



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 DDJ at (781) 283-8500 and/or at [inforequest@ddjcap.com](mailto: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 with the SEC 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](http://www.adviserinfo.sec.gov).**



## **Item 2      Material Changes**

Prior to the filing of this Part 2A of Form ADV, the most recent update of this Brochure was filed by DDJ Capital Management, LLC with the SEC on March 28, 2013.

The following are the material changes since the most recent filing of this Brochure:

1. In January 2013, DDJ established an Investment Review Committee (“IRC”) that comprises the DDJ chief investment officer; the firm’s two portfolio managers; certain senior members of DDJ’s investment team; and a portfolio specialist. The IRC generally convenes on a weekly basis to discuss pertinent investment-related topics across all of the firm’s strategies. Such topics include a review of prospective investment opportunities as well as existing positions held by DDJ’s clients. The IRC provides a structured forum amongst the firm’s senior investment professionals to review the consistency of DDJ’s investment process and to address emerging developments in the markets, as well as to challenge investment theses with respect to existing portfolio company investments. More information regarding the IRC and the DDJ investment process generally is set forth in Item 8 of this Brochure.
2. In February 2013, DDJ completed an internal equity recapitalization. In connection with the recapitalization, DDJ expanded the firm’s direct ownership pool to a total of 16 senior employees, including 13 new employee owners. An additional senior employee purchased equity in the firm as of January 1, 2014. DDJ’s new equity owners work in the firm’s investment, legal, business development and client service, and operations areas.
3. In October 2013, DDJ implemented an automated web-based solution with respect to many aspects of DDJ’s Code of Ethics requirements, including employee personal trade preclearance, personal trade reporting, gift and entertainment requests, and quarterly and annual securities certifications. DDJ contracted with an independent third party compliance vendor to provide this service. DDJ previously utilized a manual-intensive, paper-based approach with respect to such compliance monitoring. More information regarding these changes, as well as a description of DDJ’s Code of Ethics generally, is set forth in Item 11 of this Brochure.

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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 plans, public retirement plans, foundations, 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. The firm has been registered as an investment adviser with the Securities and Exchange Commission since 1997.

David J. Breazzano, a co-founder of the firm, serves as its President and Chief Investment Officer, as well as its sole manager. Mr. Breazzano, together with certain affiliated entities established for estate planning purposes, is the majority equity owner of the firm. 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. Certain additional senior employees also hold, in the aggregate, a significant equity stake in the firm.

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, to a lesser extent, Canada. DDJ’s distinctive investment style focuses on the lower tier of the non-investment grade credit markets, including high yield bonds, 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 company targeted for investment by examining both its current and future business prospects. More detailed information regarding DDJ’s advisory services, its 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, 2014, DDJ managed approximately \$7.665 billion of assets, which consisted of approximately \$7.017 billion within separately managed accounts and \$648 million on behalf of 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 accounts are beyond their investment period or otherwise in

their wind-down stage and accordingly DDJ is no longer making any new investments on behalf of such funds and accounts.

## **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 closed-end pooled investment vehicles with a management fee based on committed capital rather than ongoing asset value) and the applicable advisory contract is terminated before the end of the current billing period, DDJ would 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 therefore tied to the overall profitability of the particular client fund/account) or on a relative basis (and typically tied to outperformance with respect 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 a hurdle rate. Certain clients (e.g., closed-end funds) provide for incentive-based allocations on realized returns; any such incentive allocations are not made to DDJ (or to an affiliated entity, such as the general partner of a DDJ-managed fund) until investors first receive back 100% of their capital plus an agreed-upon 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 thereunder.

### 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, the particular client type, and other relevant considerations. However, with respect to each of its significant investment strategies, DDJ has adopted a “standard” fee schedule that is available and provided to prospective clients upon request. With respect to the payment of such fees, a separate account client may either make payment to DDJ outside of the managed account, or instruct its custodian to deduct such fees directly from the assets within the managed account. In all cases, DDJ provides the client with a detailed invoice for services rendered.

DDJ generally does not negotiate its 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. DDJ typically waives management fees and performance fees on assets that DDJ manages for its employees.

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, consulting fees (including fees paid to expert valuation services), 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. Specifically with respect to pooled investment vehicles managed by DDJ, which are more costly than a separate account for DDJ to establish and manage, detailed information regarding the expenses to which such pooled investment vehicle is subject (including, without limitation, certain organizational expenses, custodian fees, administrator fees, audit fees, and tax preparation fees) is typically set forth in the applicable offering document or otherwise separately disclosed to the investor. To the extent that such expenses (e.g., brokerage fees) are incurred by 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 fair and equitable under the particular circumstances. For more information regarding brokerage and other transaction costs in particular, please refer to Item 12 of this Brochure.

### Valuation of Illiquid Assets

From time to time, certain assets held by DDJ client portfolios 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” assets, thereby increasing the fees payable to DDJ by its clients. Although the custodians or fund administrators, as applicable, for DDJ’s clients are generally responsible for valuing the portfolio on which the advisory fee is calculated, DDJ believes that such third party entities may and typically do rely upon DDJ for information regarding the valuation of these investments.

To address this potential conflict of interest, DDJ has adopted rigorous pricing procedures, which include the preparation of written fair value reports that set forth in reasonable detail the fair value of such illiquid or hard-to-value 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). From time to time, the DDJ fair value committee may approve the engagement of an independent third party valuation expert to separately value certain of these fair valued investments held within DDJ client portfolios; such third party valuation assessment is then typically incorporated by DDJ in determining the fair value of such investment. Furthermore, 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 typically review and vet the valuations of those assets held by such clients that have been internally fair valued by DDJ. This auditing process serves as an additional safeguard against valuations that may be inappropriately inflated by DDJ. More information regarding DDJ’s pricing policies and procedures concerning these hard-to-value investments is available upon request.

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

### Allocation of Trades

As described above in Item 5 of this Brochure, DDJ (or its affiliated entities) charges certain clients performance-based fees (or incentive allocations of profits), which are based on either absolute profitability or outperformance over agreed-upon benchmarks, in each case over a certain period of time. 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 such a performance-based fee (or incentive allocation). 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 such a performance-based fee or allocation.

DDJ owes a fiduciary duty to its clients to not 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 are designed to ensure the fair and 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 trade 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, appropriate position size, and applicable regulatory concerns, are also typically evaluated by the portfolio manager when placing an order on behalf of a client.

With respect to limited investment opportunities where DDJ is unable to source or obtain a significant allocation, the portfolio manager may, after consideration of the aforementioned factors (and, in particular, appropriate position size), exclude certain clients from a particular order (even though the investment opportunity may be otherwise consistent with the client's designated investment strategy), provided that such clients are treated fairly and equitably by DDJ with respect to similar future limited investment opportunities relative to other client accounts pursuing the same investment strategy over the long term. Nevertheless, from time to time as any potential conflict of interest situation arises with respect to the allocation of investment opportunities, such conflict may be resolved in a manner detrimental to a particular 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 limited investment opportunities compared with 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, any 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 trading department. 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, unless otherwise approved by the Chief Compliance Officer. For example, the Chief Compliance Officer may approve a non-*pro rata* allocation if there is a limited supply for a particular security or investment opportunity,



and a *pro rata* allocation would result in certain accounts receiving position sizes that the portfolio manager believes are too small to properly manage given the parameters of the investment strategy pursued. Such procedures serve as a check on the ability of a portfolio manager to improperly re-allocate limited or more profitable investment opportunities on a post-trade basis to higher fee-paying accounts.

Furthermore, circumstances may arise prior to the settlement date whereby a transaction may need to be reallocated after its initial allocation. Examples may include an order that did not satisfy a client's investment guidelines but was not otherwise identified at the time of trade by the compliance rules programmed into DDJ's trade order management system, or an order that would breach an investment guideline as a result of market price movements or client account redemptions occurring on a post-trade but pre-settlement basis. Any such trade reallocation must be otherwise approved by the Chief Compliance Officer (or his designee) in a fair and equitable manner at all times consistent with DDJ's fiduciary obligations to its clients.

Portfolios are monitored by DDJ's compliance personnel for consistency with client objectives and restrictions, and the Chief Compliance Officer conducts a review no less frequently than annually to confirm that client accounts are treated fairly with respect to the allocation of investment opportunities.

#### Side-by-Side Management

DDJ does not manage any investment vehicles dedicated for the benefit of DDJ principals, employees, and/or other affiliates. However, affiliates of DDJ, including its principals and other employees, may 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 without limitation 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.

As a result of different investment guidelines and restrictions, timing of inception of client accounts, ongoing cash inflows and outflows, particular regulatory considerations, and other factors identified above, 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 pursuing similar investment programs, objectives, and strategies. Accordingly, client accounts pursuing similar investment strategies may not hold each of the same securities or instruments or achieve the same performance.

In addition, a DDJ client may make an investment in a company in which another DDJ client holds an investment in a different class of such company's debt or equity. Although DDJ generally will make such investments only when it believes that such investment is in the best interests of each account and the possibility of actual adversity between such client accounts is remote, there may be instances where the interests of such DDJ clients actually

conflict with one another, such as in the event of a bankruptcy or other corporate restructuring of an issuer's securities. In such circumstances, it is possible that a certain client's interests may be subordinated or otherwise adversely affected by virtue of the other clients' involvement and actions relating to their investment in the issuer. 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 one or more clients receiving less consideration and/or less favorable treatment than they may have otherwise received in the absence of such a conflict of interest.

### Cross Trade Transactions

From time to time, subject to applicable restrictions set forth in underlying management agreements and accompanying investment guidelines and restrictions, DDJ may direct a client to sell securities to, or buy securities from, another client through a cross transaction in which neither DDJ (nor any related person) will receive any 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.

Cross trades present a potential conflict of interest because of the opportunity for DDJ to favor one client account over another. To address this potential conflict of interest, prior to the execution of any cross trade transaction, DDJ will determine that the transaction is in the best interests of all accounts involved based on the investment objectives and portfolio characteristics of each account and on the perceived benefit of effecting the cross trade compared with placing the trade in the open market. Additionally, the DDJ Chief Compliance Officer (or his designee) must review and approve each cross trade prior to execution.

DDJ will generally attempt to execute any such cross transaction through a broker-dealer at the midpoint between the bid and ask quote of an independent broker-dealer at the time of such execution, subject to payment of any applicable brokerage commission (which commission will be split evenly between the participating clients). To the extent that DDJ is unable to obtain an independent market price provided by a broker-dealer with respect to such security, DDJ will 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 or other price agreed upon by each client. DDJ maintains a cross transaction log that sets forth the relevant details of each cross transaction executed by the firm on behalf of its clients.

## **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 plans, public retirement plans, foundations, and Taft-Hartley plans, as well as to pooled investment

vehicles (generally in the form of limited partnerships, which may be established on behalf of a sole, dedicated limited partner or on behalf of multiple limited partners). 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, and depends on the specific terms of each 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 securities 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 of DDJ's investment philosophy with respect to each of its investment strategies, typically focuses on the following three components:

1. 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. DDJ believes that understanding an issuer's discretionary free cash flow is important in assessing downside risk in the context of an adverse credit event where liquidity or cash flow deteriorates.
2. Enterprise Value Coverage – An analysis of a company's overall enterprise value relative to its liabilities and equity value. DDJ may analyze a company's value to prospective acquirer(s) of such business in whole or in pieces under a variety of economic assumptions.

3. 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. In particular, DDJ will focus on the “waterfall of value” in worst-case scenarios (e.g., liquidation or other type of corporate restructuring).

Once a potential investment opportunity is identified, a DDJ analyst will prepare a “first pass” analysis outlining the company’s business model, financial condition, and a proposed investment thesis. If a senior investment professional agrees with the analyst’s recommendation, the analyst will undertake a more in-depth “second pass” analysis in order to create an overall financial assessment of the investment opportunity and verify the investment thesis.

This second pass, or “deep dive”, includes more extensive due diligence on the business and the securities that are being considered for investment. During this stage, DDJ’s analysts frequently meet with target company management, as well as competitors, customers, suppliers and other third parties that are familiar with the company or industry, in order to acquire a more thorough understanding of the relevant aspects of the underlying business and corresponding investment opportunity.

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 fixed income 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 typically analyze the anticipated treatment of such class of liabilities in the event of adverse circumstances, such as a bankruptcy filing by the issuer.

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, the portfolio manager, in consultation with the applicable analyst responsible for recommending the investment as well as, where appropriate, other senior members of the DDJ investment team, makes a final decision on whether to proceed with the investment.

Ultimately, DDJ’s portfolio managers generate their buy/sell list through such a relative value analysis. All current portfolio holdings and new buy ideas are ranked by the applicable portfolio manager based on a yield vs. risk-incurred basis. Important factors in this analysis include:

- Credit risk, or the risk of loss due to a debtor’s inability to service a loan or bond;

- Legal risk, or the contractual rights (or lack thereof) associated with a given tranche of an issuer's debt securities; and
- Liquidity risk, or the risk that decreased trading or increased aversion in the marketplace will lower the relative value of an investment.

In order to further augment DDJ's research process with respect to individual investment opportunities as well as its risk management of its investment strategies, DDJ has created an Investment Review Committee, which comprises the firm's senior investment personnel together with a portfolio specialist. This committee provides a forum to discuss prospective investment opportunities and existing positions held by DDJ's clients; review the consistency of DDJ's investment process; address emerging developments in the markets; and challenge investment theses with respect to existing portfolio company investments.

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. Credit Sell – 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. Relative Value Swap – If DDJ believes that a position can be replaced with another investment opportunity from DDJ's "buy list" that 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. Compliance Sell – If positions approach internal limits due to a relative change in value or otherwise, DDJ will generally sell down the applicable position in order to maintain either compliance with investment guidelines or appropriate diversification within the overall 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 (in comparison to DDJ's other investment strategies) 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 60-90 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 60-90 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 bonds, preferred equity, and other equity-linked securities. Portfolios are generally 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. DDJ has also established a “constrained” version of the opportunistic high yield strategy, which has a similar return objective but places certain limitations on investments in illiquid securities as well as bank loans.
- 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, depending on specific client guidelines, reorganized and leveraged equities. Portfolios are typically 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, any applicable private offering memorandum with respect to investors in any private funds managed by DDJ). Not all of these risks apply to each strategy pursued by DDJ.

- Risks related to investments in high yield debt securities: DDJ clients typically invest in high yield fixed income securities, such as bonds, which instruments may be unrated, rated below investment grade or in certain cases 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. Such loans may not be rated by a national ratings agency at the time of investment, generally will not be registered with the Securities and Exchange Commission, and generally will not be listed on a securities exchange. In addition, the amount of public information available with respect to loans generally will be less extensive than that available for more widely traded, registered and exchange-listed securities. Because the interest rates of bank loans reset frequently, if market interest rates fall, the loans' interest rates may be reset to lower levels, potentially reducing a portfolio's income.

The size of the trading market for bank loans is generally smaller than that for registered equities and investment grade rated bond securities; as such, bank loans may be relatively illiquid compared those types of securities. Liquidity relates to the ability of a portfolio to sell an investment in a timely manner at a price approximately equal to its value on the portfolio's books. A portfolio's ability to realize the full value of its assets may be impaired in the event of a voluntary or

involuntary liquidation of any illiquid assets. Furthermore, in the event of an economic downturn, a substantial increase or decrease in interest rates, or other type of market dislocation, the market for bank loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. In those instances, bank loans may be difficult to value and prices provided by external pricing services may not reflect the true fair value of the assets.

Borrowers may default on their obligations to pay principal or interest owed under bank loans when due. This non-payment would result in a reduction of income to a portfolio and a reduction in the value of a bank loan experiencing non-payment. Although some bank loans in which a portfolio will invest will be secured by specific collateral, there can be no assurance that liquidation of such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal or that such collateral could be readily liquidated. In the event of bankruptcy of a borrower, the portfolio could experience delays or limitations in its ability to realize the benefits of any collateral securing a bank loan.

A DDJ client portfolio also may purchase a participation interest in a bank loan and by doing so acquire some or all of the interest of the bank or other lending institution making the loan to a corporate borrower. A participation interest typically results in the portfolio having a contractual relationship with the lender and not the borrower. In such circumstances, the portfolio will have the right to receive payments of principal, interest and any fees to which it is entitled only from the bank or other lending institution selling the participation and only upon receipt by the bank or other lending institution of the payments from the borrower. Since the portfolio has only acquired a participation in the loan made by a third party (i.e., the banker or other lending institution), the portfolio may not be able to control the exercise of any remedies that such third party would have under the bank loan. Although the participation interest is in a bank loan, there can be no assurance that the principal and interest owed on the bank loan will be repaid in full.

- Risks related to settlements of bank loans: Clients may experience delays in the settlement of certain bank loan transactions, which are more complicated, are paperwork intensive, and require greater internal resources to settle compared with bonds, particularly in the case of loans that are or become distressed. Unlike the securities markets, there is no central clearinghouse for loan trades, and the loan market has not established enforceable settlement standards or remedies for failure to settle. Such delays may prevent the client from obtaining liquidity of assets within a desired timeframe. 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 previously held 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 within their debt agreements, which may restrict their range of operating activity and impair these companies' ability to finance their future operations and capital needs. Accordingly, the flexibility of these companies 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, DDJ may target securities and other obligations of issuers that are in financial difficulty, and/or 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 may be unsuccessful. 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 new 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 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 investments 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 such circumstances, the issuer of such security will be placed on DDJ's "restricted list", and securities issued by such issuer will not be traded in secondary transactions until the material, non-public information becomes public and/or is no longer material, or trading is otherwise permitted in accordance with applicable law.
- 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. Market interest rates in the U.S. and certain other countries currently are near historically low levels. When market interest rates rise, the market value of fixed-interest rate securities generally will fall, as investors demand a higher annual yield from future distributions. Fixed-interest rate debt securities are typically an important element of each of DDJ's investment strategies. 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 price 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, 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 DDJ's clients, 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 than more broadly diversified portfolios to any single economic, market, political or regulatory event affecting DDJ's portfolio companies. Furthermore, concentration in financially troubled or distressed companies may subject DDJ client portfolios to greater price volatility than a more diversified portfolio of investments.
- Risks related to litigation: Investing in below-investment grade and distressed securities in particular can be a contentious 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 a significant influence over a company's direction (e.g., by holding a substantial percentage of a particular class of an issuer's fixed income securities). 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 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 maintain a competitive advantage over DDJ. As a result of this competition, there may be fewer attractively priced investment opportunities than DDJ has observed 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: 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, client portfolios managed by DDJ may incur major losses. 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 on attractive terms 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 or resources to independently 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 securities based on real-time trading information, to maintain ongoing compliance with applicable client guidelines, to monitor the portfolios of its clients, and to generate reports that are critical to the 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 as well as various market counterparties. DDJ's management of its client accounts is susceptible to a defect or failure in any of these systems. Presently, DDJ intends to replace its existing trade order management system with a new system offering enhanced capabilities. However, DDJ may encounter trading and/or operational disruptions during such transition, which may adversely affect its abilities to effectively manage its client portfolios.
- Risks related to natural disasters or other catastrophic events: DDJ's business operations are subject to interruption by fire, power shortages, pandemics, natural disasters and other events beyond its control. DDJ maintains a disaster recovery plan, which provides for access to a dedicated disaster recovery facility located approximately 25 miles from its office location, to minimize the impact associated with such events. However, such plan could be insufficient or otherwise fail, especially in the case of a widespread or catastrophic event, thus making it difficult or impossible for DDJ to deliver its advisory services to its clients in a timely and capable manner. As a result, during any such disruption, portfolios managed by DDJ on behalf of clients may suffer losses.
- Risks related to counterparty exposure: DDJ executes its transactions in primarily the "over-the-counter" or "inter-dealer" markets. The participants in such markets typically are not subject to the same level of 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 clients to suffer a loss. In addition, in the case

of a counterparty default, clients 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 a small group of counterparties. DDJ is typically not restricted from dealing with any particular counterparty or from concentrating any or all of its client transactions with one counterparty. Moreover, DDJ has a limited internal credit function to evaluate the creditworthiness of its counterparties. The ability of DDJ to transact business with any one or more counterparties, the absence of a regulated market to facilitate settlement, and the lack of complete evaluation of such counterparties’ financial capabilities may increase the potential for losses by DDJ’s clients.

**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, and is encouraged to consult its own financial advisors and legal and tax professionals on an initial and continuous basis in connection with selecting and 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 managed pursuant to separate account relationships with institutional clients. However, as of February 28, 2014, 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 Institutional High Yield Fund (“IHYF”)

- DDJ Strategic Income Plus Fund, L.P. (“SIP”),
- DDJ/TAF Strategic Income Fund, L.P. (“TAF”), and
- DDJ Capital Management Group Trust – High Yield Investment Fund (“Group Trust”).

Each of GP III-A, LLC; GP Capital IV, LLC; GP Total Return, L.P.; GP DDJ/Ontario Credit Opportunities, L.P.; DDJ/GP Arvo High Yield, LLC; DDJ/GP Institutional High Yield, LLC; DDJ/GP Strategic Income Plus, LLC; and DDJ/GP TAF Strategic Income, 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, IHYF, SIP, and TAF. There is no general partner or other DDJ-related affiliate for the Group Trust. Each of DDJ/Ontario, Arvo and TAF are investments funds managed by DDJ on behalf of a single limited partner.

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 by its separate account clients. Such amounts received by DDJ will typically reduce dollar-for-dollar the management fees otherwise to be paid to DDJ by 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 to one another. 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 programs of DDJ's current clients. As a result of the foregoing, DDJ personnel may encounter conflicts of interest in allocating their time and resources between clients, as well as in executing 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 to its clients the time and resources of its investment, operations and client service teams, 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 for DDJ and each of its employees not only to comply with relevant federal and state securities laws and regulations but also to maintain the highest 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 at all times is consistent with these values, with its fiduciary obligations to its clients, and with industry and regulatory standards for investment advisers.

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

- The interests of DDJ's clients must always come before the personal interests of any of its employees.
- Each DDJ employee must take great care to avoid any potential conflict of interest or the appearance of any impropriety in his or her personal actions.
- 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.
- 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.
- Each employee shall maintain the confidentiality of any information gained by reason of his or her employment, and shall not use such information in a manner detrimental to DDJ or its clients.

In order to implement these basic principles, the Code of Ethics contains detailed rules, including both prohibitions as well as preclearance procedures with respect to certain personal securities transactions that are applicable to all employees of DDJ.

Generally, such prohibitions prevent DDJ employees from front-running DDJ client transactions, or otherwise using knowledge about pending or currently considered securities transactions for clients to profit personally, either directly or indirectly, as a result of such transactions. More specifically, the Code of Ethics prohibits personal trading in fixed income securities of high yield issuers, as such trading may present an actual or potential conflict of interest with certain client objectives. The Code of Ethics also requires preclearance prior to execution by all DDJ employees with respect to personal trading in numerous types of securities, including without limitation investments in common stock, bonds and options as well as any initial public offerings or private placement transactions.

To aid DDJ in effectively monitoring and enforcing the rules set forth in the Code of Ethics, DDJ uses an automated employee trade preclearance and reporting system via a web-based compliance portal that is accessible by all of DDJ's employees. Pursuant to this system, prior to execution of any personal transaction in those securities covered under the Code of Ethics, each DDJ employee must preclear such trade through the web-based portal. DDJ has programmed this automated preclearance system to incorporate the ongoing rules and other restrictions with respect to personal trading in securities by DDJ employees that are set forth in its Code of Ethics. Upon entry of a preclearance request by an employee, the

system will either approve a requested personal securities transaction if no prohibition is triggered, or forward the pending request to the DDJ Chief Compliance Officer for further review in the event that the system identifies a potential issue.

DDJ requires that its employees report to the Chief Compliance Officer all personal brokerage accounts through which covered securities can be purchased or sold. DDJ then instructs the broker for such accounts to establish an electronic data feed that flows into the automated compliance system. Such a feed provides a record of each personal securities transaction by DDJ employees, thereby enabling the Chief Compliance Officer to verify compliance (via the automated system) with DDJ's personal trading procedure set forth in its Code of Ethics.

Failure to obtain appropriate preclearance for personal transactions in securities covered under the Code of Ethics constitutes a serious breach of DDJ rules. The ensuing disciplinary action taken by DDJ, which may include warnings, suspension of personal securities trading privileges, fines, disgorgement of profits, and suspension and termination of employment, as well as the referral to civil or criminal authorities where appropriate, will depend on the applicable facts and surrounding circumstances.

In addition to the foregoing, the Code of Ethics requires each of its employees to complete, via the web-based portal, a quarterly certification with respect to any personal securities transactions, as well as a certification with respect to all covered personal securities holdings upon an individual's initial employment with DDJ and then annually thereafter.

The Code of Ethics also contains additional restrictions and requirements regarding the receipt of gifts and entertainment, as well as participation in certain outside business activities, such as serving as a director for a company not affiliated with DDJ. These procedures are designed to minimize any actual or potential conflicts of interest associated with the receipt of certain gifts from any entity that does business with or on behalf of DDJ. Employees are also required to periodically certify their compliance with these procedures through the web-based portal.

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

#### Personal Trading by DDJ Employees and Related Persons; Blackout Periods

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 established by DDJ employees with respect to their personal accounts. Although the Code of Ethics includes an outright prohibition on personal trading in fixed income securities issued by high yield companies, from time to time, DDJ employees may invest in their personal accounts in the same securities (such as common stocks) that DDJ also may recommend for its clients. To the extent that 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 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 embodied by 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 an individual's position of trust and responsibility. Furthermore, in order to address these specific conflicts of interest, DDJ has implemented 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.

DDJ has programmed its automated compliance system to incorporate these blackout periods. 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. Furthermore, on a post-trade basis, the Chief Compliance Officer 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 and are otherwise permitted to be purchased under the Code of Ethics (e.g., securities other than fixed income securities issued by a high yield issuer). This review is designed to identify any suspicious or otherwise irregular pattern of trading behavior by DDJ employees in their personal accounts, such as purchases or sales of securities in personal accounts consistently at more favorable prices than the prices paid or received by DDJ clients, or transactions that otherwise suggest a deliberate evasion of the blackout period rules 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.

#### Policy and Procedure with respect to the Flow and Use of Material Non-Public Information

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. Exceptions, which must be approved by a member of the DDJ legal department, are only granted to the extent consistent with applicable law. DDJ also programs both its portfolio management system and its automated Code of Ethics compliance system to flag any client orders or personal trading preclearance requests, respectively, of any securities issued by companies that DDJ has placed on the firm's "Restricted List". The Chief Compliance Officer is responsible for monitoring and reviewing compliance with the MNPI Policy.

In an effort to ensure that all employees are cognizant of their responsibilities under the Code of Ethics and the MNPI Policy, DDJ requires that its new employees meet with the Chief Compliance Officer to review the material requirements of the Code of Ethics and MNPI Policy shortly following their initial employment with the firm. Furthermore, all employees must attend refresher training sessions conducted by the Chief Compliance Officer to review their requirements. Finally, upon employment and on an annual basis thereafter, DDJ's personnel are required to certify, via the web-based portal, as to their ongoing compliance with the Code of Ethics and the MNPI Policy.

#### 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, DDJ has adopted written initial order and allocation guidelines, as further outlined in Item 6 of this Brochure, that prohibit DDJ from, among other things, 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 as a result of DDJ recommending that its clients invest in securities in which DDJ or an affiliate has a material financial interest, to the extent that DDJ believed that its interests were not aligned with the interests of its clients, DDJ would disclose the appropriate facts and circumstances related to such investment allocation to the underlying client before executing any transaction.

In addition, affiliates of DDJ, including its principals and other qualified 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, the pooled investment vehicles themselves are not subject to the blackout and other trading restrictions

applicable to DDJ employees that are set forth in the DDJ Code of Ethics. Furthermore, 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 (as further set forth in Item 14 of this Brochure). 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 presents 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 (e.g., as a result of the interests of DDJ and/or any of its affiliates in its private funds participating in such transaction), DDJ would only execute such transaction following confirmation that such transaction was consistent with applicable law (including, without limitation, Section 206(3) of the Advisers Act) as well as with DDJ's internal compliance policies and procedures for all cross trade transactions.

## **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, after 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, and 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. However, in the context of

the high yield fixed income market, DDJ typically does not consider these potential research services when evaluating which brokerage firm can provide its clients with best execution for any particular trade.

In connection with client transactions in publicly-traded equity securities, 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. DDJ may then use these soft dollars to pay for eligible research services provided by a third party. DDJ believes that access to independent research is important to its investment decision-making processes. In return for such soft dollar benefits, DDJ may cause its clients to pay higher commissions 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 dollars to benefit only those accounts that generated such soft dollars, and DDJ does not allocate any ensuing soft dollar benefits (e.g., research) to client accounts proportionately to the soft dollar credits that such accounts may have generated. Accordingly, DDJ may utilize soft dollars generated by client accounts 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.

Because DDJ generates soft dollars only by trading publicly-traded equity securities, which comprise a very small percentage of DDJ’s current assets under management and its current total trading volume, DDJ does not believe that this area represents a significant potential conflict of interest for the firm. Nonetheless, 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 generally provided DDJ with the same commission rate and soft dollar credit. DDJ believes that the negotiated 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 any ensuing soft dollar credits is reasonable in relation to the commission rate charged

by such firms. DDJ would address any future relationships with additional 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; however, in certain instances, clients may request that DDJ direct a portion of total brokerage to certain types of brokers (e.g., minority business owned enterprises) or otherwise restrict trading by DDJ (on behalf of such client) with a specific broker. DDJ addresses any directed brokerage arrangements on a case-by-case basis.

#### Initial Order and Allocation Guidelines

For a description of DDJ's written initial order and allocation guidelines, which govern how DDJ allocates investment opportunities amongst its client accounts, please reference Item 6 under the section entitled "Performance-Based Fees".

#### 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 those client 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 its trading and accounting personnel implement all investment decisions carefully. Nevertheless, trading, settlement or other operations-related 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 such an error is

the inadvertent sale of a security when it instead should have been purchased. If a trading, settlement or operations-related 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. Any error that results in a gain will be credited to the affected client.

In the event of the discovery of such an error involving a client account managed by DDJ, 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 assess whether a DDJ client incurred a loss (and if so, to determine any remedial action to be taken, including any notification to the affected client); and to discuss any changes to existing procedures in an effort to prevent a similar error from recurring in the future. In all instances, the Chief Compliance Officer will be notified at or promptly after the time that the error is discovered, and to the extent that any remedial action is proposed, the Chief Compliance Officer will approve of such resolution. While DDJ is responsible for its own trade errors, it is generally 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 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 both an *ad hoc* and a regular basis (such as in the form of the Investment Review Committee or the entire investment team) 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 applicable investment guidelines and restrictions. Such reviews are typically performed by DDJ compliance personnel 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 client's needs, 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 time period covered, and a list of all or selective position holdings for the account. For pooled investment vehicles, DDJ (or the designated third party fund administrator) 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 (but may be as frequently as monthly), 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**

In the ordinary course of business, DDJ or a related person may receive corporate gifts or meals and entertainment, such as tickets to cultural and sporting events or invitations to golf outings, from individuals of service providers that conduct business with DDJ and/or its affiliates. The receipt of such gifts and other benefits are subject to certain limitations under DDJ's Code of Ethics, as set forth in Item 11 of this Brochure. With the exception of the foregoing, no third party presently 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 a new client relationship, DDJ may be obligated to pay to such solicitor a portion of the asset-based fees (and, to the extent applicable going forward, any performance-based fees) paid by such clients to DDJ. In such circumstances, as well as with respect to any potential future fee sharing arrangements with third party solicitors, 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 its 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 at this time.

## **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) unaffiliated with 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, consistent with the requirements of the Custody Rule, DDJ does not maintain custody of such client funds or securities.

With respect to DDJ's pooled investment vehicle clients, although the assets of each managed vehicle is maintained by DDJ at an independent, qualified custodian, DDJ is nonetheless deemed to have custody of such assets under the Custody Rule typically because an affiliate of DDJ serves as the general partner of such respective pooled

investment vehicle (and DDJ itself controls such general partner). 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 as well as 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). The Chief Compliance Officer is responsible for monitoring and reviewing compliance with these internal procedures related to compliance with the Custody Rule.

## **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. However, with respect to certain accounts pursuing legacy investment strategies that are beyond their investment period or otherwise in their wind-down stage, DDJ retains discretionary authority to dispose of existing investments held within such portfolios, but generally does not have the authority to initiate new purchases.

DDJ typically negotiates the breadth of its investment powers directly with each client, which powers are then memorialized in an investment management agreement or other applicable governing document executed with the client. In general, a client will delegate broad authority to DDJ to manage its account, subject to limitations set forth in the contractual investment restrictions or guidelines that are negotiated between DDJ and such 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 above or below a certain rating, or may set a minimum or maximum percentages (relative to the account's value) with respect to investments in a single issuer, industry or a certain type of security (e.g., equities). In addition, when DDJ acts 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 on behalf of such client may be further 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 DDJ may deem necessary or advisable for, or as may be incidental to, its management of such client account. This power of attorney is typically included directly within the investment management agreement (or an equivalent document) entered into by DDJ with the client.



## **Item 17     Voting Client Securities**

Given the credit-oriented focus of DDJ's 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 voting materials to their shareholders, typically constitute a very small percentage of the total assets managed by DDJ (though such percentage typically varies by client account depending on the particular investment strategy pursued). Proxy voting therefore is typically not a material element of DDJ's significant investment strategies.

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 would 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.

If any client would like additional information regarding how DDJ has voted on specific proxies, or a copy of our proxy voting policies and procedures, please send a written request to the attention of Joshua McCarthy, General Counsel/Chief Compliance Officer, at DDJ Capital Management, LLC, 130 Turner Street, Building #3, Suite 600, Waltham, MA 02453 or via email at [legal2@ddjcap.com](mailto:legal2@ddjcap.com).

## **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 management authority with respect to each of its clients, typically subject to specific restrictions and guidelines established by each client. Furthermore, with respect to each of its pooled investment vehicles, although DDJ maintains such assets with an independent qualified custodian, DDJ nonetheless is deemed to have 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.