

**ITEM 1  
COVER PAGE**

**Part 2A OF FORM ADV: FIRM BROCHURE**

# **Marathon Asset Management, LP**

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This brochure provides information about the qualifications and business practices of Marathon Asset Management, LP (“**Adviser**,” “**we**,” “**us**,” or “**our**”). If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer, Christine Chartouni, at (212) 500-3179 or [cchartouni@marathonfund.com](mailto:cchartouni@marathonfund.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

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

We are a registered investment adviser under the Investment Advisers Act of 1940, as amended (the “**Investment Advisers Act**”). Our registration under the Investment Advisers Act does not imply any level of skill or training.

## **ITEM 2**

### **MATERIAL CHANGES**

On March 31, 2010, we completed the prior version of our Form ADV Part II (the “**Initial Brochure**”). Since the completion of the Initial Brochure, the SEC has amended the disclosure and delivery requirements for the Form ADV Part 2 and, therefore, the structure of this brochure is materially different than the Initial Brochure and includes certain new information that was not included in the Initial Brochure. This material change is summarized below.

#### **Amendments to Form ADV**

Effective October 12, 2010, the SEC amended the Form ADV Part II and the related rules promulgated under the Investment Advisers Act. The amendments require expanded content, a plain English narrative, electronic filing, and delivery of “brochure supplements” containing resume-like information about advisory personnel. This brochure has been prepared according to these new requirements and rules.

In the past, an investment adviser was only required to offer information about its qualifications and business practices to clients on an annual basis. Pursuant to the new requirements and rules, we will ensure that you receive a summary of any material changes to this brochure and subsequent brochures within 120 days of the close of our fiscal year. We will also provide ongoing disclosure about material changes as such changes may arise.

Our brochure may be requested, free of charge, by contacting our Chief Compliance Officer, Christine Chartouni, at (212) 500-3179 or [cchartouni@marathonfund.com](mailto:cchartouni@marathonfund.com).

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## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm**

We are a Delaware limited partnership, founded in January 1998.

We provide investment advisory services to privately offered pooled investment vehicles (each, a “**Fund**,” and collectively, the “**Funds**”) and managed accounts (the “**Accounts**,” and, together with the Funds, “**Clients**”), typically pursuant to an investment management agreement or similar document (an “**IMA**”) under which the Adviser is granted discretion to trade the Client’s account without obtaining the Client’s consent to each particular transaction (subject to the investment policies and restrictions, if any, imposed by the Client in an IMA). In addition, we operate under basic policies and principles applicable to the conduct of our investment advisory business. These policies and principles are based upon general concepts of fiduciary duty, the specific requirements of the Investment Advisers Act, the rules and regulations promulgated thereunder, and our internal policies. We anticipate advising other funds and managed accounts from time to time. We refer to such potential clients, along with the Clients, as our “**clients**.”

Our principal owners are Bruce Richards, co-Managing Member, co-Founder, President and Chief Executive Officer; and Louis Hanover, co-Managing Member, co-Founder, and Chief Investment Officer of the Adviser.

#### **B. Description of Advisory Services**

As an investment adviser, we provide portfolio management services to our clients. We are responsible for sourcing potential investments, conducting research and due diligence on potential investments, analyzing investment opportunities, structuring investments, and monitoring investments on behalf of our Clients. We generate all of our advisory billings from investment advisory services.

We do not limit the type of investment advisory services we offer and there are no material limitations to the types of securities in which we may invest our clients (subject to anything in the relevant IMA, offering document, or organizational documents of a particular client). We may invest in any security and any sector of the market to carry out the overall objectives of our clients. Such objectives, strategies and policies may be expected to evolve materially over time. We have complete flexibility to create or organize (alone or in conjunction with others including affiliates) or otherwise utilize special purpose subsidiaries or other special purpose investment vehicles, swaps or other derivatives or structured products.

#### **C. Availability of Customized Services for Individual Clients**

We tailor our advisory services to the individual needs of our clients. The client’s IMA, each Fund’s private placement memorandum (a “**PPM**”), or other Fund documents provide more detailed descriptions of each client’s investment objectives and may contain investment guidelines, policies, or restrictions.

In addition, the Adviser may enter into arrangements with certain clients (or underlying investors) that may in each case provide for terms of investment that are more favorable to the terms provided to other clients (or underlying investors). Such terms may include the waiver or reduction of management and/or incentive fees, the provision of additional information or reports, more favorable transfer rights, and more favorable liquidity rights.

**D. Wrap Fee Programs**

We do not participate in a wrap fee program.

**E. Assets Under Management**

As of February 1, 2011, we had approximately \$9,796,000,000 in Client assets under management on a discretionary basis and no Client assets under management on a non-discretionary basis. The amount of client assets under management includes the value of collateralized loan obligations, collateralized debt obligations, securitizations, and committed capital.

## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Services and Fees**

While the management and performance fees may vary by Client, our basic fee schedule is as follows: the Adviser receives management fees based on net assets under management (from 1% to 2% annually, depending on the Fund or Account) and an incentive or performance fee of up to 20% of the annual profit, if any, charged to each client subject in certain cases to a loss carry forward provision. For certain of the Accounts, we may not receive a performance fee. In addition, we may negotiate lesser or different fee schedules for clients (or underlying investors) based on a variety of factors, including nature of investments. We structure any performance or incentive fee arrangement in accordance with Section 205(a)(1) of the Investment Advisers Act and the rules and regulations promulgated thereunder, including the exemption set forth in Rule 205-3 permitting performance fee arrangements with “qualified clients.”

In addition, we have entered into a limited number of side letter arrangements with certain large, institutional investors that include, without limitation, reduced fees and additional representations and warranties.

#### **B. Payment of Fees**

The IMAs, PPMs, or other Fund documents, govern the terms of compensation and the manner in which we charge fees to each Client. Subject to the terms of IMAs, PPMs, or other Fund documents, Clients may elect to be billed directly for fees or may authorize us to directly deduct fees from the Client’s account. We directly deduct our fees from the Funds. Our management fees are paid quarterly or monthly, in advance or arrears, depending on the Client, based on beginning or ending net assets at the end of each month or quarter. Incentive fees are paid annually in arrears. Fees will be prorated for partial periods.

#### **C. Additional Expenses and Fees**

Our fees are exclusive of other charges, fees, and expenses which are paid by Clients and include, among other things: external (i.e., third party) legal, audit, accounting, operational, administrative and research fees and expenses; technology expenses; investment expenses such as commissions; direct fees and expenses, such as legal fees, travel and due diligence expenses, related to the analysis, purchase or sale of investments, whether or not a particular investment is consummated; interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; and any other expenses reasonably related to the purchase, sale or transmittal of Clients’ assets. These charges, fees, and expenses are exclusive of and in addition to our management and incentive fees. We shall not receive any portion of these charges, fees, and expenses and shall not receive a brokerage commission or other compensation attributable to the sale of a security or other investment product. For an in-depth discussion of the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of commissions and compensation for such broker-dealers,



please see Item 12, “Brokerage Practices □ Selection of Broker-Dealers and Reasonableness of Compensation,” below.

There may be other limited ancillary fees (“**Ancillary Fees**”) and expenses in connection with our advisory services in addition to management and incentive fees. For example, the Adviser or an affiliate of the Adviser (an “**Affiliate**”) may receive fees for providing financial, consulting, origination, advisory or other services provided in connection with third parties purchasing assets from as well as selling assets to certain Clients in connection with other transactions involving such Clients. In certain cases, the Adviser or its Affiliates also may provide advisory and other similar services in respect of entities (including passive investment entities) in which such Client participates. The Adviser and its Affiliates will be entitled to receive market rate fees, including management and performance fees as well as residual interests for such investment banking, advisory and other similar services. The Adviser’s receipt of the Ancillary Fees (which will effectively be paid indirectly by Clients) will not reduce our management or incentive fees, nor will the Ancillary Fees offset any of a Client’s expenses.

**D. Prepayment of Fees**

For certain Funds and Accounts, Clients may choose to pre-pay fees in advance. If a client (or underlying investor) pre-pays a fee and then terminates its advisory contract before the end of the billing period, the client may obtain a refund by contacting the Adviser or the refund will automatically be credited to the client (or underlying investor) as specified in the relevant IMA or Fund document. The amount of the refund will be prorated for the partial period.

**E. Additional Compensation and Conflicts of Interest**

We do not receive a brokerage commission or any other compensation attributable to the sale of securities or investment products and our personnel do not receive such compensation.

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

While the specific terms may vary by Client, for our advisory services, in general, we receive a management fee and may receive a performance-based fee from our Clients. We do not charge any clients another type of fee, such as an hourly or flat fee. For a more detailed discussion of our performance or incentive fees, please see Item 5, “Fees and Compensation,” above.

Performance based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those that we may recommended under a different fee arrangement. In the allocation of investment opportunities, performance based fee arrangements may also create (i) an incentive for us to favor accounts with performance or incentive fee arrangements over accounts that are not charged, or from which we will not receive, a performance fee; and (ii) an incentive for us to favor accounts from which we will receive a greater performance fee over accounts from which we will receive a lesser performance fee. We have adopted Aggregation and Allocation of Investments Procedures (the “Allocation Procedures”) designed to ensure that all of our clients are treated fairly and equally and to prevent this form of conflict from influencing the allocation of investment opportunities among our clients. We will offer clients the right to participate in all investment opportunities that we determine are appropriate for the client in view of relative amounts of capital available for new investments, the investment programs, and the portfolios of our clients. In accordance with our Allocation Procedures, we will endeavor to treat each of our clients in a fair and equitable manner.

## **ITEM 7**

### **TYPES OF CLIENTS**

We currently provide investment advisory services to private investment funds and managed accounts that are offered to high net worth financially sophisticated individual and institutional investors. Our investment advisory services are generally intended for insurance companies, endowments, trusts and estates, governmental agencies, other financially sophisticated institutional and individual investors, and commingled investment vehicles.

The minimum account size necessary to open and maintain an account with us varies by client and type of client. We have set a minimum investment of \$500,000 to \$5,000,000 (depending on the Account or the Fund), but we may require a different amount, or waive the minimum investment, depending on a variety of factors, such as a particular client's circumstances or our investment strategies.

**ITEM 8**  
**METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

**A. Methods of Analysis and Investment Strategies**

While our methods of analysis and investment strategy may vary to some extent for each Fund or Account, in general, we focus on distressed and situational investing in the global credit and fixed income markets. Credit selection is based on our bottom-up fundamental research, capital structure and situational expertise. We pursue a highly-integrated, research-intensive approach utilizing synergies across our platform. Our investment approach generally draws on a number of underlying disciplines and strengths, including:

- Fundamental bottom-up credit analysis;
- Credit trading and execution capabilities;
- Work-out and restructuring expertise;
- Risk management discipline;
- Network of business relationships;
- Asset management experience;
- Significant history of investing and managing capital over multiple economic cycles;
- Historical utilization of low levels of leverage; and
- Commitment to best-in-class infrastructure and financial controls.

We have the flexibility and expertise to invest anywhere in the capital structure, including securities, loans and structured products.

**B. Risk of Loss**

Investing in securities involves risk of loss that our clients (and underlying investors) should be prepared to bear. While many of the strategies employed by the Adviser do not involve frequent trading of securities, certain strategies employed by the Adviser may involve frequent trading of securities. For those strategies, the frequent trading may affect investment performance through increased brokerage and other transaction costs and taxes.

Investing with us involves significant risks and is suitable only for those persons who can bear the economic risk of the loss of their entire investment and who have limited need for liquidity in their investment. There can be no assurance that clients will achieve their investment objective. An investment with the Adviser carries with it the inherent risks associated with investments in corporate debt and other securities and instruments, as well as additional risks, including, but not limited to, risks associated with turmoil in the financial markets, investments in non-investment grade or distressed companies, the use of swaps, futures, options, hedging and

short sale trading strategies, counterparty or prime broker risk, and investments in non-U.S. securities, among other things. Clients should carefully review this brochure, a particular Fund's PPM, where appropriate, and any other operative agreements before deciding to invest with the Adviser.

## **Risk Factors**

In addition, we believe that clients and their underlying investors should be aware of the risk factors delineated below. These risk factors are not a complete explanation of all the risks to clients and underlying investors from investing with us. Clients should read this brochure, any IMA, the Fund's or Account's organizational and offering documents and the documents and materials referred to in this brochure before determining to invest with us.

**Corporate Debt Obligations.** We may invest in corporate debt obligations, including commercial paper. Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk). We may intend to actively expose clients to credit risk. However, there can be no guarantee that we will be successful in making the right selections and thus fully mitigate the impact of credit risk changes on clients.

**Debt Securities.** We may have clients take positions in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. We may have clients take positions in debt securities which are not protected by financial covenants or limitations on additional indebtedness. We may invest clients in securities which are moral obligations of issuers or subject to appropriations. Clients will therefore be subject to credit and liquidity risks.

**Loan Participations and Assignments.** We may invest our clients in corporate loans acquired through assignment or participations. In purchasing participations, there will usually be a contractual relationship only with the selling institution, and not the borrower. There generally will not be any right to directly enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor will it have the right to object to certain changes to the loan agreement agreed to by the selling institution. Our clients may not directly benefit from the collateral supporting the related secured loan and may not be subject to any rights of set-off the borrower has against the selling institution.

In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the states thereof, our clients may be treated as general creditors of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the secured loan. Consequently, clients may be subject to the credit risk of the selling institution as well as of the borrower. Certain loans or loan participations may be governed by the laws of a jurisdiction other than a United States jurisdiction, which may present additional risks as regards the characterization under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

**Interest Rate Risk.** Clients are subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. We may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no expectation nor guarantee that we will be successful in fully mitigating the impact of interest rate changes on the portfolios.

**General Risks of Lending and Loan Origination.** We may invest clients in loans, which may be detrimentally affected to the extent a borrower defaults on its obligations, there is insufficient collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted loan. We will attempt to minimize this risk by maintaining low loan-to-liquidation values with each loan and the collateral underlying the loan. However, there can be no assurance that the value assigned by us to collateral underlying a loan can be realized upon liquidation, nor can there be any assurance that collateral will retain its value. In addition, certain loans will be supported, in whole or in part, by personal guarantees made by the borrower or a relative, or guarantees made by a corporation affiliated with the borrower. The amount realizable with respect to a loan may be detrimentally affected if a guarantor fails to meet its obligations under the guarantee. Moreover, loans may also be supported by collateral, the value of which may fluctuate. In addition, active lending/origination by client accounts may subject them to additional regulation, as well as possible adverse tax consequences to clients or underlying investors. Finally, there may be a monetary, as well as a time cost involved in collecting on defaulted loans and, if applicable, taking possession of various types of collateral.

**Distressed Securities.** We may invest clients in “distressed securities” (e.g., debt, equity, private claims and obligations of domestic and foreign entities experiencing significant financial difficulties, such as loan participations and assignments, trade claims and similar instruments), and clients may be exposed to significant risks. Among these risks are: (i) the difficulty in obtaining information as to the issuer’s true condition; (ii) regulatory risk, including laws relating to fraudulent conveyances, voidable preferences, lender liability and bankruptcy; (iii) market risk; (iv) litigation risk; (v) liquidity risk; and (vi) at times, collection risk (especially, when dealing with sovereign debt). Moreover, to the extent clients invest in distressed sovereign debt obligations, it will be subject to additional risks and considerations not present in private distressed securities, including the uncertainties involved in enforcing and collecting debt obligations against sovereign nations, which may be affected by world events, changes in U.S. foreign policy and other factors outside of our control. Distressed investments may also be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court’s discretionary power to disallow, subordinate or disenfranchise particular claims. In addition, distressed investments may be adversely affected by numerous uncertainties related to out-of-court restructurings and exchange offerings. Furthermore, the market prices of distressed instruments are highly volatile, and the spread between the bid and asked prices of such instruments are often unusually wide.

**Special Situations.** We may invest clients in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies, restructurings, exchange offers or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to our clients of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, clients may be required to sell their investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which we may invest, there is a potential risk of loss by clients of their entire investment in such companies.

**High Yield Securities.** We may invest clients in “high yield” bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominately speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

**Leverage; Availability of Credit; Interest Rates; Margin.** Subject to the IMAs and the Fund’s operative documents, we may borrow funds from brokerage firms and banks in order to be able to increase the amount available for investments. In addition, we may in effect borrow funds through entering into repurchase agreements, and may purchase or sell options, forwards and other derivative instruments. The amount of borrowings which client accounts may have outstanding at any time may result in a margin call forcing the sale of such asset. Leverage also has the effect of magnifying both profits and losses compared with unleveraged positions.

There can be no assurance we will be able to maintain adequate financing arrangements under all market circumstances. In an unsettled credit environment such as the current one, we may find it difficult or impossible to maintain leverage for our clients. The financing available to our clients from banks, dealers, and other counterparties typically will be severely restricted in disrupted markets. Any such restriction would likely result in substantial losses to clients, despite its primary reliance on more long-term structured financings. In addition, any leverage obtained, if terminated on short notice by the lender,

could result in our being forced to unwind positions quickly and at prices below what we deem to be fair value for the positions.

**Credit Default Swaps.** We may invest clients in credit default swaps. A credit default swap is a contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay or obligation acceleration. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the “par value” (full notional value) of the reference obligation. The contingent payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. Clients may be either the buyer or seller in the transaction. If the client is a buyer and no credit event occurs, the client may lose its investment. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the client receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligations.

Credit default swaps involve greater risks than if clients had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk of the counterparty. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the client. Counterparty risk may also result in a loss if the counterparty fails (e.g., Lehman Brothers).

**Foreign Investment.** We may invest in the securities and other instruments of issuers located in non-U.S. jurisdictions. Such investment involves certain risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include (i) the risk of nationalization or expropriation of assets or confiscatory taxation; (ii) social, economic and political instability including war; (iii) dependence on exports and the corresponding importance of international trade and commodities prices; (iv) less liquidity of securities markets; (v) currency exchange rate devaluations and fluctuations; (vi) potentially higher rates of inflation (including hyper-inflation); (vii) controls on foreign investment and limitations on repatriation of invested capital and our ability to exchange local currencies for U.S. dollars; (viii) a higher degree of governmental involvement in and control over the economies; (ix) government decisions to discontinue support for economic reform programs and imposition of centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about economies and issuers; (xi) less extensive regulatory oversight of securities markets; (xii) longer settlement periods for securities transactions; (xiii) less stringent laws regarding the fiduciary duties of officers and directors and protection of investors; and (xiv) certain consequences regarding the maintenance of client portfolio securities and cash with sub-custodians and securities depositories in emerging market countries. All of the foregoing factors lead to greater market volatility.



**Currency Risks.** We may invest clients in investments that are denominated in a non-U.S. currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. An increase in the value of the U.S. dollar compared to the other currencies in which we make our investments will reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of clients' securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of clients' non-U.S. dollar denominated securities. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

**Credit Risk of Investment Grade and Non- or Lower-Rated Securities.** Clients' investment portfolio in fixed income securities may consist of both investment grade securities, rated Baa or higher by Moody's or BBB or higher by S&P, and lower-rated securities, rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, of comparable quality). Securities rated lower than Baa by Moody's or lower than BBB by S&P are sometimes referred to as "high yield" or "junk" bonds. Securities rated Baa are considered by Moody's to have some speculative characteristics. Higher-rated and lower-rated securities may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers/issues of lower-rated securities may be more complex than for issuers/issues of higher quality debt securities. Lower-rated securities may be more susceptible to losses and real or perceived adverse economic and competitive industry conditions than higher grade securities. Securities that are in the lowest rating category are considered to have extremely poor prospects of ever attaining any real investment standing, to have a current identifiable vulnerability to default, to be unlikely to have the capacity to pay interest and repay principal. The secondary markets on which lower-rated securities are traded may be less liquid than the market for higher grade securities. Less liquidity in the secondary trading markets could adversely affect and cause large fluctuations in the value of the clients' portfolio. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of lower-rated securities, especially in a thinly traded market. Furthermore, higher-rated securities also carry credit risk because they run the risk of a down grading if their credit deteriorates. Finally, rating agencies may re-rate securities, which could cause substantial loss as the ratings are downgraded.

The use of credit ratings as the sole method of evaluating lower-rated securities can involve certain risks. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of lower-rated securities. Also, credit rating agencies may fail to change credit ratings in a timely fashion to reflect events since the security was rated.

**Valuation of Investments.** Valuation of clients' securities and other investments (which will indirectly determine the amount of our management and performance fees) may involve uncertainties and judgmental determinations, and if such valuations should prove

to be incorrect, clients' capital accounts could be adversely affected. Independent pricing information may not at times be available with respect to certain of our clients' securities and other investments. Accordingly, while we will use our best efforts to value all clients investments fairly, certain investments may be difficult to value and may be subject to varying interpretations of value and on certain occasions may have to be valued by us.

We believe that the method in which we "mark" our clients' positions is fair, but there can be no assurance that this will be the case. There will be no independent verification of our "marks."

**Options.** We may invest clients in put and call options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Because option premiums paid or received by an investor will be small in relation to the market value of the investments underlying the options, buying and selling put and call options can result in large amounts of leverage. As a result, the leverage offered by trading in options could cause an investor's asset value to be subject to more frequent and wider fluctuations than would be the case if the investor did not invest in options.

Upon the exercise of a put option written by an investor on securities, the investor may suffer a loss equal to the difference between the price at which the investor is required to purchase the underlying securities and their market value at the time of the option exercise, less the premium received from writing the option. Upon the exercise of a call option on securities written by the investor, the investor may suffer a loss equal to the excess of the market value of the securities at the time of the option's exercise over the investor's acquisition cost of the securities, less the premium received from writing the option.

No assurance can be given that we will be able to effect closing transactions at a time when we wish to do so. If we cannot enter into a closing transaction, we may be required to hold securities that we might otherwise have sold, in which case there would continue to be market risk on the securities and there could be higher transaction costs, including brokerage commissions, upon the sale of the securities.

**Trading in Commodity and Futures Contracts.** We may invest clients in commodity and futures contracts. Trading in commodity and futures contracts and options thereon are highly specialized activities which while they may increase the total return of clients' investments, may entail greater than ordinary investment risks.

Commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage may be typical of a commodity futures trading account. As a result, a relatively small price movement in a commodity futures contract may result in substantial losses to the trader. Commodity futures trading may also be illiquid. Certain commodity exchanges do not permit trading in particular futures contracts at prices that

represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, we could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses.

Commodity options, like commodity futures contracts, are speculative, and their use involves risk. Specific market movements of the commodity or futures contract underlying an option cannot be predicted and no assurance can be given that a liquid offset market will exist for any particular futures option at any particular time.

**Risks Relating to an Originator's Involvement in a Bankruptcy Proceeding.** If any of the originators from which we may acquire a pool of loans for clients becomes a debtor under title 11 of the United States Code (the "**Bankruptcy Code**") prior to the transfer of servicing on the loans, there could be delays in completing the transfer of servicing, which might have a negative effect on clients' portfolio. In addition, if an originator becomes a debtor under the Bankruptcy Code, the transfer of the pool of loans and related servicing could be challenged by a bankruptcy trustee (or the originator as debtor in possession) which would cause additional expenses and delays and might have a negative effect on the clients' portfolio.

**Derivatives.** To the extent that we may invest clients in swaps, derivative or synthetic instruments, repurchase agreements or other over-the-counter transactions or, in certain circumstances, non-U.S. securities, clients may take a credit risk with regard to parties with whom we trade and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets (directly or indirectly) of clients, and hence clients should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this segregation, and there may be practical or time problems associated with enforcing rights to its assets in the case of an insolvency of any such party.

**Convertible Securities.** We may invest clients in convertible securities, securities that may be exchanged or converted into a predetermined number of the issuer's underlying shares or the shares of another company or that are indexed to an unmanaged market index at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants, zero-coupon bonds or liquid-yield option notes, stock index notes, mandatories, or a combination of the features of these securities. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities. As with all debt securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, increase as interest rates decline. Convertible securities, however, also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates.

**Structured Finance Securities.** We may invest clients in structured finance securities such as, for example, collateralized debt obligations, collateralized bond obligations, collateralized loan obligations or similar instruments. Structured finance securities may present risks similar to those of the other types of investments in which we may invest clients and, in fact, such risks may be of greater significance in the case of structured finance securities. Moreover, investing in structured finance securities may entail a variety of unique risks. Among other risks, structured finance securities may be subject to prepayment risk. In addition, the performance of a structured finance security will be affected by a variety of factors, including its priority in the capital structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets. Moreover, a rapid change in the rate of defaults may have a material adverse effect on the yield to maturity. It is therefore possible that clients may incur losses on its investments in structured products regardless of their ratings by S&P or Moody's. Additionally, the securities in which we may be authorized to invest include securities that are subject to legal or contractual restrictions on their resale or for which there is a relatively inactive trading market. Securities subject to resale restrictions may sell at a price lower than similar securities that are not subject to such restrictions.

**Risks Related to RMBS.** We may invest our Clients' assets in residential mortgage-backed securities ("RMBS"). Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and such securities issued may be guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the related mortgaged property is located, the terms of the loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

**Risks Related to CMBS.** We may invest our Clients in collateralized mortgaged-backed securities ("CMBS"). Collateral underlying CMBS generally consists of mortgage loans secured by income producing property, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, rental apartments, nursing homes, senior living centers and self storage properties. We will invest Clients directly in CMBS as well as derivatives referencing CMBS as well as other structured securities. Performance of a commercial mortgage loan depends primarily on the net income generated by the underlying mortgaged property. The market value of a commercial property similarly depends on its income-generating ability. As a result, income generation will affect both the likelihood of default and the severity of losses with respect

to a commercial mortgage loan. Any decrease in income or value of the commercial real estate underlying an issue of CMBS could result in cash flow delays and losses on the related issue of CMBS. The owner of CMBS does not have a contractual relationship with the borrowers of the underlying commercial mortgage loans. The CMBS holder typically has no right directly to enforce compliance by the borrowers with the terms of the loan agreement, nor any rights of set-off against the borrower, nor will it have the right to object to certain changes to the underlying loan agreements, nor to move directly against the collateral supporting the related loans.

**ABS.** We may invest our Clients in asset-backed securities (“**ABS**”). ABS are subject to interest rate risk and, to a lesser degree, prepayment risk. ABS are subject to additional risks in that, unlike mortgage-backed securities, ABS may not have the benefit of a security interest in the related collateral (e.g., credit cards, student loans). Each type of ABS also entails unique risks depending on the type of assets involved and the legal structure used. For example, credit card receivables are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. ABS typically experience credit risk. For example, there is an increasing supply of subordinated securities rated lower than AA (down to B or first loss) and senior securities that may be rated lower than AAA, as well. There is also the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities because of the inability to perfect a security interest in such collateral.

**CDOs and CLOs.** Our Clients’ investments in collateralized debt obligations (“**CDOs**”) and collateralized loan obligations (“**CLOs**”) will be frequently subordinate in right of payment to other securities sold by the applicable CDO or CLO and will not be readily marketable. Depending upon the default rate on the collateral of the CDO or CLO, Clients may incur substantial losses on their investments. In addition, when Clients sell securities or assets held by them to a CDO or CLO, Clients may not receive any residual interest in such CDO or CLO so that any profits that Clients might have recognized on such securities or assets will no longer inure to the benefit of our Clients.

**Counterparty and Settlement Risk.** Our Clients take a risk with regard to defaults by the parties with whom we trade and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It may not always be possible for the securities and other assets deposited with custodians or brokers to be clearly identified as being assets of Clients and Clients may be exposed to a credit risk in those situations. In addition, there may be practical or time problems associated with enforcing Clients’ rights to their assets in the case of an insolvency of any such party. In valuing derivative instruments, it is anticipated that we will typically rely on quotes or other information provided by counterparties

**Custody and Prime Brokerage Risk.** There are risks involved in dealing with the custodians or prime brokers who settle our clients' trades. We maintain a custody account with our prime broker and primary custodian (the "**Prime Broker**"). Although we monitor the Prime Broker and believe that it is an appropriate custodian, there is no guarantee that the Prime Broker, or any other custodian that we may use from time to time, will not become bankrupt or insolvent. While both the U.S. Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a bankruptcy, insolvency, failure, or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of client assets, clients would not incur losses.

We and/or the Prime Broker may appoint sub-custodians in certain non-U.S. jurisdictions to hold client assets. The Prime Broker may not be responsible for cash or assets which are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by clients as a result of the bankruptcy or insolvency of any such sub-custodian. Clients may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections that would normally be provided to a fund by a custodian may not be available to clients. Under certain circumstances, including certain transactions where client assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of the prime broker, or where client assets are held at a non-U.S. custodian, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of clients and hence clients could be exposed to a credit risk with regard to such parties. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and bankruptcy, insolvency, or mismanagement in certain non-U.S. jurisdictions, the ability of clients to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy or insolvency could be in doubt, as clients may be subject to significantly less favorable laws than many of the protections that would be available under U.S. laws. In addition, there may be practical or time problems associated with enforcing the clients' rights to its assets in the case of a bankruptcy or insolvency of any such party.

**Short Sales.** We may engage client accounts in short sale transactions. Short sale transactions expose clients to the risk of loss in an amount greater than the initial investment and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by clients in connection with a short sale would need to be returned to the securities lender on short notice. If the request for return of securities occurs at a time when other short sellers of the security are receiving similar requests a "short squeeze" can occur, wherein clients might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

**Market Risks.** The profitability of a significant portion of our clients' investment program depends to a great extent upon correctly assessing the future course of price movements of specific securities and other investments. There can be no assurance that

we will be able to predict accurately these price movements and, given volatility, may incur substantial risk.

**Government Regulation of Investments.** We may invest clients in instruments listed on both U.S. and non-U.S. securities and futures exchanges, as well as in “over-the-counter” instruments issued by broker-dealers and other financial counterparties. Instruments listed on exchanges are generally subject to restrictions and regulation by government and/or self-regulatory organizations in the country in which such instruments are traded. Over-the-counter transactions with broker-dealers and other financial counterparties generally are entered into with counterparties regulated by government regulatory bodies and/or self-regulatory organizations in the countries in which such counterparties operate, but the specific instruments acquired pursuant to over-the-counter transactions may not be registered or subject to specific regulation. As a result of the current financial situation, the U.S. Government and other governments around the world are expected to impose substantial regulatory changes going forward, and these changes may impact clients negatively.

The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by clients and our ability to pursue our trading strategies. In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivative transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The effect of any future regulatory change on us or our clients could be substantial and adverse.

**Economic and Regulatory Climate.** Changing markets and economic conditions and other factors, such as changes in federal or state tax laws, federal or state securities laws or accounting standards, may make certain mortgage related transactions less desirable or may make the investment activities engaged in by us, less profitable or unprofitable. In particular, the current volatility of the subprime mortgage market may result in increased regulatory or legal oversight of the origination, trading, investing and servicing of subprime mortgage loans. It is impossible to predict how such increased oversight may impact the performance of clients’ portfolios.

**Temporary Defensive Investments.** In times of unusual or adverse conditions, for temporary defensive purposes, we may invest clients outside the scope of our principal investment focus. Under such conditions, we may invest without limit in money market and other investments and may not invest in accordance with our investment objective or investment strategies and, as a result, may not achieve our investment objectives.

**Legal, Tax and Regulatory Risks.** Legal, tax and regulatory changes could occur which may adversely affect us or our clients. For example, the regulatory and tax environment for derivative instruments is evolving, and changes in the regulation or taxation of derivative instruments may adversely affect the value of derivative instruments held by clients and our ability to pursue our investment strategies. Similarly, the regulatory

environment is generally evolving, and changes in the direct or indirect regulation governing our clients or us may adversely affect our ability to pursue our investment strategies.

**Reliance on the Adviser.** Our Clients rely exclusively on us and our personnel. There could be adverse consequences to Clients in the event that Bruce Richards, Louis Hanover, Andrew Rabinowitz, Richard Ronzetti, Steve Kim and Adam Phillips, as well as certain other key portfolio managers and analysts, cease to be available to Clients. The success of our Clients' investments is therefore expected to be significantly dependent upon the expertise and efforts of the Adviser, and, more particularly, of our personnel including certain senior investment professionals devoting significant amounts of time to our Clients.

**Importance of Market Judgment.** The market judgment and discretion of the Adviser's personnel are fundamental to the implementation of the structured credit aspect of our Clients' strategy. The Adviser believes that our structured credit team has considerable expertise in these sectors, but there is no means of predicting whether it will successfully deploy our Clients' capital, especially during changing economic conditions. It is possible that commercial and residential real estate markets will continue to decline in value, potentially negatively impacting the Clients' portfolio

**Illiquidity of Investment with the Adviser.** Because of the limitation on withdrawal and transfer rights and the fact that interests in Funds or Accounts are not tradable, clients' investments are relatively illiquid and involve a high degree of risk. We will not register any security pursuant to the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities laws, and we have no plan and are under no obligation to register the securities under the Securities Act. Investing with us should be considered only by persons financially able to maintain their investment and who can afford the loss of all or a substantial part of such investment.

**Lack of Liquidity of Assets.** While we do not currently expect to invest clients in illiquid securities and other illiquid financial instruments or obligations, client assets may, at any given time, include securities and other financial instruments or obligations which are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. Therefore, there can be no assurance that a secondary market for any such security will develop, or if a secondary market does develop, that it will provide such securities with liquidity of investment. Consequently, clients (i) may have to hold such securities for an indefinite period of time or until the stated maturity of the security, or (ii) may be able to sell any such investments, but only at substantial discounts, and it may be extremely difficult to accurately value any such investments, and in such case, can take a reserve against such asset which would impact net asset value. Although we will attempt to buy and sell "liquid" assets in the credit market, this market has become increasingly more "illiquid" and, at times, "frozen". While our objective is to avoid such occurrences, there is the possibility that "liquid" investments will become "illiquid" and result in losses.



**Investment Flexibility.** The IMAs and operative documents of the Funds have given us broad and flexible investment authority. In particular, we are not required to invest any particular percentage of our clients' portfolio in any type of investment, sector or region, and the amount of our clients' portfolio which is invested in any type of investment, which is long or short, or which is weighted in different countries or different sectors can change at any time based on the availability of attractive market opportunities. Accordingly, at any time, we may have significant investments in strategies, sectors or instruments not specifically described herein and which therefore present risks which are not specifically described herein.

**Non-Disclosure of Positions.** In an effort to protect the confidentiality of client positions, we generally will not disclose all positions to clients on an ongoing basis, although disclosure may be permitted on a select basis to certain clients or underlying investors, if sufficient confidentiality agreements and procedures are in place.

**Absence of Regulatory Oversight.** While the Funds may be considered similar to an investment company, the Funds do not intend to register as such under the Investment Company Act of 1940, as amended, in reliance upon an exemption available to privately offered investment companies, and, accordingly, the provisions of that Act (which, among other matters, require investment companies to have disinterested directors, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) will not be afforded to clients or underlying investors.

**Master-Feeder Fund Structure.** We may invest client assets through a "master-feeder" fund structure. The "master-feeder" fund structure and in particular the existence of multiple investment vehicles investing in the same portfolio presents certain unique risks to investors, including the increased costs associated specifically with investing through a master fund (which are borne on a pro-rata basis by the various entities investing in such master fund). Similarly, master funds may become less diverse due to a withdrawal by a larger investment vehicle, resulting in increased portfolio risk.

**Unrelated Business Taxable Income for Certain Tax-Exempt Investors.** Pension and profit-sharing plans, Keogh plans, individual retirement accounts and other tax-exempt investors may realize "unrelated business taxable income" as a result of an investment with us since it is anticipated that clients may engage in margin borrowing. Any tax-exempt investor should consult its own tax adviser with respect to the effect of an investment with us on its own tax situation.

**Limited Operating History; Past Performance.** While we have significant experience in securities analysis and investment management, the Funds may be recently-formed entities that have no operating history upon which investors can evaluate their likely performance. The past investment performance of the Adviser and its key personnel is not an indication of clients' future performance. Accordingly, an investment with us may entail a higher degree of risk than funds with more established operating histories.

**C. Recommendation of a Particular Type of Security**

We do not recommend any particular type of security. There are no material limitations to the types of securities in which we may invest our clients (subject to anything to the contrary in the relevant IMA, offering document, or organizational documents of a particular client). For a complete discussion of securities in which we may invest our clients, please see Item 4(B), “Advisory Business, Description of Advisory Services,” above.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

To the best of our knowledge, there are no legal or disciplinary events that are material to our clients' evaluation of our advisory business or the integrity of our management.

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

**A. Broker-Dealer Registration**

The Adviser and its management personnel are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

**B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor Registration**

In addition to being a registered investment advisor, we are registered as a Commodity Pool Operator (“CPO”) and a Commodity Trading Advisor (“CTA”) with the Commodity Futures Trading Commission (“CFTC”) and are a member of the National Futures Association (“NFA”). Our activities as a CPO or a CTA enable us to use futures products as part of our investment strategies and do not conflict with our investment advisory business.

The Adviser and its management personnel are not registered as futures commission merchants (“FCM”) and do not have any application pending to register with the CFTC or the NFA as a FCM or associated person of a FCM.

**C. Material Relationships and Conflicts of Interests with Industry Participants**

Our relationships and arrangements with other clients and our Affiliates are material to our advisory business. The Adviser and its respective members, officers, employees and affiliates manage and advise multiple Funds, including, but not limited to, the following: Marathon Asia Master Fund, Ltd; Marathon Asia Fund, LP; Marathon Asia Fund, Ltd; Marathon Credit Opportunity Master Fund, Ltd; Marathon Credit Opportunity Fund, LP; Marathon Credit Opportunity Fund, Ltd; Marathon Distressed Subprime Fund, LP; Marathon Distressed Subprime Fund (Cayman), Ltd; Marathon EM Opportunity Master Fund, Ltd; Marathon EM Opportunity Fund, LP; Marathon EM Opportunity Fund, Ltd; Marathon India Real Estate Fund, LP; Marathon Master Fund, Ltd; Marathon Fund, LP; Marathon Overseas Fund, Ltd.; Marathon Real Estate Opportunity Fund, LLC; Marathon Real Estate Opportunity Offshore Fund, Ltd; Marathon Securitized Credit Master Fund, Ltd; Marathon Securitized Credit Fund, LP; Marathon Securitized Credit Fund, Ltd; Marathon Special Opportunity Master Fund, Ltd; Marathon Special Opportunity Fund, LP; Marathon Special Opportunity Fund II, LP; Marathon Special Opportunity Fund, Ltd; Marathon Structured Finance Feeder Fund, Ltd; Marathon Structured Finance Fund, LP; Marathon Structured Finance Fund, Ltd<sup>1</sup>; Marathon Legacy Securities Public-Private Investment Partnership, LP; Marathon Legacy Securities Public-Private Investment Fund, LP; Marathon Legacy Securities Public-Private Investment Fund, Ltd. An Affiliate serves as general partner to certain of these Funds. In addition, the Adviser currently acts, and expects to act in the future, as the investment manager to other investment vehicles and accounts,

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<sup>1</sup> Marathon Structured Finance Feeder Fund, Ltd, Marathon Structured Finance Fund, LP, and Marathon Structured Finance Fund, Ltd are being wound down alongside Marathon Structured Finance Liquidating Fund and Marathon Structured Finance Liquidating Fund, L.P., which are subject to the same fee terms.

including Funds that may invest in Funds with which the Adviser is affiliated. There is no limit on the number of vehicles or accounts that may be managed or advised by the Adviser.

In certain instances, the Adviser may engage Affiliates or other entities to provide services to clients. For instance, the Adviser has entered into sub-management agreements with MCAP Global Finance Limited (“**Global Finance**”) and Marathon Asset Management Singapore PTE. Ltd. (“**Singapore**”), each wholly owned subsidiaries of the Adviser, whereby Adviser has appointed Global Finance and Singapore to assist in the management of certain client assets on a discretionary basis. We do not receive any additional compensation from our use of Global Finance and Singapore and we believe our use of them does not create any material conflicts of interest.

Moreover, Affiliates may receive fees in respect of their services to clients. Although any fees incurred and paid to Affiliates will likely not exceed fees already paid by clients on an annual basis at the time of such engagement, and are expected to be competitive with the market, on a relative basis, on a going-forward basis, there is an incentive for the Adviser to employ Affiliates rather than third-parties.

Finally, as the Adviser manages multiple client accounts, it may have conflicts of interest in allocating time and resources to such other accounts. In addition, the Adviser and its personnel may have investments in their own names and in certain of the entities managed by the Adviser. As a result of the foregoing, the Adviser and its personnel may have conflicts of interest in allocating their time and activity between clients, in allocating investments among clients and other entities, and in effecting transactions between clients and other entities, including ones in which the Adviser or its personnel may have a greater financial interest.

To address these potential conflicts of interests in its material relationships, the Adviser has adopted policies and procedures, including a Code of Ethics and the Allocation Procedures. Under the Code of Ethics, in general, all personnel of the Adviser, including directors, officers, and employees of the Adviser, must put the interests of the Adviser’s clients first and must act honestly and fairly in all respects in dealings with clients. For a more detailed discussion of the Adviser’s Code of Ethics and conflicts of interest policies, please see Item 11, “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading,” below.

Under our Allocation Procedures, no client for whom we have investment decision responsibility receives preferential treatment over any other client. In allocating securities among clients, it is our policy that all clients should be treated fairly and that, to the extent possible, all clients should receive equivalent treatment. To that end, we have established an Investment Committee, Allocation Committee and one or more Allocation Managers, which establish and/or periodically review the investment strategy and criteria, concentration limits and portfolio construction guidelines for investment advisory client accounts managed by us.

#### **D. Material Conflicts of Interest Relating to Other Investment Advisers**

Except as disclosed in Item 10, “Other Financial Industry Activities and Affiliations,” we do not recommend or select other investment advisers for our clients.

**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS  
AND PERSONAL TRADING**

**A. Code of Ethics**

High ethical standards are essential for the success of the Adviser and to maintain the confidence of our clients and investors in investment funds managed by the Adviser. The Adviser's long-term business interests are best served by adherence to the principle that the interests of clients come first. We have a fiduciary duty to clients to act solely for the benefit of our clients. All personnel of the Adviser, including directors, officers and employees of the Adviser, must put the interests of the Adviser's clients before their own personal interests and must act honestly and fairly in all respects in dealings with clients. All personnel of the Adviser must also comply with all federal securities laws.

In recognition of the Adviser's fiduciary duty to its clients and the Adviser's desire to maintain its high ethical standards, the Adviser adopted a Code of Ethics, pursuant to Rule 204A-1, promulgated under the Investment Advisers Act, containing provisions designed to prevent improper personal trading, identify conflicts of interest, and provide a means to resolve any actual or potential conflicts in favor of the Adviser's clients. Clients or prospective clients may obtain a copy of the Adviser's Code of Ethics by contacting our Chief Compliance Officer, Christine Chartouni, at (212) 500-3179 or [cchartouni@marathonfund.com](mailto:cchartouni@marathonfund.com).

**B. Recommending, Buying, or Selling Securities in which We or a Related Person Have a Material Financial Interest, Invest, or Buy or Sell at the Same Time; Conflict of Interests**

Conflicts of interest may occur when we, or our related persons, invest in the same securities, trade in the same securities at or about the same time, or have a material financial interest in the same securities that we recommend to our clients. For example, the Adviser and its related persons may invest their personal funds in the Funds, and, therefore, such persons may hold an indirect interest in the same securities as other investors in the Funds. In addition, certain employees of the Adviser may own securities in their personal accounts that are also recommended by the Adviser to its clients. Further, a related entity of the Adviser is the general partner of certain of the Funds. The Adviser has established procedures, including a Code of Ethics and a personal trading policy, intended to limit conflicts of interest in cases where the Adviser, a related person or any employee, buys, sells or otherwise has an interest in, securities recommended by the Adviser to its clients. For a full description of our Code of Ethics and Personal Trading Policy, please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading," above.

On occasion, the Adviser may deem it to be in the best interests of its clients to reallocate securities transactions between client accounts. Similarly, on rare occasion, the Adviser may enter into "principal transactions" in which the Adviser or an Affiliate act as principal for its own account or as broker for the account of a client with respect to the sale of a security to or purchase of a security from another client. The Adviser maintains policies and procedures, including the review and oversight of such transactions, intended to limit the potential conflicts

of interest inherent in reallocation or principal transactions. Reallocation or principal transactions will only be effected if they are deemed to be in the best interests of the particular clients involved and will be conducted in compliance with our policies and procedures and applicable law.

### **Personal Trading**

We believe restricting our employees' personal trading is one way of avoiding conflicts of interest between our clients and our employees. Our personal trading policies are part of our Code of Ethics. For a full description of our Code of Ethics, please see Item 11(A), "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading, Code of Ethics," above.

Our Code of Ethics governs personal trading by our personnel. Generally, the Code of Ethics requires any partner, officer, director, manager, member, supervised person, or employee of the Adviser, or other person who provides investment advice on behalf of the Adviser and is subject to the supervision and control of the Adviser (i) who has access to nonpublic information regarding any client's purchase or sale of securities, or nonpublic information regarding any client's portfolio holdings or (ii) who is involved in making securities recommendations to clients (or who has access to such recommendations that are nonpublic) to obtain the prior written approval of our Chief Compliance Officer or her designee before engaging in a securities transaction in his or her personal account.

Generally, if the securities transaction involves restricted securities, the transaction will not be approved for personal trading. Restricted securities are companies or issuers whose securities are subject to the Adviser's imposed trading activity prohibitions or restrictions. It is the policy of the Adviser that all personnel shall strictly observe such trading activity prohibitions or restrictions.

In addition, in general, the personnel covered by the Adviser's personal trading policy must provide our Chief Compliance Officer or her designee with (i) all of their securities holdings at the commencement of employment with the Adviser, (ii) monthly or quarterly brokerage statements, and (iii) quarterly reports of any securities transactions not previously reported on a brokerage statement. Furthermore, the personal accounts of the personnel covered by the Adviser's personal trading policy will be reviewed on a regular basis and compared with transactions for the Clients and against any restricted securities. Any transactions that are believed to be a violation of the Adviser's personal trading policy will be reported promptly to the management of the Adviser.

## **ITEM 12**

### **BROKERAGE PRACTICES**

Pursuant to each Client's IMA, or other similar agreement, we are generally authorized to select the broker or dealer to effect transactions on behalf of our Clients; however, our selection of the broker or dealer may be tailored to a particular client's investment guidelines or restrictions, where appropriate. Accordingly, portfolio transactions will be allocated to brokers based on best execution and in consideration of such broker's provision or payment of the costs of research and other services.

#### **A. Selection of Broker-Dealers and Reasonableness of Compensation**

We have a duty to obtain "best execution" of the securities transactions being effected for our clients' accounts. To fulfill this obligation, we generally must execute securities transactions in such a manner that the client's total cost or proceeds in the transaction is the most favorable under the circumstances. The SEC has stated that in deciding what constitutes best execution, the determinative factor is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution. In seeking best execution, we consider the full range of the broker's services, including the value of research provided and execution capability, commission rate, financing rates and financial reputation, responsibility and responsiveness. In selecting brokers or dealers to execute transactions, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost.

We have established general criteria to determine which brokers are qualified to provide brokerage services to our Clients, and consider, among others, the following relevant factors:

- available information regarding the financial reputation and stability of the broker;
- the actual executed price of the security and the broker's commission and finance rates;
- research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities, valuation advice and market analysis), custodial and other services provided by such brokers and/or dealers that are expected to enhance the Adviser's general portfolio management capabilities;
- the brokers inventory of, and ability to obtain, "hard to located" securities;
- the size and type of the transaction;
- the difficulty of execution and the ability to handle difficult trades;
- the operational facilities of the brokers and/or dealers involved (including back office efficiency); and
- the ability to handle a block order for securities and distribution capabilities.



To ascertain the reasonableness of a broker's compensation, we periodically spot check execution prices against electronic pricing service data and runs times and sales reports to ensure that brokers are obtaining market prices. In addition, at least semi-annually, selected employees of the Adviser will meet to evaluate systematically the execution performance of our brokers.

## **1. Research and Other Soft Dollar Arrangements**

While the Adviser generally does not enter into traditional "soft dollar" arrangements, the Adviser generally does not have "execution only" commission rates; thus, a Fund or Account may be deemed to be paying for research services provided by the broker which are included in the commission rate. Research and related products or services furnished by brokers will be limited to services that constitute research within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended. Accordingly, research and related products or services may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts, as well as discussions with research personnel; financial and industry publications; statistical and pricing services, along with hardware, software, data bases and other technical and telecommunication services, lines, and equipment (including updates, replacement parts, repairs and service thereon) utilized in the investment management process. The research and related products or services may include both proprietary research created or developed by the broker-dealer and research created or developed by a third party. Research services obtained by the use of commissions arising from a Fund's or Account's portfolio transactions may not only benefit such Fund's or Account's trading, but may be used by the Adviser in its other investment activities

When we use client brokerage commissions to obtain research or other products or services, we may receive a benefit because we do not have to produce or pay for the research, products, or services. The receipt of research and other "soft-dollar" benefits from broker-dealers may provide an incentive for us to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving the most favorable execution. Using a broker who provides us with research or other "soft-dollar" benefits may cause clients to pay commissions higher than the commissions charged by broker-dealers who do not so provide.

In the last fiscal year, we acquired the following types of research and related products or services from brokers with whom we did business: written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts, as well as discussions with research personnel; financial and industry publications; statistical and pricing services, along with software, data bases and other technical and telecommunication services utilized in the investment management process.

## **2. Brokerage for Client Referrals**

In selecting or recommending broker-dealers, we do not consider whether we, or any of our Affiliates, receive client or investor referrals from a broker-dealer or other third party.

We may attend events sponsored by certain broker-dealers in which we may be introduced to prospective clients or investors; however, such events or introductions are not a material factor in our selection or recommendation of such broker-dealers.

### **3. Directed Brokerage**

“Directed brokerage” refers to instances in which a client retains the discretion to choose brokers and instructs the Adviser to direct portfolio transactions to a particular broker-dealer. We generally do not permit any directed brokerage arrangements at this time. If we change our policy on directed brokerage, we will adopt appropriate policies and procedures. Directed Brokerage restricts the Adviser’s discretion to select brokers and negotiate commission rates and may adversely affect the Adviser’s ability to obtain best price and execution. Accordingly, if a client were to direct brokerage to a specific broker, the Adviser would require (i) the client to provide such direction in writing to the Adviser and (ii) the Adviser would provide the client with appropriate written disclosure, which will be acknowledged by the client.

### **B. Aggregating Orders for Various Client Accounts**

We may aggregate orders of our clients’ accounts for trade execution and thereafter allocate the securities on an average price basis to such accounts. More specifically, each client that participates in an aggregated order will participate at the average share price for all of the Adviser’s transactions in that security or other instrument on a given business day and transaction costs will be shared pro rata based on each client’s participation in the transaction. No client will be favored over any other client as a result of such aggregation. Brokerage commission rates will not be reduced because of such aggregation. In some instances, average pricing may result in higher or lower execution prices than otherwise obtainable by a single client. The Adviser believes that its aggregation policy is lawful and consistent with its duty to seek best execution for all its clients.

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

#### **A. Periodic Review of Client Accounts**

Our Chief Executive Officer, Chief Investment Officer, Chief Operating Officer, Chief Financial Officer, Chief Compliance Officer, or Chief Risk Officer reviews on a daily basis the holdings of all our clients' accounts. These holdings are monitored in light of trading activity, significant corporate developments, and other activities which may dictate a change in portfolio positions.

#### **B. Additional Review of Client Accounts**

If a decision is made to purchase or sell with respect to such holdings, each account holding such security is reviewed in full prior to selling or purchasing the security for such account. In addition, accounts are either reviewed periodically from the standpoint of the specific investment objectives of the client or as particular situations may dictate.

#### **C. Contents and Frequency of Account Reports to Clients**

Investors in the Funds receive monthly statements from the administrator of the Fund or Funds in which they invest. In addition, investors may be supplied with a commentary on each month's performance in monthly letters. Investors are provided with a copy of the annual audit of the Funds in which they invest conducted by a certified public accountant. Generally, each Fund issues Quarterly Position Reports to the investors in such Fund. The Adviser may conduct at least one teleconference annually, during which current events affecting the Funds are discussed; all investors are invited to join the teleconferences.

Reports are provided to the Managed Accounts as specified and agreed to on a case by case basis and set forth in a particular Managed Account's IMA or otherwise.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

**A. Economic Benefits for Providing Services to Clients**

Except as otherwise disclosed in this brochure, we do not receive any economic benefit from anyone, other than our clients, for providing investment advice or advisory services to our clients.

**B. Compensation to Non-Supervised Persons for Client Referrals**

We do not currently pay direct or indirect cash or other compensation to any person who is not our supervised person for soliciting potential U.S. clients, including potential U.S. investors for any Fund, or referring potential U.S. clients, including potential investors to any U.S. Fund, without the prior authorization of our Chief Compliance Officer or her designee. In the event we decide to pay for client solicitations or referrals, our Chief Compliance Officer or her designee will determine whether such arrangements: (i) are subject to Rule 206(4)-3 under the Investment Advisers Act, the Cash Solicitation Rule, and, if so, whether the arrangements comply with that rule; and (ii) comply with other applicable laws, rules and regulations, including laws and regulations requiring the registration of broker-dealers.

We do have a limited number of consulting or referral arrangements for potential clients. Such relationships are subject to specific consulting or referral agreements, disclosed to the clients and investors, and monitored by our Chief Compliance Officer or her designee for compliance with applicable laws, rules, and regulations.

## **ITEM 15 CUSTODY**

Rule 206(4)-2 promulgated under the Investment Advisers Act (the “**Custody Rule**”) (and certain related rules and regulations under the Advisers Act) imposes certain obligations on registered investment advisers that have custody or possession of any funds or securities in which any client has any beneficial interest. An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them (regardless of whether the exercise of that authority or ability would be lawful).

The Adviser is required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which it has custody with a “qualified custodian.” Qualified custodians include banks, broker-dealers, futures commission merchants and certain foreign financial institutions.

Rule 206(4)-2 generally requires that, upon opening an account with a qualified custodian on a client’s behalf, an adviser promptly notify the client in writing of the name and address of the qualified custodian and the manner in which the funds or securities are maintained. Generally, an adviser also must verify that the custodian sends quarterly account statements to the client. By rule, account statements must be sent directly to investors in a pooled investment vehicle if the adviser to the pool also acts as its general partner, managing member or in a similar capacity (or, in some cases, if an affiliate of the adviser acts as general partner, managing member or in a similar capacity). These account statements may be sent to the investors’ independent representative. Under certain circumstances, at least once each calendar year, an independent public accountant must verify the funds and securities of a client by surprise examination.

As noted above, Rule 206(4)-2 generally imposes on advisers with custody of clients’ funds or securities certain requirements concerning reports to such clients (including underlying investors in certain circumstances) and surprise examinations relating to such clients’ funds or securities. However, we need not comply with such requirements with respect to pooled investment vehicles if the pooled investment vehicle: (i) is audited at least annually by an independent public accountant, and (ii) distributes its audited financial statements prepared in accordance with generally accepted accounting principles to the client, or, in certain circumstances, all limited partners, members or other beneficial owners, within 120 days (180 days in the case of a fund of fund adviser) of its fiscal year end. The Adviser intends to rely upon this exception and therefore will be exempt from the Rule 206(4)-2 reporting and examination requirements.

## **ITEM 16**

### **INVESTMENT DISCRETION**

In general, our clients have provided us with discretion to trade their account without obtaining their consent to each particular transaction. We exercise this discretion subject to the investment policies, limitations, and restrictions, if any, imposed by a client in an IMA or other applicable agreement, such as a Fund's organizational or offering documents. In these agreements, our clients may place limitations on our investment authority, including, without limitation, designating types of permitted investments, percentage of permitted investments, or prohibiting certain types of investments.

Our clients must specify our authority, discretionary or non-discretionary, and provide us with any investment guidelines and restrictions in writing, typically as part of the IMA or by amending the IMA. For a complete discussion of our advisory business and the services we provide to our clients, please see Item 4, "Advisory Business," above.

## ITEM 17

### VOTING CLIENT SECURITIES

We have, and in the future will continue to accept, the authority to vote our clients' securities. As such, we have adopted policies and corresponding procedures to comply with Rule 206(4)-6 promulgated under the Investment Advisers Act and with our fiduciary obligations (the "**Proxy Voting Policies**"). The Proxy Voting Policies are designed to ensure that in cases where the Adviser votes proxies with respect to client securities, such proxies are voted in the best interests of its clients. The Proxy Voting Policies also require that the Adviser identify and address conflicts of interest between the Adviser and its clients. If a material conflict of interest exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the Proxy Voting Policies is in the best interests of the client or take some other appropriate action. The Adviser need not vote all proxies received by a Fund or an Account. In some instances, the disparate interests of the Funds or Accounts may make it difficult for the Adviser to determine a manner in which to vote. It is the Adviser's general policy not to vote proxies for securities that are not held in a client's account at the time such proxy is received or on the vote date of such proxy. However, if the Adviser does vote, the Adviser shall cast ballots in a manner it believes to be consistent with the interests of its client and shall not subordinate client interests to its own. The Adviser will determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and the Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

If a client has authorized us to vote proxies on its behalf, we will generally not accept instructions from the client regarding how to vote on a particular proxy or solicitation. We will maintain proper records in connection with our Proxy Voting Policies, as required under the Investment Advisers Act. Our clients can obtain a copy of our Proxy Voting Policies and information on how we have voted specific proxies by contacting our Chief Compliance Officer, Christine Chartouni, at (212) 500-3179 or [cchartouni@marathonfund.com](mailto:cchartouni@marathonfund.com).

**ITEM 18**  
**FINANCIAL INFORMATION**

**A. Balance Sheet**

We are not required to attach a balance sheet because we do not require or solicit the payment of fees six months or more in advance.

**B. Contractual Commitments to Our Clients**

We have no financial condition that is reasonably likely to impair our ability to meet contractual and fiduciary commitments to our clients.

**C. Bankruptcy Petitions**

We have never been the subject of a bankruptcy petition.