each of its employees to provide to the Chief Compliance Officer either duplicate brokerage confirmations or monthly statements for each brokerage account maintained; to submit a personal securities holdings report upon

employment and annually thereafter; and to submit quarterly reports of all securities transactions covered under the Code of Ethics.

The Code of Ethics also contains additional restrictions and requirements regarding receipt of gifts and entertainment, as well as participating in certain outside activities, such as serving as a director for a company not affiliated with DDJ.

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 a portfolio manager desires to execute a personal trade in a security that may also be appropriate for a DDJ client, a conflict of interest may arise, as such individual 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 the 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.

DDJ also maintains a Policy and Procedure with respect to the Flow and Use of Material Non-Public Information (the “MNPI Policy”), which is designed to provide for the proper handling of material non-public information about companies as well as prevent the misuse of material, non-public information by DDJ and its employees. It is a violation of the MNPI Policy for any employee to knowingly trade or recommend a trade in securities on the basis of material non-public information, whether for his/her own account, on behalf of any client account managed by DDJ or for any other person, whether or not such actions would violate federal securities laws. In addition, the MNPI Policy provides that it is a violation to tip such information to others, whether or not such actions would violate federal securities laws. When an employee has received material non-public information, DDJ may determine to place such company on DDJ’s “Restricted List”, which then prohibits all employees of DDJ from trading (or recommending trading) of securities of the company, in either DDJ client accounts or within any employee’s personal account; exceptions, which must be approved by a member of the DDJ legal department, are only granted to the extent consistent with applicable law. The Chief Compliance Officer is responsible for monitoring and reviewing compliance with the MNPI Policy.

To ensure that all employees are cognizant of their responsibilities under the Code of Ethics and the MNPI Policy, DDJ requires its new employees to 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 refresher training sessions to review the requirements of the Code of Ethics and the MNPI Policy as well. DDJ’s personnel are required to certify to their compliance with the Code of Ethics and the MNPI Policy upon employment and on an annual basis thereafter.

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 its affiliates have such a material financial interest. To address this conflict, as further outlined in Item 6 of this Brochure, DDJ has adopted written 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 such investments by these DDJ affiliates, such pooled investment vehicles are not subject to the blackout and other trading 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.

As described in Item 6 of this Brochure, DDJ may execute cross transactions between certain of its client accounts. To the extent that any cross transaction would be deemed a principal transaction (as a result of the interests of DDJ or any of its affiliates in its private funds participating in such transaction), it would only be executed following a review by the Chief Compliance Officer in manner consistent with applicable law (including, without limitation, Section 206(3) of the Advisers Act) and DDJ's internal compliance policies and procedures.

DDJ clients may invest from time to time in different layers of the capital structure of a portfolio company. There may be instances where such a portfolio company may seek to take an action where the interests of DDJ clients in such portfolio company may conflict. To the extent that a client holds securities in a portfolio company with rights, preferences and privileges that are different than those held

by other clients in the same portfolio company, DDJ may be presented with decisions when the interests of such clients are in conflict (such as in connection with a bankruptcy or other corporate restructuring). It is possible that a client's interests may be subordinated or otherwise adversely affected by virtue of the other clients' involvement and actions relating to their investment. To the extent that these circumstances arise, DDJ intends to mitigate any potential conflicts of interest by treating each of its clients in as equitable a manner as possible in light of the particular facts and circumstances. However, conflict resolution may result in certain clients receiving less consideration than they may have otherwise received in the absence of such a conflict of interest.

Item 12 Brokerage Practices

Best Execution

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.

Research and Other Soft Dollar Benefits

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. Such research services may include the provision of supplemental investment research, including information on particular securities or individual companies, legal interpretations and legal developments affecting portfolio securities, investments or issuers, general, economic and political information, analytical and statistical data, relevant market information and market quotations in connection with the analysis of securities. 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. DDJ believes that it is important to its investment decision-making processes to have access to such independent research.

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. Furthermore, because DDJ generates soft dollars only by trading publicly-traded equity securities, which do not comprise a meaningful portion of DDJ's current assets under management or current total trading volume, DDJ does not believe that this area represents a significant potential conflict of interest.

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 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.

Trade Errors

It is DDJ's practice that all investment decisions are implemented carefully. Nevertheless, trade errors may occur as a result of mistakes made on the part of DDJ's personnel including, but not limited to, portfolio managers, traders and operations staff. An example of a trading error is the sale of a security when it instead should have been purchased. If a trading error occurs, it is DDJ's policy that such error be corrected as soon as possible and, subject to the client's applicable standard of care, in such a manner that the affected client is not disadvantaged and bears no loss. In the event of a trading error, applicable trading and/or operations personnel will promptly investigate the matter and, if appropriate, convene a meeting of senior DDJ personnel to determine the cause of the error. To the extent that any remedial action is proposed, the Chief Compliance Officer will approve of such resolution. Any trade error that results in a gain will be credited to the affected client. While DDJ is responsible for its own trade errors, it is not responsible for the errors of other persons, including third party brokers and custodians.

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. With the exception of certain client portfolios that are pursuing legacy investment strategies and are accordingly in their wind-down stage with limited remaining assets, as a general rule, client accounts are reviewed by these DDJ investment professionals on a daily basis. Such review may involve an examination of the current market value of portfolio investments, developments in portfolio 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. Performance of client accounts is likewise monitored by such investment professionals. Further, the Chief Compliance Officer oversees the regular review of client accounts for compliance with each client's investment guidelines and restrictions. Such reviews are performed on a daily and weekly basis.

With respect to its separate account clients, DDJ generally reports on a monthly or quarterly 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 and tax reports (e.g., annual Schedule K-1) 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 limited circumstances relating to certain legacy investment strategies 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 fees (and, to the extent applicable going forward, 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 (often referred to as the “Custody Rule”) under the Advisers Act.

With respect to DDJ’s separate account clients, such clients select 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 along with the 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 executed with the client. In general, clients delegate broad authority to DDJ to manage their accounts, typically subject to limitations set forth in the contractual 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, may limit DDJ's ability to invest in securities rated above or below a certain level, 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., equity securities). In addition, when acting as sub-adviser on behalf of an asset manager that manages a mutual fund or other similar client account structured as a pooled investment vehicle, DDJ's authority to select the type and amount of securities to be bought or sold may also be limited by that fund's prospectus, statement of additional information, offering memorandum or other applicable fund documents.

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

Given the credit-oriented focus of DDJ's significant investment strategies, 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 in the aggregate 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 written proxy voting policies and procedures, which DDJ believes are reasonably designed to ensure that proxies are voted in the best interests of its clients. To the extent that a DDJ client has provided DDJ with the authority to vote proxies, DDJ votes such 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 will then determine whether voting on such proxy matter presents an actual 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 its holdings in any particular instance.

Item 18 Financial Information

Registered investment advisers are required in this Item to provide their clients with certain financial information or disclosures about their financial condition.

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.

Since its inception in 1996, DDJ has not been the subject of a bankruptcy proceeding.